# PRESENTATION OF THE FIFTY-FOURTH ANNUAL REPORT[1]

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

*Michel Camdessus*

*"To the Excellencies and officials of Europe: We suffer enormously in Africa. Help us. We have problems in Africa. We lack rights as children. We have war and illness, we lack food.... We want to study, and we ask you to help us to study so we can be like you, in Africa."*

(Message found on the bodies of Guinean teenagers, Yaguine Koita and Fode Tounkara, stowaways who died attempting to reach Europe in the landing gear of an airliner.)

Governors, ladies, and gentlemen, let me join Jim Wolfensohn in extending to you a heart-felt welcome to these Annual Meetings. I would like to extend special greetings to our new colleague in the International Labor Organization, Juan Somavia, and to broaden these greetings to include the heads of the many standard-setting and other agencies who are with us for these meetings. They all know how much we value their cooperation in reforming the international monetary and financial system.

Governors, the global economy has passed through a great ordeal. For a time, we faced the threat of the most extensive and harshest crisis since our institutions were established. Its human cost has been immense, and we may need a few more years to heal all the wounds. Remember our anxieties a year ago when the crisis was still ricocheting from one country to another. Now, the storm is abating, and the horizon is brightening, even though some risks remain. Several countries that were in the depths of crisis—Korea, Thailand, the Philippines, Brazil, and others—are advancing in their recovery.

This is, then, a good occasion to ask how this surprisingly quick, almost unprecedented, brightening of prospects is coming about. It is not by chance. It is evidence of the depth of globalization and a vivid illustration of the benefits of the market economy when supported by decisive,

[1]Delivered at the opening Joint Session, September 28, 1999.

flexible public policymaking. Above all, the recovery comes from the intense effort; the wisdom; and, most emphatically, the sense of cooperation of all concerned.

Specifically, it can be attributed:

- first and foremost, to the efforts of those countries most directly affected by the crisis. Far from abdicating their responsibility to pursue adjustment and reform, they seized the opportunity to lay the foundations for high-quality growth;
- to the efforts made by those countries at risk from contagion to bolster their defenses;
- to the solidarity shown by their financial and trading partners;
- to the efforts of the major industrial countries to maintain a favorable global environment, as reflected in the flexible approach to monetary policy in the United States and in Europe, as well as in Japan's determination to revive its economy;
- and last, but not least, to the efforts of the international institutions.

Governors, at the most demanding moments of this crisis, your cooperation has made all the difference. When we had to take unprecedented decisions under conditions of great urgency, you were there. When we were under storms of criticism contending that we were doing more harm than good, you were there. When essential programs had to be adopted for Thailand, for the Philippines, for Indonesia, for Korea, for Brazil, for Russia, and for others, you were there; we were together. You supported all decisions unanimously. At no time was a single vote missing at the Executive Board. For this support, for this cooperation, for this unanimity, at the time of the most severe test in our history, may I simply say: thank you. Let me add here that the work of the staff and its commitment to its tasks is also a crucial, indispensable, and important part of this success. To them also, I say a profound "thank you."

Beyond any doubt, this is a major lesson of this crisis: in the new world of globalization, cooperation is a must. A second lesson—a lesson of this very moment—is that we always run the risk, when economic prospects have improved, of moving too slowly to implement the reforms that are needed. There is still urgent need for action, for implementation of reforms decided. So I shall largely confine my remarks today to the two domains where I see a pressing need to move quickly to implementation: first, the reform of the international monetary and financial system; and second, the offensive to eradicate poverty and to humanize globalization.

But before proceeding, let me say a few words about IMF programs with two of our largest members, Russia and Indonesia. In Russia, the economy is recovering, and the program that began in July this year is on track. We look forward, as the program moves ahead, to Russia's advance in both structural reforms and improving governance. Amid all the recent controversy, we should not lose sight of the real progress that has been achieved during seven years of endless efforts to assist Russia in its journey toward a market economy. Nor should we ignore the fundamental decision, on which Russia has not wavered, to seek to develop a modern market economy and integrate itself into the international community. It would be the height of irresponsibility to turn our backs on this great nation. We will not do that.

In troubled Indonesia, with the vital support of the Fund as well as the World Bank, the Asian Development Bank, and bilateral donors, the government turned the economy around after taking office last year. Economic stability, in turn, helped make possible the freest elections in Indonesia's history. Now these achievements are threatened. But be sure we stand ready to resume our assistance as soon as the shadows hanging over the program are lifted. We expect to continue working with the next government of Indonesia to do our part in helping the country achieve its great potential, while we look forward to contributing, when the day comes, to the rebuilding and sustainable development of East Timor.

Now let me return to my two main themes: the work still to be done in the reform of the international financial system, and the pressing urgency of the war on poverty. In both these areas, the international community has taken important steps in the past few months, indeed in the past few days. But in reality, the hard work, the implementation, is only just beginning.

### *International Monetary and Financial Reform*

First, architecture. Work is in progress. Sunday's communiqué of the Interim Committee contains an impressive catalog of significant steps. I do not need to dwell on them. Already remedies are beginning to address the deficiencies revealed by the challenges of globalization. Rightly, they focus on prevention; on the golden rule of transparency; on financial sector stability; and on the definition of global standards to underpin stable, fair, efficient, and transparent markets. An important step forward is the adoption by the Interim Committee of the Code of Good Practices on Transparency in Monetary and Financial Policies, which now joins the codes on fiscal transparency and data dissemination that are already in force. New facilities have been created: the Contingent Credit Lines, and the Y2K facility. Yes, the foundations are there of a safer, more robust, more adaptable architecture. But progress is slower in other areas where full consensus has yet to emerge. Let me briefly mention four of them.

First, we have begun a period of reflection on the scope and focus of surveillance. Several aspects are unquestionable:

- its central role in the work of the Fund;
- its priority in allocating our human and budgetary resources, since only the Fund has this mandate;
- its growing importance, in a new environment where early detection of emerging problems is of the essence; and
- its primary focus on matters that are the traditional mandate of the Fund—monetary stability, balance of payments sustainability, and growth-oriented economic policies.

But, as clearly indicated in your Declaration on Partnership for Sustainable Global Growth in 1996 and as the crisis has dramatically confirmed, major destabilizing factors can emerge anywhere. These risks call for robust banking and financial systems; sound, transparent, and participatory governance; arm's-length relationships among governments, banks, and enterprises; and supportive social policies. Now, the issue is how, and to what extent, to integrate these concerns into our surveillance and how to interact with the many other agencies. Of course, we have started. But how should the priorities be defined country by country? How can we avoid further stretching an already overloaded staff? What is the limit not to cross? And, lastly, how can we proceed with the monitoring and implementation of standards, particularly where they lie outside our traditional mandate?

We must clarify these issues. This will be a high priority in the coming months. You can be sure that a significant part of our response will rely on the arrangements we will set up with other agencies to share the task of disseminating and monitoring standards that lie outside the Fund's main areas of expertise: securities markets, accounting, auditing, insurance, corporate governance, and others. We have already made significant headway in developing a capacity to assess the soundness of financial sectors, working jointly with the World Bank, and collaborating with the Bank for International Settlements (BIS) in the development of principles for banking supervision.

Next, we have the problem of private sector involvement in crisis prevention and resolution. The volatility of private capital flows, as they swing from euphoria to panic, can and must be diminished by promoting a mature relationship between creditors and their sovereign clients, and between the financial community and the official sector. The involvement of the private sector is a matter of practical necessity, since the private sector will be increasingly important for financing the emerging market and developing countries. But it must be recognized that crises may arise that would benefit from closer cooperation and what we call "ex ante" approaches. We must now, drawing on the lessons of the actual cases that have arisen recently, try to distill a set of principles that could help to resolve crises at less cost than in the past. That being done, it will remain important, at least in my view, to have—for the protection of both creditors and debtors—a way of ensuring that countries are given time, in extreme circumstances, to seek orderly resolution with their creditors. One avenue consists of designing a mechanism that will permit a temporary stay of litigation; this could be achieved by an appropriate amendment or interpretation of the Fund's Article VIII(2)(b). Not all are yet convinced, I must confess!

Third, we have the debate on the relative merits of all-out liberalization of capital movements and the illusory virtues of exchange controls. This debate could, I think, soon be brought to a close. Consensus is achievable on the way to proceed with the orderly liberalization of capital movements; and in today's world of highly volatile capital flows, this consensus is all the more important. We have two core messages here: one is that, in the long term, liberal arrangements for capital movements are beneficial to global economic development. The other is that the process of liberalization should be an orderly one, tailored to individual countries' situations. Our recent proposal to introduce a gradual, country-specific approach reasserts the equal weight we attach to both goals and explicitly recognizes the great variety of country situations. I would urge you, Governors, to lend your personal attention to this important proposal, thereby bringing to completion the support you gave us in Hong Kong two years ago for an amendment to the purposes of the Fund and to extend our jurisdiction as needed.

Fourth, the question of exchange rate regimes. Here, mindful of the critical importance of an issue at the heart of the Fund's mandate, we have asked for a little more time to finalize our reflection. We know quite well that many of the problems of the so-called "casino economy" are related to the nature of exchange rate regimes and to the shortcomings of international cooperation in this field.

We have witnessed the effect of deficiencies in exchange systems or exchange rate management in triggering or amplifying crises, and their key role in transmitting domestically generated crises. And we know well the role played by the volatility of exchange rates in, what seems at times, the sheer irrationality of market developments. Clearly, for the time being, today's diversity of exchange rate regimes will continue. But, equally, the greater mobility of capital has made the maintenance of fixed exchange rates more demanding. In considering how to improve exchange stability we can be encouraged by:

- the widespread recognition of the essential role of the soundness of economic fundamentals; and
- the remarkable success of the introduction of the euro, with its potential to become a strong player in an orderly multipolar system.

Governors, as you see, we still face some difficult problems. They must be solved because the soundness of the new system is at stake in each of these instances. And the soundness of this system is a fundamental precondition for any sustainable worldwide progress in the human condition. This brings me to the imperative of eradicating poverty, since, as Angel Gurria put it yesterday, poverty is the ultimate systemic threat. Let me then turn to my second theme.

*Humanizing Globalization*

Sound finances clearly involve sophisticated instruments, standards, and smoothly working markets; but, ultimately, finances and markets are about people and for people. And it is the hard, the demanding, task—it is the honor—of the Fund, even if it is not a development institution, to try continuously to help governments to be responsive to the cries of the poor. The cries of the poor! I believe that we must keep in our minds and hearts the heartbreaking message of the two teenagers from Guinea, found dead in the landing gear bay of an airliner, a message to, I quote: "the Excellencies and officials of Europe." They said, "we suffer enormously in Africa. Help us. We have problems in Africa. We lack rights as children. We have war and illness, we lack food.... We want to study, and we ask you to help us to study so we can be like you, in Africa." This message, I presume, was also for each country and institution represented here today. It is a message from those in absolute poverty. It tells us that the extent of poverty still present at the end of a century of affluence is intolerable; and, of course, the degree of absolute poverty is absolutely intolerable. So it is time to respond.

But this is not new for you: social policies are central elements of government budgets, of donors' aid programs, and of international communiqués. Nor are these issues new to the Fund; for many years, IMF-supported programs have explicitly incorporated social policies. During the past decade, in most countries implementing IMF-supported programs, education and health care have significantly increased in real per capita terms. At the same time, there have been improvements in important social indices. But the voices of the poor around the world are telling us in no uncertain terms that this is not enough. The time has come for a new and more decisive start.

There are two dimensions in the war against poverty: one national, the other international. The first will remain predominant. As our friends, Mamadou Touré and Alassane Ouattara, have so frequently reminded us, the responsibility for alleviating poverty rests at home with each country, though this does not diminish the importance of the international community.

Poor countries themselves need to generate high-quality growth. We can learn from the positive experience of many African countries that, assisted by IMF-supported programs, have begun to reverse the sad cycle of one-and-a-half decades of declining per capita growth, high inflation, and external imbalances. We know the ingredients: a stable macroeconomic environment; an open, efficient market economy, a framework that fosters private investment; and, yes, transparency, financial sector soundness, and robust economic institutions. Good governance, of course! With all that entails: in particular, respect for the rule of law and an independent judicial system that recognizes property rights, enforces contracts, and protects basic citizens' rights. On all these aspects of development policies, I cannot but echo the thoughtful remarks made by Jim Wolfensohn this morning.

A fully articulated social dimension is of the essence. A vital interrelationship exists between growth and social development. This linkage has been too loose in our programs so far. The best route out of poverty is strong, sustainable high-quality growth. Strong social policies that address poverty at its roots lay the foundation for sustained economic growth. This is why we must aim—even if it is a long-run objective—at the eradication of poverty. But, for that, an international contribution is indispensable. I am delighted to tell you that an important set of measures the Executive Board has just endorsed aims precisely at that: a strong, concerted effort to reduce poverty.

A central element will be the transformation of the ESAF to the Poverty Reduction and Growth Facility, to incorporate the lessons of more than 10 years' experience; a new level of cooperation with the World Bank; new steps for debt reduction; and, above all, an explicit link with poverty reduction. A key feature will be the formulation by countries of their own comprehensive growth-oriented policies designed to reduce poverty. These policies will be articulated, after open discussion with civil society, in the form of Poverty Reduction Strategy Papers with IMF and World Bank support. And, since the Bank will base its IDA operations on the same policies laid out in these same papers, a far greater degree of synergy between the operations of the Fund and the Bank will be created. We look forward to the continued deepening of cooperation with the World Bank and the regional development banks to implement these changes and to tap their expertise. Equally, we believe this approach will foster more fruitful contacts with donors, official agencies, and civil society.

With the integration of social objectives at the heart of our programs; the deeper, faster, and broader debt relief provided by the new HIPC Initiative; the strong link established between debt relief and increased human development expenditure; all of this crowned by the adoption of the key principles of the new facility, the Fund is now well equipped to give a new impulse to the fight against poverty. Starting, of course, with the expeditious implementation of the new HIPC Initiative.

But, Governors, there is a price to pay for debt reduction. And for the Fund it is high. It has implied that we engage in exhaustive, indeed exhausting, negotiations to convince countries to contribute in one way or another to this effort. For their contributions, I thank all of them—on a preliminary count, 88 countries, of whom the large majority are developing or transition countries, including several who have used ESAF resources themselves. And I should beg their pardon for my, perhaps at times, intolerable persistence. On the part of the Fund itself, we have accepted that the Fund should almost triple, from 5 million ounces to as much as 14 million ounces, the stock of gold we will utilize to generate, through off-market transactions, the earnings needed to complete our contribution. Governors, for the Fund the job is done. The pledges that you have made, once they have been ratified by our members, will complete the Fund contribution to this initiative—a one-time truly exceptional operation in this most worthy of causes.

But, still more is needed for this strategy of poverty eradication to be credible. One important element is to boost trade as well as aid: for that, the industrial countries must make a bolder effort to open their economies to all the exports of the poorest countries. This small step need not await the so-called Millennium Round of trade negotiations to be launched in Seattle later this year, which, of course, we hope will bring major advances for the entire global economy. This is fundamental, but, at the same time, the trend of a decline in official development assistance must be reversed. In conference after conference, we—the industrial countries, developing and transition countries, and international agencies alike—have made pledges to promote human development. It is now imperative to put the financing in place. Remember the Copenhagen Declaration, which pledged to reduce by half the level of extreme poverty by the year 2015. In numerous other international gatherings, we have pledged to realize at least six other challenging targets in the next 15 years: universal primary education, a two-thirds reduction in infant and child mortality, a three-fourths reduction in maternal mortality, universal access to reproductive health services, together with the elimination of gender disparities in primary and secondary education by 2005.

Have a look at the small gray cards you have on your tables summarizing these seven pledges (see attachment), and let us imagine for one minute that they will be duly implemented: what a giant leap toward a better world, what a giant leap toward empowerment of the most disadvantaged among the poor: women, and children!

These commitments are a challenge to both developing countries and donor countries. For the poorest countries, the poverty reduction strategy I have just outlined should contribute significantly. On the donors' side, at a moment when we must, alas, recognize how far there is to go to meet the target of devoting 0.7 percent of GDP to development aid, let us stop merely lamenting this failure and see how to get back on target. A practical contribution to making sure that the pledges are implemented would be to monitor indicators that would allow us to check each year where we stand and to help us, if needed, to identify effective ways and means to transform pledges into action. Today I call all other relevant institutions to join with the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) in preparing these indicators and in sharing responsibility for this assessment. Governors, when preparing for all the celebrations of the millennium, let us decide to make the coming decades the decades of pledges fulfilled.

Finally, in this reflection on the use of our limited concessional resources, we cannot forget that repeated demands have been made for the alleviation of postconflict situations and that in many countries good policies have not survived the resurgence of armed conflict. We will, of course, continue to respond to these tragic situations, but we must be more proactive. That is why initiatives for peace are essential. And that is why I have no hesitation in repeating today some suggestions that have been made to restrain arms trade and military expenditures:

- restraining the sales of military equipment to sensitive regions;
- abolishing the provision of export credit for military purposes;
- adopting national maximum levels for military expenditure that should not exceed 1.5 percent of GDP in Africa, and might often be much lower;
- cooperating in the interdiction of the smuggling of raw materials and natural resources to finance armed conflict; and
- broadening the UN register to involve many more countries and to cover small arms and ammunition.

We must endorse them. Just think how many plowshares could be forged with such an oversupply of swords! Governors, before closing, let me underline the urgency of a number of tasks that must be addressed in the period immediately ahead:

- for the industrial countries: to take advantage of the recovery not only to achieve more balanced growth among themselves, but also to introduce flexibility to their structures and markets, and to consolidate their public finances;
- for countries emerging from crisis: to forge ahead with the major reforms still needed;
- for the HIPC countries: to adopt the policies needed to be counted among those reaching the decision point before the end of 2000;
- for all countries: to proceed with the possibly difficult budgetary choices that may be entailed in implementing the seven pledges on sustainable development I have recalled today; and
- for you, as Governors of the Fund: not only to make the Fund as modern as the markets, but also an institution that is even more responsive to the needs of the world, even more human centered and a better place for achieving a broader sense of world citizenship.

Governors, times of respite can be dangerous times, and they can be short lived; the temptation may not be, perhaps, to rest on our laurels, but to wait and see or to turn to different agendas. Governors, do not miss this opportunity to show the world that you—together—do not need the pressure of a crisis to do your collective job for the good of humanity. I say this with all my conviction: it is urgent! Next year, it could be just too late! As we look back at the past two years, we take pride in having worked with you and learned with you; we were saddened, as you were, at the difficulties facing your people and have rejoiced when your policies, with our support, have begun to show positive results:

- in the handful of countries at the center of the crisis;
- in more than 50 other countries—rarely caught in the glare of international attention—that are implementing IMF-supported programs; and
- in another 125 members with whom we are working through our surveillance, technical assistance, and training as they weathered this global crisis.

All these efforts have bought us time, not for celebration but for action to move the world economy from its present recovery to a path of high-quality sustainable growth and through that, through all our techniques and thoughts—as Pierre Teilhard de Chardin used to say—to full humanization. The need is there. The agenda is defined. The pledges have been made. Targets have been set. It is time for action. Let us go forward.

*Annex*

## SEVEN PLEDGES ON SUSTAINABLE DEVELOPMENT[1]

*Reducing extreme poverty:* The proportion of people living in extreme poverty in developing countries should be reduced by at least one half by 2015. *(Copenhagen)*

*Universal primary education:* There should be universal primary education in all countries by 2015. *(Jomtien, Copenhagen, Beijing)*

*Gender equality:* Progress toward gender equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005. *(Cairo, Copenhagen, Beijing)*

*Infant and child mortality:* The death rates for infants and children under the age of five years should be reduced in each developing country by two-thirds of the 1990 level by 2015. *(Cairo)*

*Maternal mortality:* The rate of maternal mortality should be reduced by three-fourths between 1990 and 2015. *(Cairo, Beijing)*

*Reproductive health:* Access should be available through the primary health care system to reproductive health services for all individuals of appropriate ages, no later than 2015. *(Cairo)*

*Environment:* There should be a current national strategy for sustainable development in the process of implementation in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015. *(Rio)*

[1]Pledges made in one or more of the following declarations:

*Framework for Action to Meet Basic Learning Needs,* World Conference on Education for All, Jomtien, Thailand, March 1990.

*Rio Declaration on Environment and Development,* UN Conference on Environment and Development, Rio de Janeiro, Brazil, June 1992.

*Cairo Declaration and Program of Action,* International Conference on Population and Development, Cairo, Egypt, September 1994.

*The Copenhagen Declaration on Social Development and Program of Action,* World Summit for Social Development, Copenhagen, Denmark, March 1995.

*Beijing Declaration and Platform for Action,* Fourth World Conference on Women, Beijing, China, September 1995.

## REPORT TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND BY THE CHAIRMAN OF THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS ON THE INTERNATIONAL MONETARY SYSTEM[1]

*Gordon Brown*

I am honored to report on the Interim Committee's discussions on the world economy and its new financial architecture. I report also on Sunday's first-ever joint meeting of the Interim and Development Committees, where together we entered into a historic commitment to deliver, in the year 2000, many of the world's poorest countries from burdens of unsustainable debt.

Since we met here in Washington last October, when turbulence threatened global stability, the world has taken decisive action. Our Committee observed that world growth prospects are now substantially better than they appeared even a few months ago, and the expectation is of recovery strengthening in 2000.

But as the Committee agreed, this is no time for complacency. The challenges ahead include ensuring that the sustained pickup in domestic demand in Europe and Japan, together with medium-term growth in the United States in line with potential, helps to achieve a more balanced pattern of growth. And the Committee urged the crisis-affected emerging market economies to press ahead vigorously with structural reforms that will accelerate their return to sustainable economic growth.

Last year our Committee concentrated on the design of a new framework for stability in the new global economy. This year we have been making important decisions, agreeing on a new design. In the coming year, we must translate our new consensus into effective implementation.

### *A New Framework for Global Stability*

At its April meeting, the Committee noted that broad agreement had been reached on key aspects of a strengthened architecture. It called on the private sector, national authorities, the Fund, and other institutions and forums to carry forward their work in the months ahead. On Sunday, the Committee reviewed progress to date. I am pleased to report that significant progress has been made toward a new framework. Let me elaborate on the main elements.

[1]Delivered at the opening Joint Session, September 28, 1999.

*Surveillance and Transparency*

The first lesson we have learned from recent events is that stability is more likely where we have open and transparent procedures in fiscal and monetary policy—and in corporate standards—and where there are agreed objectives clearly and openly stated and regularly monitored.

The Committee underscored the importance of increasing transparency of national governments, the private sector, and the international financial institutions. I believe that, in today's global economy, governments need to set clear objectives for fiscal and monetary policies, and to follow open and transparent procedures. This is critical for their accountability and for investor confidence. Without transparency and proper procedures, investors may not make the long-term commitment so necessary for jobs, growth, and social progress.

Substantial progress has already been made in this area. The Fund has established the Special Data Dissemination Standard (SDDS), to which 47 countries have subscribed, and the General Data Dissemination System (GDDS), both of which will improve the quality, accuracy, and timeliness of data reporting, especially with regard to members' reserves and debt management policies.

The Fund adopted the Code of Fiscal Transparency in April 1998, and I am pleased to announce that the Committee on Sunday also adopted the Code of Good Practices on Transparency in Monetary and Financial Policies. These codes and standards are not incidental to the new architecture, they *are* the architecture.

The Committee encouraged the Fund, in cooperation with other standard-setting bodies, to continue to experiment with assessments of members' observance of international standards and codes of good practice. It asked the Executive Board to consider whether to integrate such assessments into the surveillance process.

The Committee also reiterated the importance of greater transparency in policymaking. It welcomed the widespread release of Public Information Notices, the public release of IMF policy papers and the associated summaries of Board discussions, and the release of the external evaluators' reports on IMF surveillance and economic research activities. The Committee reaffirmed the importance of independent evaluations of the Fund's operations and policies. The decision of 46 countries that have already volunteered to participate in the pilot program for the release of Article IV reports is particularly welcome, as is the Fund's agreement to establish a presumption in favor of publication of program documents. The Fund is encouraged to take further actions to make IMF practices and members' policies more transparent, while taking care that this does not compromise the role of the Fund as confidential advisor to governments.

*Financial Sector Reform*

In the financial area, governments must maintain strong internal financial controls and tighten supervision and regulation of domestic financial institutions and offshore banking centers, including measures to deter money laundering. The Committee urged the Fund to enhance its support for members' efforts in this area.

Because today's financial markets are global, we need not only provide proper national supervision but also better financial regulation worldwide. The Fund and the Bank are enhancing coordination on surveillance and their advice in the financial sector.

The Fund, the Bank, other international groups, and financial supervisors have also stepped up their efforts to develop and implement principles and good practices for sound financial systems, and to improve their capacity to make assessments of financial sector vulnerabilities. The Committee welcomed these efforts.

The Financial Stability Forum has now been established. This welcome initiative makes cooperation between the international financial institutions and the regulators a fact of life. The Forum has made a successful start by establishing working groups to coordinate the work of the international financial community on the implications of highly leveraged institutions, offshore centers, and short-term capital flows.

Considerable progress has been made by business, financial institutions, and government agencies around the world in preparing computer systems for the millennium date changeover—the Y2K computer problem. Nevertheless, the risk of possible Y2K-related problems exists. The decision by the Fund's Executive Board to introduce a temporary facility that would help members deal with unforeseen balance of payments problems that may arise in connection with Y2K is therefore welcome. But members must continue to press ahead and take the necessary steps to minimize Y2K-related disruptions in their financial systems.

*Crisis Prevention and Resolution*

There is a general consensus that prevention of crises remains the key. Analysis of members' vulnerability to crises should be strengthened, and the Fund and its members should focus, in the context of both surveillance and program design, on minimizing and managing this vulnerability. Here, the continued involvement of the private sector—in both forestalling and resolving crises—is critical.

The Committee noted the progress achieved in securing the involvement of the private sector in individual cases. It considered that the report by the G-7 Finance Ministers to the Cologne Economic Summit provides a helpful framework on which to build, and within which the international community can work to address individual cases. The Committee has asked the Executive Board to build on this framework and to report at its next meeting on the ways in which the broad principles have been implemented.

*Choice of Exchange Rate Regimes*

While it is up to members to decide what exchange rate regime to adopt, it should be borne in mind that individual members' choice of exchange rate regime has repercussions for the member itself, but also in some cases potentially for the world economy. The Committee noted that IMF surveillance and programs should further focus on the consistency of a member's macroeconomic policies, institutional arrangements, and exchange rate regime.

*Transformation of the Interim Committee*

To strengthen the policymaking process, the Committee endorsed the recommendation of the Executive Board to the Board of Governors that the Interim Committee be transformed into the International Monetary and Financial Committee, and that its advisory role be strengthened.

*Poverty Reduction*

It is important that, in building a strengthened financial system, we do not forget the plight of the poor. The low-income heavily indebted countries must also benefit from the new architecture. A critical need is to reduce poverty. There is a now general recognition that growth by itself is not necessarily sufficient for reducing poverty. Sustainability of growth requires rising incomes founded on durable productivity growth. This in turn entails policies, in areas such as health and education, that raise productivity and enhance employment opportunities, especially for the poor. Moreover, in fostering economic growth through prudent macroeconomic policies and structural reforms, it is critical that the burden of adjustment does not fall on the poorest and most vulnerable.

The reform of the Fund's ESAF into the Poverty Reduction and Growth Facility, which will make poverty reduction an explicit and overarching goal, is a major step forward. The Committee warmly welcomed this reform of the ESAF. The cornerstones of the new approach are (i) a comprehensive Poverty Reduction Strategy Paper that will be prepared by the country, with assistance from the World Bank and the Fund, to guide the design of programs; (ii) social and sectoral programs, aimed at poverty reduction, will be taken into account fully in the design of economic policies for promoting faster, sustainable growth; (iii) greater emphasis will be accorded to good governance, in particular in all government activities, through greater transparency, effective monitoring procedures, anticorruption initiatives, accountability, and the involvement of all sectors of society; and (iv) higher priority will be accorded to key measures critical to achieving governments' social goals.

The Committee recognized that a mountain of inherited and hitherto immovable debt stands in the way of economic development in the poorest countries: unsustainable debt that is a burden imposed from the past on the present generation, which is tragically depriving millions of their chance of a future. And it is in the spirit of those who founded the Fund and the Bank that all of us believe that we have obligations beyond our front doors, responsibilities beyond the city wall, duties to others beyond our national borders, that we are called to take decisive action.

So let it be said of the conclusions from the historic joint meeting of the Development and Interim Committees—that those to whom the world's greatest wealth has been given have joined with those burdened down by the world's greatest debt and destitution to form a new and worldwide alliance against poverty.

First, by endorsing the enhancements and reforms to the HIPC Initiative, we set ourselves a challenging target to move three quarters of eligible countries through the process and the remainder on the path to debt relief by end-2000.

Second, in seeking to establish a virtuous circle of debt relief, poverty reduction, and economic development, we endorsed a major and decisive shift in policy on poverty. The old approach underplayed the importance of social policy. The new approach is that countries will prepare reduction strategies in partnership with the Bank and Fund and that these will stress how together macroeconomic, structural, and social policies can generate growth and contribute to reducing poverty.

We agreed that poverty reduction strategies should be country-driven, engage the broad participation of civil society, and be explicitly linked to achieving agreed international development goals, the most pressing and challenging of which is to halve world poverty by 2015.

Third, financing our reforms—and in this area in particular I pay tribute, as in so many areas, to the work of Michel Camdessus, James Wolfensohn, and their staffs, without whom faster, deeper, and wider debt relief could not have been possible. The Interim Committee endorsed the decision of the Fund for off-market transactions of up to

14 million ounces of gold to fund the Fund contribution to the new enhanced HIPC framework. In the last week alone, an additional $1.5 billion has been promised or committed to the HIPC millennium trust fund. The challenge is for those countries in need of debt relief to secure that debt relief now, and I believe that the first country can now benefit from our enhanced debt relief not just in a year, or in months, but in weeks.

*Concluding Remarks*

So, in all our decisions, we are reaffirming the public purpose and high ideals that 54 years ago brought the Fund and the new international financial order into being; demonstrating our belief that prosperity is indivisible and that we cannot take refuge in absentee government; showing that, by the strong helping the weak, it makes us all strong; and by that public action, we can say from here in Washington, on the eve of a new century, we are determined to advance a new and worldwide prosperity for all.

## REPORT TO THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND BY THE CHAIRMAN OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES (DEVELOPMENT COMMITTEE)

*Tarrin Nimmanahaeminda*

As Chairman of the Development Committee, I am pleased to report to you on the Committee's work during the two meetings held this year. The Committee's agenda in these meetings focused on three basic areas. These are:

- the enhancement of the HIPC Initiative; and
- strengthening the international system and architecture; and
- important World Bank developments and issues.

Let me address each one briefly.

*HIPC Initiative*

The HIPC Initiative began over three years ago in the Development Committee, and it has continued to be a major focus of our attention. In April we encouraged the institutions to develop options designed to make the debt relief "broader, deeper, and faster," and to establish a clear link between debt relief and poverty reduction. These goals served as the basis for the agreements reached two days ago at a joint meeting of the Interim and Development Committees, and yesterday at the Development Committee.

The HIPC Initiative was the ideal issue for this first-ever joint meeting of the two committees. The Executive Boards of both institutions have been deeply involved at every stage, and so it is appropriate that the far-reaching proposals for change were reviewed by the full membership of both Committees. The results were reflected in a joint statement issued by Chancellor Brown and myself after the meeting. We stated that "this joint meeting symbolizes the cooperation and high political commitment of all countries and institutions in this effort, and the new closer relationship between the Bank and Fund which will be crucial to achieving this goal."

We believe the Committee has contributed to a major strengthening of Bank-Fund collaboration in support of poverty reduction—increased cooperation that is likely to have an impact far beyond the HIPC Initiative. The enhanced initiative entails, of course, additional costs for all participants. The Development Committee and the Joint Meeting have built the political support and momentum needed for success. Central to achieving this political support has been the reaffirmation of several key principles that have guided the initiative from the start, including the additionality of debt relief, the maintenance of the financial integrity of multilateral financial institutions, and the importance of fair and equitable burden sharing. The Committee has also considered the special problems of countries in conflict, and the assistance provided by the Bank and the Fund to assist post-conflict countries. We stressed the need to link such efforts to preparing countries for eligibility in the HIPC Initiative. In short, we are very pleased with the leadership role played by the two institutions and their leaders in making this ambitious venture possible, of course with the generous support of many partners represented in this hall today.

### *Strengthening the International System and Architecture*

The Committee has addressed a number of important subjects that directly or indirectly form part of the international architecture. In the past year we have explored the following areas:

*Developing countries and the international trade agenda*. We were pleased to have as a plenary speaker yesterday the new Director-General of the World Trade Organization, Mr. Mike Moore. He set the tone for important and supportive comments in our communiqué, which emphasized that the next round of trade negotiations needed to deliver "early and substantial benefits for developing and transition countries, in particular the least developed countries."

*Principles and good practices in social policy.* The Committee discussed this subject in the aftermath of the Asian crisis, stressing the importance of concerted action to help countries bolster their social policies and institutions. We concluded, however, that further development of basic principles in this area was best pursued with, and within, the framework of the United Nations, and leaving the Bank to concentrate on translating broad principles into practical country-specific results.

*Strengthening international fora.* The Committee discussed a number of options for strengthening the work of the Development Committee, including its links to the Interim Committee. Some of our members had advocated experimenting with a joint session of the two committees, and as a result of our experience two days ago we know that under certain circumstances it can work to good advantage. We are also seeking to ensure the minimum of overlap between the agendas of the two committees, so as to make the best use of members' time.

### *World Bank Issues*

*The Comprehensive Development Framework.* During these two meetings the theme of the CDF has frequently arisen, as many ministers have stressed the valuable contribution the CDF can make to formulation of development programs. Its holistic approach, the central role played by the host government, and the emphasis on partnership have struck a strong and positive note among many Committee members. One aspect of partnership particularly emphasized by the Committee is the need to strengthen further the World Bank's cooperation with regional development banks.

*Bank capital adequacy*. The President has worked closely with the Executive Board in reviewing carefully the status of the Bank's financial capacity. Their conclusion, supported by the Development Committee, is that the Bank's finances remain sound, but that there are clear limits on what it can do to respond to future demands, especially if there is a deterioration in the global financial environment. We will be keeping the subject under review, based on regular reports from the Bank.

### *Conclusion*

In conclusion, over a year ago, when I became Chairman of the Development Committee, there was great concern that Bank-Fund cooperation was insufficient on many important issues. Now I am pleased to report that such is no longer the case, as the Bank and the Fund have cooperated closely on many common institutional challenges facing them in this past year.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR THE REPUBLIC OF ARMENIA

*Levon V. Barkhoudarian*

I am pleased to participate at these Annual Meetings of the World Bank Group and the Fund and to be able to offer briefly Armenia's views on those policy directions for the year 2000 and beyond that will enhance global growth and development for my country and for those like us who seek to complete the difficult transition to a fully functioning market economy.

Overcoming financial crises this past year in parts of the world economy once again highlights for us all the importance and the necessity of continued joint efforts by the international financial community. At the same time, I believe that these financial failures also underscore the critical importance of creating and executing specific strategies that will address problems at the pre-crisis stage, before world markets are buffeted by events that may be avoidable.

While none of us can predict the future with absolute certainty, I believe that the Governors should affirm a forward-looking policy that states unequivocally that a country that has already demonstrated convincingly its commitment to tight monetary and fiscal policies shall have the backing of the international community. Without such mutual accord between country and community, agreed to and understood in advance, the world economy will continue to face similar shocks, a corresponding decrease in the level of trust of the people in countries seeking international integration, a resultant lowering of trade volumes, and a general decrease in the efficiency of the world economy.

It should go without saying that, during our discussions on world integration, special attention should be devoted to the equal treatment of all countries, which recognizes the necessity of financial support for transition economies—especially small and therefore comparably manageable ones—firmly following the path of establishing a market democracy.

The Republic of Armenia, together with many of the countries in the world, has been affected by the international, and especially the Russian, financial crisis. The impact of the latter was multiplied—a decrease of income flowing into Armenia, a contraction of gross demand and decrease in consumption volumes, with a corresponding reduction of fiscal revenues, a noticeable decline in both import and export volumes, and an outflow of capital from both the treasury bill market and important investment projects. Obviously, our government had to take corrective action swiftly to contain the impact of the crisis in Armenia. As evidence of the efficacy of the measures undertaken, I am pleased to state that the midterm review under the ESAF has just been concluded, and the documents have been presented for discussion by the Fund's Executive Board at the beginning of October.

Armenia attaches great importance to the attraction of foreign investments. As a factor in assuring the stability of the investment environment in our republic and, as important, in asserting our firm position with respect to our maximum integration into the world economy, I want to reaffirm Armenia's best efforts toward accession to the World Trade Organization. I hope and expect that our efforts will show results this year.

Perhaps the Governors will agree with me when I say that a situation where some two-thirds of all foreign direct investment flows to only a few countries cannot foster the level of development for all countries that we would desire. The problem in my country is made even more acute by the fact that almost all investment flow so far has been related to the privatization process. I would urge that the efforts of the international financial institutions in the new millennium be directed toward offering the full assistance required by emerging economies in gaining the knowledge, experience, and tools necessary to compete successfully in the global marketplace.

A fully integrated world economy is difficult to imagine without regional cooperation. The strengthening of such cooperation is one of Armenia's top priorities. International financial institutions could greatly facilitate regional cooperation in our region and in others by giving increased importance to those projects that benefit both the country and the region.

The financial crises that we have experienced appear to have contributed to an even greater appreciation of the importance of transparency, as reflected in the implementation of Bank and Fund programs. Transparency is the only means by which it is possible to reach an understanding within a society on the economic programs being implemented and, thus to ensure their success. Armenia, for one, participates in the pilot project of the Fund to guarantee greater transparency of projects being implemented, and I can tell you that it has been our experience that encouraging public discussions enhances the efficiency of these programs. As stated in the principles adopted by the Fund, monetary and fiscal policies benefit greatly when their goals and instruments are presented to and understood by the public.

We welcome the day-by-day increase in cooperation between international financial institutions, especially the Fund and the World Bank. I consider that in such areas as pensions, provision of satisfactory infrastructure for the development of the private sector, environmental protection, and fiscal federalism, the cooperation of sister organizations in a coordinated and efficient manner can bring major benefits to the economic prosperity of the countries involved. In such circumstances, the on-site study of projects and the initiation of public discussion on projects being implemented acquire greater importance than ever. And, in this regard, it is worth noting that both the Bank and the Fund have the possibility of associating their lending programs with nonlending activities, such as technical assistance, consulting services, and other such mechanisms that help develop efficient solutions to specific problems.

The topic of the Annual Meetings—"Setting the Agenda for Global Growth and Development on the Eve of the Millennium"—is designed to give us an opening to discuss the problems the world economy faces at the end of the millennium, and to identify coming tasks and new policy directions. I believe that the Governors should continue to focus their attention on the areas of greater transparency, crisis prevention, and regional and global integration. Next year in Prague, I hope that we will be able to affirm our progress in this regard and to continue our discussion on specific measures to reach these objectives.

## STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR AUSTRALIA

*Peter Costello*

In the past two years, beginning with events in Thailand in July 1997, we faced some of the greatest challenges to the international financial system ever. And in East Asia, financial crisis quickly led to economic recession and worse. The region that had been the world's strongest growth region for a decade or more suddenly reversed. Millions of people had their standards of living savaged and their opportunities shattered. But the situation has now stabilized. There are signs of strong growth in Korea, Japan shows signs of recovery, the United States is strong, Europe is picking up, and the world economy is likely to continue improving in the remainder of 1999 and into 2000.

However, optimism about the outlook needs to be tempered by a strong note of caution. Many economies still face substantial policy challenges. We remain concerned by economic developments in Indonesia and the very troubled state of affairs in East Timor. I call on the international community to lend its humanitarian hand to address the crisis in East Timor. In crisis-affected economies, there is a continuing need to push on with domestic structural reforms, and on the international front to address management challenges.

The Australian economy is expected to continue growing strongly, albeit at a more moderate pace than the 4.5 percent this past year. Sound macroeconomic policies have set the foundation for sustained low inflation outcomes, a low interest rate environment, and strong employment growth. The cornerstones of those policies have been a focus on transparency, in the conduct of both monetary and fiscal policies, and a commitment to ambitious medium-term goals.

The government has a medium-term fiscal strategy that includes maintaining budget surpluses while economic growth prospects remain sound and halving the Commonwealth general government's net debt to 10 percent of GDP by 2000–01. Australia is achieving both these fiscal objectives. With its privatization program, there is a real possibility that Commonwealth general government net debt might be completely eliminated within the next few years.

Ongoing structural reforms in both the product and financial markets have led to a leap in productivity. In the face of severe economic circumstances in our region, exporters were able to maintain export volumes by diverting to other markets. The flexibility of the economy and its performance through this crisis illustrate the benefits of policy reform. It is important to remember, however, that the task of reform is a continuing one. We must always look forward, anticipating problems before they arise and maintaining the momentum of reform to meet them.

That is why our country is tackling the difficult area of tax reform. This has been a huge area of work for the last two years. On July 1, we will introduce a value-added tax, major reductions in income tax, the abolition of a wide range of inefficient taxes, and the reform of a wide range of social security benefits. Building on that, this month, the government announced details of the reform of the business tax system in Australia. The new tax system will be more commercially focused and internationally competitive, while at the same time providing a sustainable revenue base. Company tax rates are being lowered and will be among the lowest in the Asian region. The new system will also improve incentives to save and invest by lowering capital gains taxes. Small business taxes will be simplified and lowered.

Reform is just as important at the international level. Recent economic difficulties exposed weakness in the operation of the international financial system, and in the traditional policy and surveillance frameworks used by international financial institutions, as well as structural weaknesses in the countries themselves. Australia is contributing to the work being undertaken by the international financial institutions to strengthen the international financial architecture, and I would now like to turn to a number of issues on this important agenda.

*Highly Leveraged Institutions*

Australia has concerns about the potential impact of destabilizing short-term capital flows and the role of highly leveraged institutions, particularly their potential ability to manipulate small to medium-sized foreign exchange markets. Steps are necessary to ensure adequate disclosure by hedge funds and other highly leveraged institutions and to ensure appropriate risk management on the part of creditors and counterparties in dealings with such entities. We are pleased with the Financial Stability Forum's work on highly leveraged institutions and strongly support the development of that work into concrete proposals for change.

*Involving Private Sector in Forestalling and Resolving Financial Crises*

We have also been pursuing the issue of the role of private sector borrowing in the international financial system, encouraging consideration of the issue in the Fund, as well as through Asia-Pacific Economic Cooperation (APEC) and the Manila Framework Group. It was also an area examined by a high-level Task Force that I chaired in 1998 to report on how Australia could contribute to international financial reform. I am pleased to see that a number of practical options that were raised in the report are now under consideration by the international financial institutions.

Australia welcomes the establishment of the Group of Twenty, which will be able to look at private sector involvement in the prevention and resolution of crises. We support a framework of guiding principles and tools that are not overly prescriptive. We are greatly encouraged by the agreement of the Interim Committee at these Meetings to ask the Executive Board to report at the Committee's next meeting on the ways in which the broad principles could be implemented.

We would encourage the Fund to extend the excellent work done to date—and develop ways on how the private sector involvement might be activated and negotiated in particular circumstances. We would expect there to be sufficient room for flexibility to allow common sense solutions to prevail and take into account the circumstances of individual cases. A set of practical "ground rules" that can shape expectations about the handling of a crisis would facilitate discussion between debtors and creditors and speed up the resolution of these extremely difficult situations.

*Enhancing the Initiative for Heavily Indebted Poor Countries*

The developments in the past few days that will lead to an enhanced HIPC Initiative hold the prospect of great benefit for indebted countries and their poverty-stricken peoples. Australia will more than double its contributions to this initiative, and I congratulate both the Bank and the Fund for their tireless work on financing the initiative. Write-offs offer new hope for countries crippled by debt. Economic policy to harness this opportunity will be required to build high hopes for a new start into reality. Economic growth is the best way of breaking poverty. High-quality growth and the conditions that promote it—honest institutions, accountable and transparent policy, declining trade barriers, open society, and respect for human rights and property—are the foundations for raising living standards, opening opportunity, hope, and achievement. And the achievement of policy in the face of crisis over the past two years should strengthen us to continue this work in the future.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR AUSTRIA

*Wolfgang Ruttenstorfer*

*The Record of the Previous Year*

When I had the honor and the pleasure of chairing this meeting last year, it was at an important crossroads for the stability of the global financial system. We were confronted with a difficult situation, which was considered by many to be a very serious threat to the stability and even viability of the worldwide financial system. Today we can say that we have lived up to this challenge. Starting from the deliberations we were then exploring, our common efforts have brought about the outline of a framework that is designed to make our common economic and financial world more stable and less fragile.

Today we are in the process of implementing this framework. Under the heading of "New Financial Architecture," we have devised a set of rules and guidelines consisting of three important blocks:

- *Rules to improve and strengthen each country's own economic policy and financial system*. In economic policy, we have identified areas of fragility and are still studying such important questions as the appropriate exchange rate regime. We are in a constant learning process, both for countries in an increasingly global economy and for the institutions that advise them. We continue to give this central question our best efforts. As for financial systems, we have seen the unfortunate effects of a fragile system on a country's ability to withstand market pressures, and we have also learned that special caution must be maintained when reforming such a system. We are pleased with the common efforts of the World Bank and the Fund to assist countries in their endeavor to strengthen their financial systems.

- *Rules to improve the relevant international institutions.* This central question has led us to the establishment of new structures, and some new forums have emerged, together with a stronger commitment toward better cooperation. These new structures are all linked to existing ones and reaffirm the central responsibility of the Bretton Woods institutions. I hope that these steps will stand the test of time and contribute to institutions that are efficient and effective while being representative of their universal membership.
- *Breaking new ground for the interaction of all segments involved, with special emphasis on the private sector*. Interaction with the private sector is a very challenging subject, as we all wish for a cooperative, balanced approach that does not resort to excessive regulation. Solutions should be found—as far as possible—in a voluntary discussion process. Still, we are all aware that public funds are limited and cannot be used to assume the risks while the private sector makes the profits.

We have now moved on from the first steps of exploring possible solutions toward the "nitty-gritty" of making these rules part of our legal and political daily reality. There is still much work to be done. The general direction of where we must go seems clear. There is widespread consensus about this path. We must clear up the remaining unsolved problem areas and move quickly toward the finalization of implementation.

*Poverty Reduction*

At the same time, as has been emphasized repeatedly over the past couple of years by the President of the World Bank, it is important to recognize the importance of the social dimension of crisis situations. Until recently, such crises had been seen primarily, if not exclusively, as financial crises. The recognition of the social dimension has brought to the surface new challenges to mitigate the effects on the most vulnerable, the poor people in our societies.

I would like to underline how important it is that the World Bank continue its work to help countries to address their structural and social problems. The Bank's strength is its focus on structures and projects and its engagement in long-term work rather than short-term emergency lending. It is in this context that I would caution the Bank not to increase its engagement in this direction, as this certainly would very quickly make it surpass its financial as well as its institutional capacity.

In the context of our continued efforts to fight poverty, the important work on HIPC must continue. I appreciate and fully support the enhancements to the HIPC Initiative framework as it has been discussed by the Interim and Development Committees. I do appreciate the progress made during the past few days on this framework. I am concerned, however, that while expectations have been raised in the countries concerned, at the same time there seems to be an inclination to bypass a number of important particulars and to leave them open for future agreements. Such an approach, in my view, could do substantial damage to the credibility of the initiative and should be avoided. I would like to emphasize here, that Austria stands ready to provide her fair share of financial support to the HIPC Initiative within an agreed framework of fair burden sharing.

Indeed, the principle of fair burden sharing has a variety of implications. Not only do we have to balance the burden among industrial countries; middle-income countries might also have to bear part of the burden because of the interrelationship between the services provided by international institutions and the implications of allocations of the net income of the institutions for various purposes. Therefore, while seeing some maneuvering room for additional contributions by the international financial institutions, I would argue that the demand for such contributions should not be overstretched, for the reasons mentioned and, moreover, in order to protect the financial integrity of the international financial institutions.

Another broadly accepted principle to be observed in the HIPC Initiative is additionality. It is all the more important that, from the outset, we have a viable concept about the overall financial requirements and a credible plan for how these requirements would be fulfilled. Countries benefiting from the initiative should be given a clear perspective of what they can expect in terms of new financial aid as well as in terms of debt reduction conditional upon implementation of the mutually agreed measures and programs, not only in the short term but also over an extended period of time. Part of such programs under consideration must include issues of governance, budget management, and the structure of public expenditures, including social sector spending and military expenditures.

It is clear that the programs to be implemented have to be observed to their full extent. We welcome the Poverty Reduction Strategy Plans to be developed by the countries concerned as particularly useful instruments. However, I urge both the Fund and the World Bank that programs be designed in a pragmatic fashion as far as the underlying economic thinking is concerned. They should take into consideration the lessons learned in the past from what has worked and what has not worked in previous programs. It is in this context that I view the concept of a Comprehensive Development Framework, as introduced by the World Bank earlier this year, as particularly helpful and important. At the same time, I fully support the Fund's intention to take into account consistently the social aspects and effects of its stabilization programs, and I welcome the steps to make the ESAF a program oriented toward poverty reduction as a central focus.

*Middle-Income Countries Must Not Be Forgotten*

However, in addition to our efforts to either stem crises or alleviate the harshest economic difficulties, we must not forget all those countries that are neither immediate victims of financial crises nor in extreme poverty, but are, nevertheless, very much in need of our assistance. There is "everyday business" for all of us that must not be forgotten because of the more extreme cases. Fortunately this has not been the case so far, though our collective focus was on the seemingly more pressing problems. I am talking, among others, of our middle-income neighbors and friends, with whom Austria is strongly linked, by virtue of its history, tradition, geography, and also its constituency in the Bretton Woods institutions.

The important long-term cooperation with many countries is a crucial feature of IMF and World Bank activities. Of course, we have to deal with crises when they occur, and of course we have to find solutions for our poorest member countries as well. But this must not happen at the expense of those who do not fall into either of these two categories. The increasing focus of both Bretton Woods institutions on a small group of debtors would be regrettable and may be dangerous in the long term. A broad outreach to the membership of the institutions is important, both in surveillance and in terms of appropriate assistance, and should reflect the universality of the institutions.

Let me give you one example: the work of the Fund and the World Bank in the countries now preparing for accession to the European Union is a very important and successful effort. It underlines the fact that sound policies and a clear, credibly pursued goal have been able to shelter these markets to a remarkable extent from the contagion effects of the financial crises felt in many parts of the world.

Furthermore, I would like to emphasize that we attach great importance to the fact that the cooperation between the World Bank and the European Union is functioning well. I would like to encourage both Bretton Woods institutions to continue to broaden this cooperation and, as appropriate, coordinate activities with the European Union. This should reflect the growing role and responsibilities of the European Union as one of the major players in the global economy.

Needless to say, the support of the World Bank is particularly important for the region of southeastern Europe. There we cannot just rely on time to heal the wounds of the conflicts between various population groups, but must undertake active efforts in order to plant the seeds for an eventual reconstruction and reconciliation within this troubled region. This is another important example for the deepening and broadening cooperation between the world community, the European Union and the Bretton Woods institutions, and a particularly crucial one. A good economic basis and a fair social structure will be essential ingredients in any concept for lasting peace in the region.

Let me say one word on the programs with the Russian Federation. For us, it is clear that, at this crucial time, the Bretton Woods institutions must continue to support the changeover to a market process in this large country. We urge the Fund, however, to put additional efforts into monitoring its Russia program effectively.

*Permanent Adjustment to Change Is a Necessity for All Countries*

These Annual Meetings serve to reaffirm our common goal of making our economies and our cooperation better, and of our continued determination to work well together and to find solutions to our common economic problems. It is encouraging to see that we have implemented—and are still implementing—many of the decisions we made last year.

This continuous implementation of new policies, this permanent renewal of our policies, is sometimes a difficult process, but unavoidable for all of us. No matter at which step on the ladder of economic and social development we stand, how large or small we are, in which region of the world we are located—all of us must continuously adjust to the changed circumstances with which an ever-changing world confronts us, in order to reap the greatest possible benefits from the globalized and integrated markets of today. Austria is no exception to this rule. Recent policy efforts were directed toward increasing the research, development, and technology potential for Austrian firms, to provide easier access to venture capital to Austria’s small and medium-sized firms, and to strengthen business firms in general. A major tax reform to become effective as of January 2000 should be one vehicle to support these endeavors. Future activities all will have the goal of making Austrian business firms and the population more ready to accept change and to be able to profit from it.

To sum up, while I am very pleased to see that the financial crises of the past couple of years seems to be over, and that for a number of countries the macroeconomic situation looks quite promising, the real effects of the crises on the respective populations are far from over at this point in time. A lot remains to be done to ameliorate their situation, and to avoid—as far as possible—such dramatic social effects in the future.

Finally, there is a recent development that I find worrisome. We are gathered here because we are all members of the Bretton Woods institutions. We have all experienced, in different ways, the important positive contributions that these institutions can make to our common global goals. Therefore, I deeply regret to see how the credibility and reputation of these institutions are suffering right now from a less than fully constructive public debate.

While I believe that intense public debate about the best way to manage the difficult challenges our complex world presents to us is necessary, it would be highly regrettable if such a debate led to the weakening or loss of a credible and efficient international framework of cooperation in financial and development matters. Therefore, I call on all countries participating in these meetings to contribute to a more substantive debate about the Bretton Woods institutions and to help prevent these important institutions from being drawn into national party politics.

One possible way out of such situations might be to refocus the discussion on the tasks assigned to the institutions in their Articles of Agreement, thereby enabling them to maintain their independence from the day-to-day political interests of their shareholders, small or large.

In conclusion, I would like to take the opportunity to extend my congratulations to Mr. James Wolfensohn for his reappointment as President of the World Bank.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR BANGLADESH

*Shah A.M.S. Kibria*

It is an honor for me to address the 1999 Annual Meeting of the World Bank Group and the International Monetary Fund. I take this opportunity to extend to you, Mr. Chairman, my warmest felicitations on your election to the Chair. Let me also congratulate the Managing Director and the President for leadership through very difficult times.

We are only a few months away from the twenty-first century. Our hopes for the new century are driven by the accelerating pace of technological innovations and the spread of liberal pluralism in recent decades. The twenty-first century is likely to bring some fundamental shifts in global economic organization, international relations, and the pace and nature of economic development. Globalization and localization represent some of the most potent forces of change. The nation-state is envisaged to assume a new role in the emerging world: it will negotiate with the actors in the global arena, on the one hand, and with those in the local arena, on the other, to set up new institutions to pursue diverse goals. This process of change will necessarily be accompanied by greater instability and uncertainty, and we must ensure that international institutions are geared to meeting these new challenges. The existing institutions are the result of a series of "contracts" in which the whole international community participated, directly or indirectly, and these institutions have evolved through a process of continuous "negotiation," renewal, and reform. It seems to me that the challenge of the new century requires a degree of coordinated planning that only the governments of nations can provide. Civil society performs a key function in defining and articulating public interests, but it represents a collection of disparate causes and interests. Nations that embrace democratic values can play an effective role both in guiding the transition to the new era while expanding space for civil society and in the orderly resolution of divergent interests and attitudes in a plural society. Moreover, in preparing for the new century, we will be well advised to recognize the limitations of nations and the need to develop institutions that can deal effectively with challenges and problems that transcend national boundaries.

We note with some satisfaction that official development assistance (ODA) from DAC members rose to $51.5 billion in 1998, which is 0.23 percent of the aggregate GDP of the member countries—up from 0.22 percent, which was the lowest level ever reached. Though this is an improvement, regrettably it is about one-third of the goal of 0.7 percent of the GDP of the DAC countries set by the United Nations. We would urge the DAC members to reach the goal set unanimously by the developed and the developing countries.

In the context of official development assistance, I would like to draw your attention to the need for flow of adequate resources to the developing countries. There is a need for pragmatism and for the Bank and the Fund to take into account the local context and, in particular, the realities of democratic governance in designing institutional and policy reforms. More importantly, the recipient countries must have a greater role in diagnosing and designing their own reform programs. Adequate concessional funding is needed to sustain public investment programs geared toward private sector oriented growth. The Bank and the Fund should be working to ensure adequate availability of resources to the developing countries while continuing with efforts for better policy and institutional reforms. In this regard, special considerations should be given to countries that have avoided large-scale commercial borrowing, preferring to pursue cautious financial policies geared to maintenance of macroeconomic stability. Let me now briefly turn to the development initiatives of the government of Bangladesh taken under the leadership of Prime Minister Sheikh Hasina.

- We achieved a growth rate of over 5.2 percent in FY 1999, despite the floods of 1998—the worst in history. Macroeconomic stability was maintained against the backdrop of the Asian economic crisis.
- The government continued to make progress in structural reforms, despite the difficult macroeconomic situation.
- Reforms of state-owned enterprises, and particularly their divestiture, continued. The government has succeeded in building up a strong coalition of stakeholders in favor of reforms.
- The government has introduced a series of safety-net measures. Though modest in scale, these have given new hope to many groups largely bypassed by recent economic growth and development programs. These include old age allowance and allowances to widows with young children and distressed women abandoned by their husbands; shelters for the aged without family or community support; establishment of an Employment Bank and a Housing Fund. The last two schemes were financed entirely by the government and are directed toward helping the poor or the ultra-poor. The representatives of local government institutions, members of civil society, and nongovernmental organizations participate in selection of the

beneficiaries and administration of these social security schemes.

- Public expenditure on education and health, including nutrition, has increased. Emphasis is on primary education and literacy, primary health care, reproductive health, and HIV/AIDS. Expenditures on basic social services have risen steadily during 1990s to over 25 percent of government spending.
- The government has undertaken wide-ranging programs for mitigation of various environmental problems such as arsenic pollution, air pollution, and deforestation.
- The government supports a wide range of micro-credit and poverty alleviation programs and provides support to nongovernmental organizations implementing similar programs. Micro-credit programs of nongovernmental organizations are refinanced through the Palli Karma Shahayak Foundation (PKSF); in addition, the government has guaranteed bonds issued by Grameen Bank and makes grants to eligible nongovernmental organizations.
- In order to enhance accountability, the government has strengthened the role of the Parliament and the Standing Committees. Members of the Parliament—and not the Ministers—chair these committees.
- In order to broaden the scope of public participation and decentralization of governance, the government has initiated the process of establishing representative local self-government institutions at village, union, upazila, or subdistrict and district levels. Reservation of seats for direct election of women in all local government institutions enhances political empowerment of women. Furthermore, local government institutions are expected to enhance accountability and quality of services delivered at the local level.

The government of Bangladesh would like to thank the World Bank for its active help and cooperation in all our development efforts and the Fund for its timely assistance following the floods of last year. We look forward to working with both these institutions to deal with the daunting development challenges that we face.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF BELARUS

*Gennady V. Novitsky*

First of all, let me express my gratitude to the management and staff of the World Bank Group and the International Monetary Fund for the excellent organization of the meetings.

Noting the highly important role of international financial organizations in reforming transition economies, we support a number of principled trends in the World Bank's activities in recent years, which were initiated and are implemented under the leadership of Mr. Wolfensohn, President of the World Bank. What we mean is a more clear account by the Bank of its clients' specific features and needs, having the aim to improve living standards and ensure conditions for economic growth. We also welcome the expanded presence of the Bank in its member countries, particularly in transition economies. At the same time, we stress our concern about the problem of the Bank's net income. We would like its solution not to harm the borrowing countries.

Taking into account and supporting new trends in World Bank strategy, aimed at a better account of specific features and conditions of its member countries, let me briefly outline the economic situation in Belarus at this stage. The unsustainability of the general economic position, caused by a number of negative factors affecting the national economy, has been a characteristic feature of the social and economic situation in the republic in 1998–99. It is connected both with the continuing effects of distortions and deep crisis phenomena in the Belarussian economy in 1992–94 and with new emerging destabilization processes of external origin. From 1991 through 1994, Belarus, like most countries of the former Soviet Union, survived a period of hyperinflation and deep recession. At times, the pace of price upswing exceeded 30 percent a month. During that period GDP dropped two times. In those circumstances, the first and foremost priority of the governmental economic policy was to encourage economic growth.

From 1996 through 1998, the implementation of stabilization measures to curb an overall output reduction, resume economic growth, and increase living standards produced positive results. According to the 1997–98 outcomes, real GDP grew by 20.6 percent in comparison to the 1996 level (average annual growth pace was 9.8 percent), industrial output increased by 33 percent, and real money incomes of the population went up by 25 percent.

At the same time, the measures conducted for financial improvement of the economy appeared to be not as fully fruitful as expected due to the remaining unsatisfactory inflation environment. All that badly affected the competitiveness of domestic products and led to accumulation of a trade balance deficit and reduction in external reserves.

These as well as other negative trends grew under the predominant influence of the financial and economic crisis in Russia, which is our major neighbor and one of the most important trade partners. Its impact was most appreciable for the country's foreign exchange market, the condition and level of domestic prices, and foreign trade.

It is enough to mention that since the second half of 1998, the pace of economic growth has slowed down considerably, and the financial position of domestic enterprises has deteriorated. Starting from August 1998, there has been a substantial increase in the pace of inflation in the economic system of Belarus. From January through August 1998, inflation growth was 3.4 percent in average monthly terms, while from September through December it reached 21.3 percent. As a result, real profitability of most enterprises turned negative. The share of loss-making enterprises in their total number rose from 12.3 percent in early 1998 to 14.2 percent by early 1999. The Belarussian rubel devalued, further widening the disparity between the official and market rates.

Affected by the crisis processes, the demand on internal markets of Russia and other Commonwealth of Independent States (CIS) countries went down. Owing to that, in 1998 Belarussian foreign trade turnover shrank by 2.3 percent compared with the 1997 level, including a reduction in exports and imports by 3.2 percent and 1.6 percent respectively. However, among the noted difficulties in the country's economy, it was possible to achieve some positive results on most major macroeconomic indicators in 1998. Comparing with the 1997 level, GDP grew by 8.3 percent, industrial output—12 percent, fixed capital investment—16 percent, and real money incomes—19 percent. Despite a hard financial situation in the country, the external debt remained unchanged, and the state budget deficit was maintained at a level lower than previously planned.

As for the performance of the country's economy in 1999, it should be first of all noted that a proceeding recession and instability in the economy, as well as extremely unfavorable weather conditions in Belarus, continue to exert their influence on the social and economic development of the Republic of Belarus. According to the results of economic development for January–August 1999, actual GDP has grown only 1.5 percent in comparison to the same period of 1998, agricultural output has been 10.2 percent less than the last year's level, and fixed capital investment has decreased by 3 percent. Industry was the only stable working economic sector with growth at 106.6 percent.

The results for January–July 1999 show that given the same period of 1998, foreign trade turnover has shrunk by 26.9 percent, including a decline in exports and imports by 21.6 percent and 31.3 percent, respectively. Along with it, the share of barter operations has grown in both exports and imports. Changes in export structure were determined by an unfavorable situation on world markets, instability and low solvency of markets in Russia and other CIS countries, increased competition on non-CIS markets with regard to many kinds of Belarus-made export products, as well as by inefficient foreign exchange controls and preserved multiple exchange rate of the Belarussian rubel. Changes in import structure were mostly conditioned by financial instability and unsustainability of enterprise importers, the general situation on the foreign exchange market, and low solvency of both population and enterprises. At the same time, we should note a "spontaneous" reorientation of foreign economic flows to the West: for seven months of 1999, exports to Russia have dropped by 39.5 percent while those to the western countries have risen by 33.1 percent. The process of transition in Belarus is aimed at the creation of a "socially oriented market economy"—that is, an economy that combines the social and economic criteria of development, the advantages of market competition and efficient social security system, and the ideas of market self-control and state regulation.

The government is satisfied that in the prevailing circumstances this approach has led to better results than have been obtained in other countries. For the last three years, output growth in the republic has been significantly higher than in other CIS countries. The 1999 UNDP *Human Development Report* confirms this progress: its Human Development Index of 174 countries shows that Belarus has moved up from sixty-eighth place to sixtieth.

Belarus is interested in economic reforms including public assets restructuring. It is evidenced by the fact that the current share of nonpublic enterprises in total industrial output is about 41 percent. Over 40 percent of the employed in the republic's economy work in the nonpublic sector. At the same time, we adhere to reasonable restructuring of public and leasing enterprises with the attraction of external investments. The main objective of the ongoing state property reform is to increase production efficiency. This will be the basis for our activities in the forthcoming period.

Now I would like to characterize the relations of the government of the Republic of Belarus with the Fund and the Bank. In our view, neither the government of the Republic of Belarus nor the Fund or the Bank are satisfied with their status. Resumed discussions on possible financial support from the Fund under the Stand-By Arrangement have not been productive so far. The Fund refrains from extending a loan to the republic within the Compensatory and Contingency Financing Facility (CCFF) to compensate for the losses resulting from the decline in exports to Russia and poor grain crops in 1998. This year we have thus far failed to bring export deliveries to Russia up to the 1998 level, and as for the grain crops, the preliminary data show that we have harvested 12.5 percent less than in 1998, which was a poor harvest year as well.

We have reached the awareness that the republic requires to comprehensively revise the basic principles of the existing monetary and credit policy. The government has approved the finalized Monetary and Credit Policy Concept of the Republic of Belarus for 1999–2000. Its key points (targets and terms of implementation) will be reflected in a social and economic development forecast and the 2000 budget of the Republic of Belarus, which are being worked out and will be based on a national currency stabilization program. With such a program, we are ready to initiate another negotiation with the Fund regarding elaboration of a joint economic program to qualify for Fund financial support under a Stand-By Arrangement.

I avail myself of the opportunity to note that the World Bank also promotes, to a certain extent, the economic development in Belarus. We highly esteem the Bank's support of the forestry and energy sectors and its technical assistance. At the same time, the general character of the World Bank Country Assistance Strategy for Belarus effective since 1999 is, in our view, excessively tight and constrains the attraction of external credit resources to the country's economy. The main lending criteria, when applied to Belarus, are extremely strict and prevent us from full utilization of the Bank's resources. The Bank's overcautious approach often hits the target quite opposite to one of the Bank's main objectives, to promote market reforms in its member countries through rapid and adequate response to their needs and economic changes. Unfortunately, the Bank's practical approach to Belarus lacks due attention to the regional features. We believe that a lending possibility assessment should be better based on the level of project efficiency, its recoupment, and its role for the regional development in specific country conditions.

In this regard, allow me to express my hope that the Bank's priorities will change and the Bank will define a more flexible strategy, which would take into account the necessity of complex development in the regions that are at different stages of transition to the market economy. The Bank's financial support of social and environmental projects, and private and energy sector development, is of prior interest to the Republic of Belarus.

On our part, we will be insistent in improving general operation conditions and investment climate in our country and seek more intensive, open, and comprehensive cooperation with the Bank on issues of mutual interest. Today, we are ready to start a dialogue with the Bank on preparation of a full-fledged Country Assistance Strategy, including ramified scenarios of cooperation between Belarus and the World Bank. In conclusion, I would like to express my hope for the Bank and Fund's understanding of our problems on the way to the "socially oriented market economy" and concrete support in their solution.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR BELGIUM

*Didier Reynders*

It is a great pleasure for me to address the Annual Meetings of the International Monetary Fund and the World Bank today. As Belgium's new Minister of Finance, I have had my first opportunity over the past several days to follow the deliberations at the various meetings of the two institutions, and I have done so with great interest. I have taken due note of the major role that the Bretton Woods institutions play in the pursuit of sustainable development, and of their constant and determined efforts to combat poverty and underdevelopment. Both of these missions make the two institutions crucial participants in the work of analyzing and resolving the major economic problems of our era.

### *Belgium's Implementation of Essential Structural Adjustments*

This year again, the United States will experience significantly greater economic growth than the European Union, particularly the euro zone. This gap, which has been discernible over most of the past decade, suggests that there is a genuine "output gap" between the United States and Europe. One explanation for this may lie in the rigidities of the European labor market, elimination of which has been the focus of a number of economic policy measures. Belgium has always advocated a coordinated approach to the issue.

The policy of the new Belgian government, which took office in July 1999, has resolutely reflected this approach. The government is therefore determined to develop an active welfare state through training and employment policy designed to increase the labor-force participation rate, which is low in Belgium, compared with that of the other European countries. Various measures are planned, including a significant reduction in employer social security contributions and payroll taxes, the introduction of a youth employment program to enable all young persons to enter the labor market within six months of leaving school, steps to increase participation in the labor force by persons over 50 years of age, and similar measures.

The government of Belgium will introduce far-reaching reforms to reduce taxes on earned income. The reforms will reduce the number of tax brackets, raise the minimum taxable income, and regroup deductions in a limited number of flat-rate categories. The government has already confirmed the redefinition of all personal income tax brackets, and plans to eliminate the emergency surtax. The government also wishes to alter the income tax structure so that it will be possible to pursue our national objectives with respect to employment and sustainable development more effectively. This shift will depend on progress on the European tax harmonization front. All these reforms will be the subject of legislation introduced during this government's term of office, in a move toward ongoing reductions in tax and parafiscal pressures. By implementing this policy, the Belgian government expects to achieve the following two objectives, which it was advised to pursue by the Fund during their last series of consultation discussions:

- Tax reform will make it possible to reduce the tax wedge existing between individuals' gross and net income. In Belgium, the difference between these two is very large, and this will eventually become a serious competitive handicap within the euro zone.
- The government's policy will also serve to eliminate employment traps. In the case of the lowest levels of earned income, net disposable income will be higher, with the result that the differential between this and replacement income will increase. This will inevitably increase incentives to seek employment.

Some might fear that an innovative policy such as this could jeopardize Belgium's recent macroeconomic achievements, in particular, its improved fiscal position. However, this is by no means the case. Belgium will comply with the budget objectives set forth in its 1999–2002 stabilization program. Over the medium term, the planned measures for reducing employer social security contributions and payroll taxes should produce favorable effects on employment, and this in turn will improve the budgetary position. Belgium's new economic policy is therefore moving close to the optimum mix of measures advocated by the Fund during the most recent Article IV consultation discussions. Long-term simulations have indicated that strict control of public spending, combined with structural reform, including reduction of the tax wedge and introduction of employment incentives, should provide the most rapid means by which Belgium's indebtedness can be reduced.

*Strengthening of the International Monetary and Financial System*

The debate on the future role of the International Financial and Monetary Committee should continue. It would be wrong to believe that the international monetary and financial architecture is an unimportant matter, and that the main focus should be on dealing with more substantive issues, rather than on determining in what forums they are to be discussed. We consider the following to be fundamental objectives:

- the preservation of a multilateral approach, as embodied by institutions such as the Fund;
- acknowledgment of democratic legitimacy in decision making and increased emphasis on the need to provide justification for decisions; and
- the need to reconcile flexibility in examining certain types of problems with the absolute need for an overall coordinating body to deal with financial and monetary issues.

Consequently, the International Financial and Monetary Committee should—ideally—become a forum for decision making on Fund matters, and for coordination and consultation on related financial issues. The preparatory meetings of Alternates should continue, so that the Committee's plenary sessions can be more effective. Systematic use should be made of working groups, so that the Committee's central role will be preserved, and particular issues can be dealt with by groups with the necessary ad hoc membership. I would also emphasize that the International Financial and Monetary Committee should be given an enhanced role in the auditing of operations. This would be a way of ensuring that all financing provided is being properly used, monitoring that would go beyond mere enforcement of the macroeconomic criteria normally applied.

*Initiatives for Poverty Reduction and the Promotion of Sustained Growth*

I am pleased to note that the policies of the Bretton Woods institutions have been modified so as to meet the need for finding lasting solutions to the debt problems of the poorest countries. The Belgian government has always been receptive to the wishes of civil society, including the call for an intensification of the struggle against poverty. Consequently, I wish to indicate here today that the government will support the initiatives for promoting goods manufactured by socially equitable methods, its purpose being to promote balanced global trade. I therefore advocate the establishment of links between programs such as ESAF and HIPC and efforts to reduce poverty in the poorest countries.

At present, the most important consideration is to ensure that these programs receive the necessary financing. Belgium's contribution to this financing is substantial, and the country stands ready to participate in any additional joint efforts, provided that the costs are shared equitably. In addition, the use of Fund-based approaches—and in particular the revaluing of a portion of the Fund's gold reserves—seems fully justified in the present circumstances. While focusing on the heavily indebted poor countries, we cannot forget the specific problems that other countries face, and so we particularly support the program of assistance for Turkey, which suffered a devastating earthquake on August 17.

*Central Africa*

Belgium has historic links with Central Africa and believes that the time has come to take the political initiative in this part of the world, promoting peace and restoring trade and economic activity. This will open the way to a renewal of economic assistance for the region, made available through a number of different channels. Such assistance should be provided through procedures that are flexible, adaptable over time, and tailored to meet the needs of the individual countries in the region. I call upon the Bretton Woods institutions to increase their assistance for these countries in the very near future by contributing to an in-depth study of their problems and proposing special technical assistance programs. Such initiatives will confirm that the vocation of these institutions is truly universal.

*Conclusion*

I believe that the phase we have just passed through, during which we enhanced our initiatives for providing debt relief for the poorest countries, has been most important. We must now strengthen the activities of the Bretton Woods institutions by giving them a more clearly defined social focus, and by incorporating education and health programs into these activities, since these have a considerable impact on the poorest communities. Finally, we must ensure that, over the coming years, development remains a prime concern when the new rules governing world trade are formulated, and that there is closer coordination of the activities of organizations as different as the WTO, the United Nations (UN), the Fund, and the World Bank.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR BELIZE

*Ralph Fonseca*

It is Belize's honor to speak on behalf of the Caribbean Community countries. We wish to join colleagues in expressing appreciation to the managements of the Bank and Fund for the excellent arrangements that have been made for these meetings.

We are living in interesting times. Our last two meetings were dominated by the financial markets crisis and by uncertainty over the potential consequences of that crisis for global economic activity in general and for developing countries in particular. Recent events have shown clearly that there is no place for dogma in the management of the international financial system; and that, particularly with respect to small countries, staff of international financial institutions must approach the business of policy advice carefully in the full realization that small countries can ill afford policy errors. Orderly institutional development and the proper sequencing of reforms will always be important steps in the attainment of policy objectives.

We have an ongoing concern about the relative roles of the Bank and the Fund in the emergency response to the financial crisis. We see a primary role for the Fund in the initial response to balance of payments crises, where quick-disbursing assistance is required; while the primary role for the Bank is in addressing underlying structural issues, in promoting long-term development, and in fighting poverty. We are uncomfortable with recent funding responses by the Bank, which appear to be indistinguishable from emergency balance of payments support, not least because of the effects on the Bank's ability to discharge its core functions and the effects on financing costs for noncrisis borrowers. We therefore call on the Bank's management and its other members to take the necessary action to ensure that the core responsibilities of the two institutions are not blurred, and to ensure that sufficient resources are available for the proper discharge of the respective mandates.

We are not satisfied with the results so far of the Bank's work in helping small states identify and deal with their peculiar problems. There is a need for assistance for the longer-term development effort, for the medium-term effort to cope with rapid liberalization and globalization, and for the associated rapid change in trading arrangements. These developments have been driven from within the developed countries. What we expect, and what we wish to see, is a comprehensive analysis of the situation and prospects of small states, together with an appropriate set of recommendations both to guide domestic policies, and to refocus the operations of the international institutions to the peculiar circumstances of these small states. We wish to emphasize the need for broad and deep consultation with these small states during the course of the review process to ensure full ownership of the analyses and recommendations by all parties. We also feel that there may be a need for consultation with the main trading partners of these small states. We recognize that this process may take some time, and we in the Caribbean do feel that the time should be spent in the interest of producing a meaningful and functional report, which would have had the benefit of extensive consultation.

We are very concerned about this issue, because of a recent experience with the Fund on a study to review adjustment policies in the Caribbean. We must express our disappointment that the Fund was unable to be fully engaged on this project despite assurances from management to our heads of government. Given the critical importance of trade to our economies and the difficulties a number of our Community members face as a result of the dramatic changes in the international trade regime, we warmly welcome the arrangements being proposed by the Bank to assist developing countries in evaluating and restructuring their situations. With the Bank's assistance, we will be able to take advantage—on a continuing basis—of the opportunities to make representation in international trade forums. It is no secret that equal access does not always mean fair access. The extent of economic openness of Caribbean economies is such that any change in trade has immediate and significant impact on fiscal performance and on every other aspect of economic activity. Unlike developing countries with large domestic markets, the issue for us does not involve the appropriate arrangements for opening the domestic economy; we are already highly open. The issue is how to develop and maintain the domestic flexibility to cope with compressed product cycles and increased global competition, and how to reduce public sector reliance on trade for revenue while maintaining, and perhaps even increasing, our openness. However, we are happy with the recent changes within the Fund's Western Hemisphere Department to facilitate a more meaningful focus on the Caribbean, and we are also happy with the arrangements that have been proposed for more meaningful dialogue with the Caribbean Community and its institutions as a region.

We look forward with great expectation to the first steps in this process, and to the completion of the restructuring arrangements in order to bring the Fund's work on all of our small countries more effectively together. We welcome the Bank's work on the Comprehensive Development Framework, with its implications for a new relationship between the Bank and developing countries and its emphasis on governance and capacity building.

The implications for the Caribbean of the WTO ruling on bananas and the response thereto continue to be a matter of great concern to our governments and people and will have a gravely negative impact on the strength and vibrancy of the regional economy. We urge the international community to recognize the considerable effort that we have made to restructure this industry to face competition. Simply put, any settlement arrived at that does not provide an adequate transition period is unacceptable. At a minimum, we expect that there will be a tariff rate quota and appropriate licensing system. We should note in this connection that the OECD's response to our efforts to exercise our very limited diversification options and to develop an international business sector has caused us great consternation and alarm. The potential consequences of the OECD Report on Harmful Tax Competition are particularly troubling, as services, including financial services, were seen by the Caribbean as a feasible alternative.

Our governments have previously been encouraged by the international financial institutions to diversify out of commodities and import-substituting manufacturing because of adverse terms of trade effects and the small size of the domestic market, respectively. The destruction of our international financial services sector would have not only dire direct income and employment effects, but also severe social consequences. In addition, we are forced to ask the question: what would the developed countries have us do for a living?

Tax competition needs to be viewed holistically, involving all sectors, activities, incentives, and subsidies, including policy actions at all levels of government, both federal and state. Without relinquishing any sovereignty, the Caribbean will continue to cooperate with genuine attempts to strengthen the international financial system. However, the process needs to be fair, taking into account the special circumstances of small economies.

On the issue of debt relief, we generally welcome the G-7 initiative and the enhanced HIPC to assist countries where development and poverty eradication efforts are severely hampered by high debt-service obligations. However, we need to point out that in the Caribbean Community and Common Market, members are both creditors and debtors. In this regard, we would urge that consideration be given to this fact in the deliberations regarding relief to members to ensure that relief granted to any one country should not be to the detriment of another. As far as possible, appropriate safeguards should be considered to cushion any negative impacts. We also need to point out that there are countries that, while not qualifying for debt relief under HIPC, also carry significant debt burdens that adversely affect their poverty reduction efforts. We would like to see a mechanism designed to assist those countries' efforts as well.

We want to conclude by saying that we have little to be complacent about. Recovery from the emerging market crisis is fragile in some countries, and is yet to start in others—and in many countries, including those in the Caribbean, there is significant and growing poverty. It is clear that an urgent and major task still lies ahead, work that will tax our capacities and inventiveness to the limit. It is important therefore, that the relationships between the Bank and Fund staffs and the Caribbean be strengthened and reinvigorated in order to deal with the challenges ahead. Finally, let us rededicate ourselves to the work of development—to economic growth with a human face that will redound to the benefit of so many of our people who face the daily reality of hardship and suffering.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR BOSNIA AND HERZEGOVINA

*Mirsad Kurtovic*

(Delivered by the Hon. Jadranko Prlic, Alternate Governor of the Fund)

Less than four years since the war in Bosnia and Herzegovina ended, remarkable progress can be seen throughout the country.

- People are living peacefully and normally.
- Improvements in infrastructure are visible everywhere.
- A stable macroeconomic framework and a convertible national currency have been instituted (convertible marka).
- An IMF Stand-By Arrangement is in the process of stable implementation and will be converted into an ESAF Arrangement in the coming months.
- The privatization process has started.
- Relations with the majority of international financial institutions are being normalized.
- Total foreign debt has been consolidated and has been serviced on a regular basis.

- A number of basic laws adopted will lead Bosnia and Herzegovina toward democratization and a market-oriented economy.
- The process of mobilizing international assistance through donors' conferences has been successfully undertaken, and now we expect faster disbursement of these pledges.

We have achieved this progress with the generous support of the World Bank, the International Monetary Fund, the Office of the High Representative, the European Union, the United States, Japan, and many other donors. I would like to take this opportunity to express our sincere appreciation and gratitude. Thanks to donors' generous assistance, the first post-war phase of reconstruction and development, primarily focused on rehabilitation of infrastructure, has come to the final stage. Unfortunately, there has not been significant progress in economic recovery or an increase in the level of employment. We expect, however, that in the next phase of international assistance, the focus will be on these needs, with the aim of building a self-sustainable economy.

Our recent tragic history and today's rapidly changing world urge for the creation of a new strategy, not only for reconstruction, but also for the comprehensive development of Bosnia and Herzegovina. It should include security, the economy, health care, the environment, ethics, the judiciary, philosophy, and religion, since all of these areas are interconnected. In particular, Bosnia and Herzegovina may serve as an example for the application of the Comprehensive Development Framework. With the assistance of the World Bank, the Fund, and the European Union, we plan to develop a new strategy for midterm development and to present it to our donors at the next Donor Conference.

Our unemployment, with a rate of 40 percent, is just one of the many consequences of the war that should be eliminated through accelerated economic growth. That is why we hope that our donors will support the implementation of ongoing economic reforms, especially those pertaining to property rights transformation—that is, the privatization process. Our goal is to transfer the biggest part of state-owned properties into private ownership. Further development of the financial and banking sector and, above all, the recovery of trust in domestic commercial banks, as well as the greater presence of the foreign-based bank branches in the country, are necessary preconditions.

Another important structural change that is being implemented is the introduction of market-oriented criteria in economic judgment and decision making. We seek to develop an economic environment based primarily on the market as the main regulator of economic activities, with very limited state intervention. Finally, we are also facing the very important task of building a sustainable system of social services. Our comparative advantages are the basis for optimistic forecasts of our economic growth. One of them is the highly skilled labor force. Due to our well-developed prewar educational system, our workers' skill levels are still very high and evenly spread throughout the country.

Second is land, a primary asset in rural areas, which is in private ownership, and is generally distributed evenly throughout the country. This shows that Bosnia and Herzegovina's society rests on a sufficiently stable socioeconomic basis. Therefore, the privatization process of the remaining state property must be lawful, nondiscriminatory, and transparent, and must not reflect war conquests.

Geopolitically, strategically, and economically, Bosnia and Herzegovina belongs to Europe and should become part of the European integration processes. We welcome establishing the Stability Pact for Southeastern Europe as a first step toward this goal, as demonstrated during the Sarajevo Summit this July.

Membership in the WTO is also one of our highest priorities, and we do expect that the accession process will be successfully finished in the short period. Our small economy urgently needs an enhancement of trade relations with other markets and stable cash inflows.

Our commitment to conduct all necessary economic reforms is very resolute and indisputable. As we seek to realize this goal, we have encountered many obstacles that are the aftermath of the recent war, including huge numbers of refugees and displaced persons, outdated technology, physical destruction of plants, war victims and disabled persons, a lack of adequate government structures, uncontrolled and unregulated borders, and an increase in the elderly population. Therefore, we need continued international assistance in the coming months. We hope that the international community and the World Bank will continue to support the reconstruction of Bosnia and Herzegovina, at least for the support of those activities that would lead to accelerated economic growth and increased employment.

Future additional IDA funds are of extreme importance, especially for supporting the continuing implementation of economic reforms and budget support, including the payment of foreign sovereign debt. We should use the new cycle of donors' conferences primarily to obtain favorable credits to stimulate economic growth in Bosnia and Herzegovina, rather than for reconstruction of the infrastructure. This will enable us to build a self-sustainable economy and integrate with the EU and the rest of Europe.

Without these reforms, we will be faced with growing social and economic problems, and our citizens will continue to seek refuge and a better future in other countries. (Therefore, the problem of Bosnian refugees may multiply.)

We will continue to implement economic reforms and other facets relating to the democratic transition of our society. We are fully aware that our future development depends on our ability to attract foreign investment. But a main precondition for these reforms is stability in Bosnia and Herzegovina and the whole region. To this end, further strong and strict implementation of the Dayton Agreement is necessary. With the assistance of the donor community, we must do everything in our power to provide for the return of all refugees. This is no longer just a humanitarian issue, but also a stability issue. Unfortunately, the stability of the entire region, owing to the ongoing political crisis in the Federal Republic of Yugoslavia (Serbia/Montenegro), has not yet been provided.

Since lately there has been increasing concern among donors, caused by some alarming reports of corruption in Bosnia and Herzegovina, on this occasion we want to reiterate and assure the donor community that, for the most part, donor assistance and financial contributions of the World Bank, the IMF, the EU, the U.S. Agency for International Development, and all other donors have been effectively utilized without corruption or misuse. Independent audit institutions and control agencies have already confirmed this.

This is not to suggest that corruption and other forms of criminal behavior do not exist. Corruption is mostly present in the area of public funds, owing to the malfunctioning and absence of the institutions envisioned under the Dayton and Washington agreements. We are eager to fight corruption and to establish a system to prevent corruption through regulatory and educational measures. This is not a simple task, and we need foreign assistance. An independent analysis of the origins and causes of corruption is a first step in our fight against this social and moral disease. Bosnia and Herzegovina therefore asks for assistance from the World Bank in order to establish anticorruption mechanisms. Indeed, we would ask that the World Bank lead in this undertaking. We are also very grateful for the help that the EU and the United States are providing to Bosnia and Herzegovina in its fight against corruption. We appeal them to continue in this important endeavor.

The international community, the World Bank, and other donors have made an enormous and valuable contribution toward improving the political, economic, and social situation in Bosnia and Herzegovina. Hundreds of thousands of citizens have been saved, and a better standard of living has been provided through internationally funded projects in housing, schools, medical centers, electricity, road networks, the water supply, social services, and other sectors.

The basic prerequisites for the improvement of living standards have been achieved. Yet, an additional effort has to be made, in order to create conditions for the citizens of Bosnia and Herzegovina to become self-supporting. We do hope that the international donor community will continue to be our partner, as it used to be in previous years.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR CAMBODIA AND BY THE GOVERNOR OF THE FUND FOR CAMBODIA

*Keat Chhon and Chea Chan To*

It is indeed a great honor and privilege for us to address the fifty-fourth Annual Meetings of the World Bank and the International Monetary Fund. Let us take this opportunity to congratulate James Wolfensohn and Michel Camdessus for the tremendous efforts they are making through the World Bank and the Fund to deal with the serious financial cataclysm confronting Asia and the world economy in 1997 and 1998.

These Annual Meetings of the World Bank Group and the International Monetary Fund take place when the world economy has better prospects for a resumption of speedy growth. Some of the Asian economies that have suffered from the financial crisis and experienced economic downturn seem to have seen signs of restored confidence and recovery. Positive indicators include the return of stability in the foreign exchange markets; rising current account surpluses and a buildup of reserves; the substantial decline in domestic interest rates; the easing of inflationary pressures; the recovery in the stock markets; the improvement in consumer sentiment; and the positive growth of the real economy. This has happened because of the determination undertaken by these countries in pursuing decisively adequate policies and measures with the assistance of the international community and especially of the two Bretton Woods institutions. Both the Bank and the Fund have responded with commendable resolve to this crisis and help countries in the region to implement reform measures to address its causes and impact.

To prevent the recurrence of the crisis and to cope with the fast-changing global environment caused by the force of globalization, Cambodia has expressed its full support for the “common Association of South East Asian Nations (ASEAN) position in reforming the international financial architecture,” which includes equal application of standards of transparency and disclosure to the public and private sectors, closer and more coordinated monitoring of short-term capital flows, closer collaboration and information sharing among national and international regulators, an orderly and well-sequenced approach to capital account liberalization in tandem with the degree of development of the domestic financial sector and supervisory regime, and sound, consistent, and credible macroeconomic policies to support exchange rates. We have attached serious importance to the ASEAN Surveillance Process, which is aimed at providing an early warning on a possible crisis to member countries.

On the front of economic integration, Cambodia is well prepared to take an active part in the ASEAN Free Trade Area (AFTA) and other ASEAN economic initiatives. Attention is given to the establishment in the next century of the ASEAN Economic Region in which there is a free flow of goods and services, a freer flow of capital, equitable economic development, and reduced poverty and socioeconomic disparities. We are committed to ensuring close cooperation in strengthening the open, multilateral trading system, and reinforcing the role of the business sector as the engine of growth.

Let us take this opportunity to appraise this distinguished forum of the recent development in Cambodia. A general election was organized in July 1998 on our own last year and was pronounced by the international community as free and fair. A new coalition government was established based on a common platform to serve the people of Cambodia. Peace, so elusive in the past many decades, now finally prevails all over the country. Cambodia has regained its seat at the UN, joined ASEAN, and is determined to play its responsible role in the regional and international affairs.

The new royal government of Cambodia, established in November 1998, continues its reform policies with the ultimate goal of accelerating economic growth and alleviating poverty. Landmark, wide-ranging reform measures were unveiled to build up a strong foundation for long-term economic growth and sustainable development. The key areas of the reforms include public sector restructuring aimed at strengthening democracy; improving and increasing the efficiency of the public administration; military and police demobilization; sustainable forestry management; and fiscal, financial, and banking reforms. We clearly recognize that the key to success of this reform program is good governance. For us, this means aiming at improving the efficiency and effectiveness of the public sector, on one hand, and fighting corruption, on the other. We have asked the Bank for technical assistance for capacity building in this important endeavor.

Based on the macroeconomic performance in the first half of 1999, we are confident that the Cambodian economy has rebounded and real GDP growth will be 4 percent as forecast. Therefore, 1999 is the year of a return to economic growth and macroeconomic stability. The annual inflation is expected to decrease from 12.6 percent in 1998 to 6.5 percent in 1999, and the exchange rate will be kept under control. Net foreign assets and liquidity of the banking sector, in particular the foreign currency deposits, continued to grow, compared with end-1998. This is a testimony to the confidence of the public and investors alike in Cambodia's economy and its banking system. The gross foreign reserves of the banking system are projected to increase by 9 percent in 1999.

The objectives of macroeconomic and structural policies are to raise economic growth and per capital income, and reduce poverty. The key elements of the strategy are stepped-up efforts to strengthen revenue collection and enhance the transparency of fiscal operations, combined with reforms of the civil service and military. Cambodia is strongly determined to continue the implementation of the fiscal reform programs with a view to enhancing revenue and improving the management of public expenditure. We are committed to vigorously implement new measures aimed at improving the tax and budget system—strict implementation of the value-added tax, a policy of avoiding tax exemptions, tightening incentives granted to investment projects, enhancing the collection of nontax revenue and direct transfer of revenue to the treasury, and recovery of arrears from the private sector. The fiscal agenda aims at strengthening the role of the budget for economic management, and generating the resources needed to fund increased spending in priority areas. The main goals are to raise government saving to finance the public investment program and to avoid bank financing. The main focus of revenue mobilization is on the strengthening of tax and customs administration, and on full collection of nontax revenues, including arrears. Administration and enforcement of tax compliance will be enhanced through the exchange of taxpayer information between government departments and intensified on-site tax audits.

Efforts are being undertaken to strengthen Cambodia's banking system. The banking supervision capacity of the National Bank of Cambodia has to a certain extent already been upgraded and is being further strengthened, notably with the Fund technical assistance. Further improvements are being made to overhaul prudential regulations and to better assess the quality of banks' assets. A new modern financial institution law is expected to be approved by the National Assembly and the Senate by mid-October this year that would provide a better legal basis for both regulation and supervision. Moreover, so as to create a true market discipline, the National Bank of Cambodia is firmly promoting internationally accepted standards in the areas of accounting and public disclosures for both the national bank and commercial banks. Under the above-mentioned legal framework, many microfinancial institutions will be established to provide savings and credit facilities in the rural areas.

Investment in human capital is another priority of our policy platform. We believe that a highly educated labor force is one of the most crucial factors contributing to the country's economic growth in the next century. Therefore, the royal government of Cambodia has begun shifting budgetary resources from defense and security to health and education, as well as to other economic sectors, such as agriculture and rural development.

We are in the process of finalizing negotiations with the Fund to resume the ESAF. We also recently held discussions with the World Bank on the Structural Adjustment Credit (SAC). We would like to inform you that we achieved a positive result in these endeavors and are optimistic that we will be able to conclude the programs with both the Fund and the World Bank in the future. There is no doubt that these programs will contribute to the furtherance of our reform process and ensure a sound foundation for our future growth.

We welcome the coalition between the Bank and the Fund, which have departed from the traditional macroeconomic framework to a combination of efforts in linking structural adjustments with a poverty reduction agenda. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through a new HIPC Initiative that links debt relief to the efforts to eradicate poverty. While supporting the Bank policy on focusing investment in the social sector, we still believe, however, that in a least-developed country, such as Cambodia, investment in economic and physical infrastructure is crucial to economic growth, only with which poverty could be alleviated on a sustainable basis.

In conclusion, we would like to take this opportunity to express our sincere gratitude to the World Bank and the Fund, as well as other international financial institutions and Cambodia's bilateral partners, for their support and assistance in our endeavors to engineer economic development and alleviate the poverty of our people. We are looking forward to enhancing our cooperation with the Fund and the Bank in the pursuit of ameliorating the social and economic conditions in Cambodia.

## STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR OF THE BANK AND THE FUND FOR CANADA

*James Peterson*

Last year at this time, we were facing a very tenuous situation. You may recall that the World Economic Outlook document characterized the economic situation at the time as "unusually fragile." Fortunately for most of the world—though not all—the risks outlined in the document have not materialized. After the global financial turbulence of the past two years, and its devastating impact on economic activity and living standards in a wide range of countries, there are signs that the world economy is on the mend.

### *Economic Performance and Prospects in Canada*

Developments in the Canadian economy have been more favorable than expected a year ago. In large measure, this reflects the government's commitment to sound economic and financial policies—low and stable inflation and balanced budgets or better. Growth in Canada slowed significantly in the middle of 1998, owing in part to the global financial uncertainty and turmoil of the time. As the effects of this and other disturbances have passed, growth has strengthened, averaging an annual rate of 4.0 percent over the past three quarters. As a result, the most recent consensus of private sector forecasters has real GDP growth upgraded to 3.5 percent in 1999 and 2.6 percent in 2000. The most recent Fund staff projections are consistent with the private-sector consensus.

### *Policy Challenges*

In part, this year's more favorable global economic outlook reflects a number of policy steps taken over the past year, by both advanced and emerging market countries, to foster greater financial market stability and promote sustainable growth. Clearly, however, significant policy challenges remain. Perhaps the most serious risk is that we might not succeed in implementing the necessary reforms to make our own financial systems and the international system less vulnerable to crisis. There are at least two reasons why our efforts could fall short. The first is complacency. We will be making a grave error if we let the return of relative calm in financial markets and the improvement in world growth prospects lead us to believe that further reforms are not necessary. The second danger is that we could get caught up in a flurry of activity that, while giving the appearance of achievement, leaves critical issues or gaps unaddressed. Although a lot has been started over the past two years, some fundamental questions remain about where we are going with reforms to the international financial architecture.

*Consultative Fora*

Asking the right questions is only one of the challenges. Another is to have the proper institutional infrastructure to deal with them. This is an area where we are making progress; for example, by giving a revitalized Interim Committee permanent standing as the International Monetary and Financial Committee and by creating the Financial Stability Forum.

*Private Sector Involvement in Crisis Resolution*

The work plans of the existing and new fora should be dictated by our vision of how we want to see the international financial system evolve. One of the key questions for us in this regard is how to ensure an adequate framework so that the private sector can be productively involved when a crisis does break out.

Canada believes that we need to develop mechanisms that enable an orderly workout of debts. The role of the official sector should essentially be that of a neutral broker in the negotiation of a debt workout. The provision of large-scale official finance should be a rare occurrence.

To have the private sector involved in crisis prevention and resolution, however, we are going to have to establish a framework that will enable private investors to know in advance their responsibilities in the event of a crisis. And, we are going to have to ensure the mechanisms that operate within this framework balance the rights of creditors and the responsibilities of debtors, to ensure that both sides have an incentive to achieve a cooperative solution with adequate financing supplied at an appropriate price. Each crisis, however, will be unique. Each will have elements that we may not have encountered before. For this reason, we are going to have to be flexible and ready to adjust to specific sets of circumstances.

*Debt Relief and Poverty Reduction*

So far, I have devoted most of my remarks to the problems and issues facing the international financial system. I would also like to address a few remarks to the equally important issues of debt relief and poverty reduction. At the Group of Seven Summit this year, Canada pressed for faster and more generous debt relief for more countries and further action on poverty reduction. Canada fully endorses the two significant outcomes of the summit in these areas. Debt relief under the new initiative will more than double. Combined with relief under current mechanisms and forgiveness of aid-related claims, this could release significant resources for poverty reduction programs.

Ensuring that the HIPC Initiative is adequately financed is an important priority. While significant progress has been made to date in identifying financing, much more needs to be done. We would urge the international financial institutions to redouble their efforts to identify resources for this purpose. For its part, Canada will do its share and has fully paid in the $40 million it committed to the HIPC Trust Fund and has also pledged some $24 million from its refund on the Fund's second Special Contingent Account (SCA-2). Canada has also recognized the burden that new debt would represent for HIPCs, and so, in addition to forgiving all its official development assistance loans from HIPCs, Canada now provides all its bilateral ODA on a grant-only basis. As well, Canada is committed to writing off 100 percent of the commercial debt of the least developed nations. To prevent debt crises from becoming a recurring problem for developing countries, Canada also calls on lenders to adopt more transparent lending practices.

Canada's Export Development Corporation has already taken steps to increase the transparency of its lending operations in developing countries, including making available a country-by-country breakdown of its loans. Canada calls on other creditors to join in developing common standards in this regard to help prevent future debt crises.

Expanding the HIPC Initiative by itself, however, will not be sufficient to meet the challenge of poverty reduction. The HIPC Initiative can only form one element of what must be a much broader attack on global poverty. Collectively, we have a good sense of the key causes of poverty and where our efforts should be directed. In this regard, the education of women, in particular girls, is critically important, because educating women means educating families. This should form the cornerstone of our efforts in education—expanding opportunity to all segments of our societies. We need to recognize as well that all too often families and individuals are poor because they are ill. Relatively modest investments in health care and pharmaceutical research targeted at the diseases of the poor could potentially yield enormous dividends.

In countries where governance is strong, a radical shift is needed in the culture of development. One that places the developing country—its government and its people—in the driver's seat. We are encouraged that steps in this direction are being taken by various players, with leadership emanating from the World Bank through its proposal for a more holistic approach to development under a CDF. However, the shift in development thinking must go further. Experience has shown that, to be truly effective, development assistance needs to be targeted to countries whose governments pursue good policies and which are committed to developing and maintaining strong institutions. Governance has been a dominant theme of development assistance work over the past few years, and it must remain at the top of the policy agenda. In fact, good governance has become the essential building block for solid gains in poverty reduction and effective development assistance.

Effective multilateral institutions must also be a strong pillar of our development assistance efforts. We, as shareholders, have looked to the Bank to play a significant role in addressing the emerging markets' financial crises over the last two years and we, therefore, have to acknowledge that this has created pressures on the institution. Canada remains open to supporting a capital increase for the IBRD as an option for reinforcing the institution's lending capacity. However, our support for this option would be predicated on a strong link between Bank lending and development effectiveness, as well as to performance on governance issues.

*The Challenges for Small States*

Canada views with particular concern the development challenges faced by the world's smallest states. We welcome the World Bank's joint involvement with the Commonwealth Secretariat as well as the Fund's commitment to further research and policy work to assist small states in a rapidly changing world environment.

Our constituent members in the Caribbean are clearly facing a difficult transition period with the changes to existing trade preferences, the decline in development assistance, and the need for increased participation in the global economy. These changes would be a formidable challenge for any developing economy. But for the small states of the Caribbean, many of which are at the mercy of potentially devastating hurricanes, these changes can appear overwhelming at times. Their vulnerability to a single event that can have disastrous economic and social effects magnifies the adjustment challenge they face. Small states have a vulnerability that large states do not have. External trade shocks and natural disasters can easily eliminate hard-won gains in economic and social development. Their vulnerability is a fundamental differential that must be acknowledged.

Development, trade, and finance institutions must recognize the impact of the phase-out of the Lomé preferences on small states and help smooth the transition. Financial and technical assistance, and time, are needed in support of small states' efforts at restructuring their economies for the new external environment. Changes in global trade have made unsustainable some sectors that once accounted for a large portion of small states' gross domestic product.

The importance of this issue cannot be overemphasized. The research conclusions and policy prescriptions laid out will be used by international development players to sharpen their interactions in small states over the years to come. Furthermore, and potentially most important, this research will set the stage for small-state participation and treatment within the next round of WTO trade negotiations. We look forward to seeing the results of this work by the time of the spring meetings next year.

*Conclusion*

Although the crises of the past two years have receded, we are still faced with important challenges. We must make headway while the waters are relatively calm, putting in place the conditions for a stable international financial system and improved living standards for all. Only then will we be able to focus more on the opportunities that the world economy presents, and less on its challenges.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PEOPLE'S REPUBLIC OF CHINA

*Xiang Huaicheng*

At this time, when we meet here, the economies of some crisis-hit countries in Asia and elsewhere have begun to bottom out and gradually regain growth. The currency and stock market situations have basically stabilized. Investor confidence has been restored, and global economic and financial prospects have improved. This has not come easily. It is a result achieved by the former crisis countries through their strong reform and adjustment efforts. It is also a result of enhanced international cooperation.

However, we should not be overly optimistic. The global economic environment, though improved, has not stabilized completely. The recovery of the formerly crisis-hit countries has just started. Their economic fundamentals are still fragile, and many deep-rooted issues remain to be addressed. There are still many uncertainties in today's world economy. Regional trade protectionism has been on the rise recently. The exchange rates between major currencies have seen wide fluctuations. The commodity price level is still unstable. The external environment faced by developing countries has not been improved fundamentally. To further consolidate the recovery and stabilize the world economy is a challenging task before the governments around the world. Developing countries need to continue their economic restructuring. At the same time, we call upon developed countries to increase resource transfer to and import from developing countries. We also urge them to implement proactive and responsible fiscal and monetary policies, and coordinate their interest and exchange rates policies, so as to create a better environment for the healthy development of the world economy.

The international community needs to draw lessons from the crisis in a serious manner. In order to prevent any future crisis, it is all the more important to strengthen the international financial cooperation and promote the trouble-free and smooth operation of the international financial market. To this end, the international community should, on the one hand, help developing countries improve their financial supervision and risk-prevention capacity, and on the other hand, strengthen the supervision of short-term capital flows and contain the excessive speculation of cross-border hot money.

The formidable shocks of the financial crisis have prompted a reassessment of the costs and benefits of globalization. Globalization has created opportunities as well as challenges and risks. While deepening market liberalization, enhancing competition, and raising efficiency, globalization also put forward to countries, and particularly those in the developing world, an issue of how to protect their economic security. We are of the view that economic globalization and financial integration should be based on equity and aimed at prosperity for all. The law of the jungle must be abandoned. Globalization and integration will not be sustainable if they benefit only a few. Therefore, in the process of reforming the international financial architecture and establishing a new international financial order, the developing countries' full participation is essential, and their interests and demands must be reflected. At the same time, the policy choices made by the affected countries or regions to overcome the crisis must be respected, and no model should be imposed indiscriminately.

The financial crisis also caused serious difficulties to China's economy, but the Chinese government has taken effective measures based on China's own circumstances and maintained the rapid growth of the economy. At the same time, the Chinese government, taking into account the need to maintain a healthy development for the Asian and the global economy, has adopted a highly responsible policy stance and made tremendous sacrifice by keeping the Chinese currency stable, thereby contributing to the recovery of the Asian economy. The economy of the Hong Kong Special Administrative Region has shown strong signs of recovery since the second quarter and is expected to realize positive growth for the whole year.

During the past year, the Chinese government further enhanced the macroeconomic regulation. In order to cushion the negative effects of the deteriorating external environment, weakening consumption, inadequate investment, and the slowing down of exports, China continued to implement a proactive fiscal and monetary policy by increasing the issuance of treasury bonds, cutting interest rates, and increasing the money supply moderately. These measures succeeded in expanding the domestic demand and stimulating investment, particularly in infrastructure. Meanwhile, in order to stimulate consumption, the Chinese government also took steps to increase the income of civil servants, the unemployed, laid-off workers from state-owned enterprises, and the urban poor. In addition, the Chinese government made special efforts to increase exports by optimizing the product mix and diversifying markets. On top of a 7.8 percent growth for 1998, China's economy grew by 7.6 percent for the first half of 1999. By the end of August, the fixed asset investment increased by 10.4 percent, compared with the same period last year. Consumption grew by 6.3 percent. The financial situation remained stable, and the growth rate of the money supply began to pick up. The total foreign trade rose by 7.3 percent, reaching $220.8 billion, with a trade surplus of $16 billion. The export volume amounted to $118.4 billion, and the decline in exports has been basically arrested. The foreign direct investment commitment reached $59.8 billion. The foreign exchange reserve exceeded $150 billion, and the Chinese currency, the renminbi, remains stable. The Chinese government is fully confident of achieving this year's growth targets.

Since the beginning of this year, the Chinese government has further accelerated the pace of reforms. In the area of state-owned enterprise reform, we are pressing ahead more vigorously with merger and acquisition, liquidation, downsizing, and redeployment of displaced workers. At the same time, the Chinese government is encouraging the development of the nonstate sector in various forms. In March of this year, the National People's Congress approved an amendment to the constitution to the effect that the nonstate sector is affirmed as an important component of the socialist market economy. As regards the financial sector reform, the central bank's independence and its role in macroeconomic regulation and financial supervision have been further strengthened. A system of regulating the banking, insurance, and securities industries separately has been established. Drawing on the international experience, the state commercial banks have set up asset management companies, respectively, to process their nonperforming loans. The asset management companies are also engaged in debt-equity swaps for the related state-owned enterprises to reactivate their stock assets and reduce their debt ratios, thereby advancing state-owned enterprise reform and preventing financial risks. In addition, the Chinese government is also making efforts to establish and improve the nationwide social security system suited to the socialist market economy.

The Chinese government has opened more sectors to the outside world, especially the service sectors, including banking, insurance, foreign trade, retail, tourism, and accounting, legal, and consulting services. As China's reform and opening progresses further and the socialist market economy takes shape, China's economy will achieve greater success in the twenty-first century.

For many years, the World Bank has made important contributions to poverty reduction and sustainable development in its member countries. At present when the economy of crisis-affected countries has generally restored stability, the Bank should shift its focus back to addressing the long-term development issues still facing developing countries, particularly poverty reduction. We hope that the Bank, as the largest development finance institution, will build upon its comparative advantages to provide more concessional funds and further promote the capital flow to its developing country members. We also hope that the Bank will strictly maintain its political neutrality in the conduct of its business and resist any attempts to politicize the Bank. We urge all the member countries, and the major shareholders in particular, to respect and protect the Bank's Articles of Agreement with a view to creating a better environment for the Bank to fulfill its development mandate.

We support the efforts by the Bank and the Fund in strengthening debt reduction for the heavily indebted poor countries and poverty alleviation in low-income countries. We have also noted the increased emphasis placed on social sector issues by the two institutions. We believe that economic development is a precondition to solutions to poverty alleviation and social issues. The two institutions should help developing countries achieve stable and steady growth, which in turn will help reduce poverty and resolve social issues. In this connection, we support the Fund's plan to increase gold sales in a nonmarket form with reasonable cost sharing.

In supporting the Fund's efforts to lend more to the HIPCs and strengthen the financing for the ESAF, China, as a low-income developing country, has decided to deposit its funds from SCA-2, free of interest, in the Fund's trust fund account.

We endorse the proposal to change the name of the Interim Committee to the "International Monetary and Financial Committee." We strongly request that the representation of developing countries be safeguarded. We hope the committee will do a better job in coordinating the major proposals for reforming the international monetary and financial system. Increasing the transparency of all market participants will help raise efficiency and prevent crisis. However, a lack of transparency is not the main cause of the financial crisis. We are not in favor of mandatory enforcement in any form, and Article IV consultations should not be linked with a transparency assessment.

The Fund's role in promoting capital account liberalization should be helping developing countries put in place the necessary conditions for liberalizing capital accounts, rather than pushing only the speed of liberalization. The international community should encourage the private sector to participate in preventing and finding solutions to financial crises, and there should be concrete actions as soon as possible. At the same time, the cooperation between debtors and creditors should be strengthened, and a balance maintained between their short-term and long-term interests.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR THE REPUBLIC OF CROATIA

*Marko Skreb*

One year after the wake-up call for concerted action on the part of the international financial community aimed at containing the financial crisis and facing the challenges of globalization, one can observe with pleasure that steps to create positive changes in the international financial system have been taken and have made gains.

Like most countries, Croatia has also been touched by effects of the financial crisis, and unfortunately, not only a financial but also a political one—that in Kosovo. That happened in the moment when, after four years of fast growth of GDP of around 6 percent, accompanied by reconstruction and an increase in the standard of living, the expansion of domestic demand exhausted its potential. So we had to contend with an increasingly difficult external environment, while experiencing a slowdown in domestic demand. These conditions resulted in a sharp contraction of economic activity followed by disturbances in the banking system.

Despite these circumstances, Croatia has been able to maintain price stability, keeping inflation at 4 percent throughout 1999. The policy of the Croatian National Bank will continue to be uncompromising and steadfast adherence to the principle of low inflation.

An area of great concern to us has been our external current account deficit. However, although Croatia had a very high deficit in 1997 (12.6 percent of GDP), it has been steadily going down. In 1998 it was 7.8 percent of GDP, and it would have gone down to 6.5 percent of GDP had it not been for the Kosovo crisis in 1999. We expect the deficit of current account to remain at around 7 to 7.5 percent of GDP this year, and to decrease at least one percentage point further in 2000, thereafter falling well below 5 percent in 2002–03, a level that we believe to be both sustainable and necessary at this point in the transition. Therefore, we have not only avoided the worst-case scenario in the past few years, but we have also successfully brought the deficit down by 5 percentage points of GDP in only three years. Unfortunately, there are no quick fixes. The external current account deficit has many deeper, structural reasons, and stimulating depreciation of the kuna would surely exacerbate it.

It is our belief that our export performance cannot be buttressed by superficial measures such as exchange rate changes; rather, exports' ability to compete has to be enhanced. That, in turn, can only be achieved by increasing foreign direct investment (FDI) and by swift and full integration of Croatia into the various levels of regional integration. Let me develop both points.

If we compare ourselves to other transition economies, those of Hungary and Poland for example, we will see that Croatia has received only a fraction of their FDI: $2.5 billion. Both Hungary and Poland have received well in excess of $20 billion, although both countries have already gone through the phase of "privatization-related FDI" that is still in front of Croatia. The export performance of the sectors that received the FDI improved markedly, yet the export performance of the sectors that did not remains bedeviled by the same worries as Croatian export sectors—loss of market share in the European Union, and generally losing out in the battle for competitiveness. Apart from that, the Central European Free Trade Agreement (CEFTA) and the Association Agreement with the European Union are considered to be the main prerequisites of the investors' interest. The fact that we are still not in CEFTA makes our exports more expensive in that market from the outset. That remains the goal of the Croatian government and the Croatian National Bank in particular. Only with significant increase in export sector efficiency can we improve our current account balance.

In terms of economic policies, the government further encourages adjustment to continuously changing circumstances. As already emphasized by many distinguished colleagues, responsible policymakers cannot imagine withstanding the pressure from defense of the peg in the present world of a globalized economy and high capital mobility, without having sound economic and financial structures. This would be just one reason more for enhancing structural reforms, continuing with sound fiscal policy and with consolidation of financial system. These will continue to have a salient position in the agenda for the Croatian economy.

Allow me to brief you on what have we done from this point of view in order to prepare us for the future. In terms of structural reforms, a lot of work has been done (privatization of telecommunications, the establishment of the related regulatory framework, the restructuring of some other public enterprises so as to prepare the basis for their further privatization, etc.), but there are still some deep-seated problems to be resolved. From this point of view, significant steps have been taken to implement a program of measures encompassing: amendments to legislation regarding bankruptcy and the execution of court decisions (collaboration with the World Bank is under way); measures for enhancing the independence of the judicial system to prevent abuses and crime in the economy and social system; measures to further encourage the honoring of contracts; and more. The successful implementation of these measures (along with the reform of the pension and health care system) is a keystone for maintenance of macroeconomic stability at this stage. In addition, fiscal consolidation is at the top of priority tasks. So far, fiscal policy has been carefully managed.

After the successful introduction of the value-added tax, with enhanced collection efforts and despite the drop in revenues because of the economic slowdown, the central government overall balance has been kept within the limits of Maastricht criteria. But (one has to be honest) the existing level of public spending is unsustainable in the long run. Serious measures have been therefore endorsed.

The health care and pension system reforms, supported by World Bank expertise and resources, are continuing—but they take time. So as to be able to get through this transitional period, government has vigorously started with measures to improve administration and financial management as well as to increase transparency (the introduction of a single treasury account system is expected at the very beginning of 2000). Recommendations stated in the Code of Good Practices in Transparency of Fiscal Policy and the accompanying—revised—manual, are a helpful reference from this point of view.

Monetary policy has been characterized by a high degree of consistency throughout past years, consistency of both goals and instruments. That will be the case, I assure you, in the future as well. No surprise will come from monetary policy, and we will maintain our conservative position, both in the goals (low inflation, stable exchange rate) and in the instruments.

With respect to fiscal policy, there is no news either. The central budget can borrow from the Croatian National Bank only to bridge its gaps between receivables and expenditures and up to a limit, which is predetermined by the Law on Croatian National Bank. The central budget is currently indebted 1.3 billion kuna or less than $0.2 billion to the central bank; and this will be returned by the end of this year. There will be no monetary relaxation in important matters such as financing of the budget.

The progress achieved in the banking system consolidation (the banking industry still prevails in the Croatian financial system) is an example. Work has still not been completed but much has been done. After a generally successful restructuring of some major—at the time—state-owned banks, addressing problems inherited from the former socialist system, in 1998 we were suddenly faced by severe disturbances in the banking industry, especially in some of the newly established banks. At the end of 1998, the first problems in the banking sector started to surface and became apparent. Much before that, the central bank, aware of the irregularities in some of the banks, had started to initiate the procedure to have a new Banking Law adopted. Under the old law, the maneuvering space for the central bank was very limited, and powers to deal with the problematic banks hardly existed. The new law was adopted in December 1998, after a relatively quick parliamentary procedure. Immediately after that, the central bank exercised the powers granted to it by the new law by installing temporary administrators in the banks that were suspected to be in a serious trouble.

The causes of the banking crises are well known. After two years of very rapid economic growth and credit expansion, during which the credits to domestic sectors grew 44 percent in 1997 and 22 percent in 1998, there was a general slowdown of the economy. The credit supply diminished, and some big private companies went bankrupt, dragging down the banks that were connected to them. Needless to say, the bankrupt banks had high amounts of connected lending, and their asset portfolios were not healthy, so they were vulnerable to the collapse of their connected enterprises. The effect was confined only to a handful of banks, connected further among themselves. There was very little systemic damage beyond this particular group of the banks.

Public perception is very important, because although we continually maintained that the troubles were confined to a smaller group of banks and that the rest of the banking sector is healthy, and in better shape than a few years ago, it was important that public choices prove this to be the case. Today, we have a group of big and medium-size banks that are doing very well, we have some banks with the substantial foreign participation, we have rehabilitated big banks that are going to be privatized in the course of the next two years, and we have an important number of the foreign branches and one subsidiary. The situation is certainly much better than it was before.

This year, it became more than evident that the general recommendations of the international financial community had to be applied quickly and become reality for the Croatian banking system. The adoption of internationally accepted standards and their internal development and dissemination, enhancement of transparency, closer monitoring of banking system soundness through effective supervision (supported by an adequate legislative framework), in relation with macroeconomic policy as well, have to be our priority. Besides, a number of rules have been set or are going to be established in the near future as to enhance market discipline, owner control, and supervisory effectiveness. Precious advice in this respect has been received from the World Bank and IMF staff through technical assistance missions. Needless to say, in the design and implementation of the above-mentioned measures, provisions of the Basel Core Principles for Effective Banking Supervision and other internationally accepted standards have been duly respected. By increasing transparency in this way, we have tried to facilitate foreign entry in order to increase the competition.

As everything is mutually related, one change so as to achieve an aim leads to another. The recently experienced turbulence in our economy taught us that close communication with all market participants (domestic or foreign) is a prerequisite for having an effective macroeconomic policy transmission mechanism. Transparency in one area by itself does not suffice. The Fund initiative in terms of the Code of Good Practices on Transparency in Monetary and Financial Policy and its further elaboration through the manual will be of utmost help. Once again, tasks at the micro level (that is, country level, regardless the size of the country) are identical to global prerequisites. Our adherence to the SDDS is already well established, as is our openness to IMF policies and advice. Croatia, that is, made public its Letter of Intent five years ago. Therefore it is needless to say that we support the release of the Article IV staff report.

A larger integration of the Croatian economy into the world economy remains one of the main goals in the future, although the growth of foreign trade and foreign direct investment has been evidenced in the last year (1998). As the process of negotiation is approaching its end, it is expected that Croatia will become a full member of the World Trade Organization at the end of this year. We truly hope that this is going to open the doors for Croatia in other international and regional organizations and associations.

In a small, open economy at the advanced stage of transition as the Croatian economy is, we cannot allow ourselves not to be up to date with (above all) recent discussions, opinions, and experiences related to capital account liberalization. It is beyond any doubt that capital account liberalization is necessary as a part of financial integration. But so as to use all the benefits from liberalization, it should be carefully managed and adjusted to the strength of the financial system of the country concerned (especially, in transition countries). If financial disturbances are to be avoided, this fact must be taken into account by all international institutions that try to monitor or regulate capital account liberalization. In this respect, the Fund study on the use and effectiveness of specific capital controls is going to be of invaluable help to us.

Consequently, we support all the efforts of the international financial institutions in searching for mechanisms for the prevention and resolution of crises by securing private sector involvement. It is essential to limit moral hazards, strengthen market discipline, and ensure orderly adjustment processes, while maintaining international financial flows. The only thing I would like to stress in this regard is that, independently of the approach taken, the equality of treatment should be ensured.

Further, we believe that IMF readiness to place more emphasis on social issues in developing programs will be broadly welcomed. This will undoubtedly increase public support for the Fund programs, and make implementation of them easier, especially in recipient countries.

Throughout the year we have reached out continuously (more or less successfully) for help from the Fund and the World Bank—our friends and critics alike—to obtain appropriate solutions in banking, financial, and social sectors, as well as to mitigate the effects of regional spillovers associated with the Kosovo crisis.

And now allow me to express our thanks to the management and the entire staff of the Fund and the World Bank for their valuable assistance and unselfishly shared expertise and knowledge.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR CYPRUS

*Takis Klerides*

It is encouraging to note that the world economic situation is now distinctly better than it was 12 months ago and that the global growth momentum during 1999 has been improving. There are still considerable downward risks for the world economy, especially if the expected deceleration in the growth of the U.S. economy is not offset by faster growth in the other major industrial economies. It is important that this momentum be sustained, so as to enable significant improvements in the living standards of the population of the poorer developing countries.

The experience of the past two years has demonstrated the vital role that international financial institutions can play in resolving and helping countries recover from financial crises. Indeed, the enhancement of the resources and facilities of the Fund, including its new Contingent Credit Line should help the Fund to prevent and contain future financial crises. However, we are concerned that some of these enhanced facilities, such as the strengthened HIPC Initiative, will require further large funding in order to provide timely financing and debt relief to deserving countries. In this vein, Cyprus would urge that early agreement be reached on the full financing and equitable burden sharing for the enhanced HIPC Initiative. And in view of the rapid increase in the World Bank Group's lending portfolio and its higher degree of concentration, as well as the downgrading of a number of borrowing countries, we believe that consideration could also be given to capital replenishment for the Group, including the International Finance Corporation.

With respect to the "New International Financial Architecture" and "Strengthening Global Economic Governance," we would support the view that the Fund must continue to perform the role of a crisis manager on the global financial stage, but that public resources be used more prudently and only with strong conditionality so as to avoid moral hazard. New mechanisms must be developed and implemented to strengthen the involvement of the private sector in forestalling and resolving financial crises, a process that would make imprudent creditors and investors bear part of the burden and losses associated with financial crises.

The recovery and resumption of strong economic growth in East Asian countries that were most directly affected by the recent financial crises is encouraging. However, we are concerned that countries hurt by the indirect effects of the East Asian crisis, mainly through sharply falling primary commodity prices, will continue to experience irretrievable losses in income and will remain vulnerable to further price fluctuations. In this context, we would welcome the creation of the commodity price risk insurance scheme for developing countries that has recently been proposed by the World Bank. We trust also that, in the development of new trading arrangements at the forthcoming World Trade Organization meeting in Seattle and those to follow the Lomé Convention for the African, Caribbean, and Pacific (ACP) Group with the European Union, sufficient priority be given to assuring that developing countries have continued access for their main export commodities to the markets of the European Union and other industrial countries.

In Cyprus we are well aware of the vulnerability of small open economies to fluctuations in export prices and volumes. In 1999, a considerable fall has been recorded in the international prices of our main commodity export, namely potatoes, but fortunately our largest foreign exchange earner, tourism, has experienced substantial rises in both the number of tourists and their average expenditure. The continued pegging of the Cyprus pound to the euro has contributed to improving export competitiveness in 1999, especially for tourists from the United Kingdom, while permitting the importing of low inflation from the countries of the European Monetary Union. For 1999, the real GDP of Cyprus is expected to increase by about 4.5 percent, the annual rise in the consumer price index is forecast to average 1.5 percent, and the unemployment rate will remain at about 3.4 percent.

Despite these favorable macroeconomic indicators we are concerned that we have not been able to reduce the fiscal deficit to below 5 ½ percent of GDP in 1999. For the first time, in conjunction with the tabling of the government budgets for 2000 at our House of Representatives, the government will propose a detailed and substantive package of tax measures aimed at bringing about a sizable reduction in the fiscal deficit. As the magnitude of the budgetary allocations is dependent on securing revenue from the new tax measures, any failure by the House to agree on a significant package of tax measures will mean that budgeted expenditures for 2000 will have to be reduced.

In concluding, I will emphasize that Cyprus continues to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic and financial environment conducive to healthy growth and development. Also, I would take this opportunity to thank the management and staff of the Fund and the Bank for the constructive advice they have rendered to Cyprus.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR FIJI

*Jone Yavala Kubuabola*

It is an honor to attend the fifty-fourth joint Annual Meeting of the Boards of Governors of the International Monetary Fund and the World Bank Group. My delegation and I wish to thank Mr. Camdessus and

Mr. Wolfensohn and their staff for the support and advice to countries during these testing times and for their initiatives to promote a more stable financial environment. Allow me also to congratulate the President of the World Bank, Mr. Wolfensohn, for his reappointment for another term.

Global economic conditions look more favorable than they did 12 months ago. The U.S. economy continues to provide good support for the world economy, growth in the European economies looks to be picking up, and the Japanese economy appears to have steadied. In the developing countries, economic conditions have generally stabilized, and in some cases are showing considerable improvement. Against this improving global backdrop, Fiji's economy is also looking to pick up by over 7 percent this year, as the economy returns to more normal conditions following the debilitating effects of the drought and the weaker global conditions over the past couple of years. Despite these positive developments in global economic and financial conditions, many downside risks remain. Great care will now be necessary to nurture the fragile global recovery and guard against some of the potential hazards that lie ahead.

The global economy has faced setbacks in the past two years—indeed we have come through the most severe worldwide economic crisis of the past 50 years. These events have been caused by a combination of factors; in particular, problems with macroeconomic management, deficiencies in domestic financial systems, and weaknesses in the international financial system. The Fund and the World Bank have played an important role in stabilizing conditions during this period and putting in place policies to foster sustained recovery. The opportunity has also been taken to look at ways of strengthening the international financial architecture to help guard against financial crises in the future.

The events of the past two years, while painful, have also provided us with a number of valuable lessons. Many of these lessons are not new, but they reinforce thinking that is broadly accepted but often less enthusiastically applied. Let me touch on a few of these.

- The first issue is liberalization. We all know that financial sector liberalization can spur economic growth and development but liberalization also entails risks if reforms are not appropriately designed and implemented. The recent crises in Asia, Russia, and Latin America have demonstrated the urgency of finding ways to achieve orderly liberalization. In Fiji, we have proceeded cautiously with liberalization, opening up the capital account progressively over the past decade as conditions allowed.
- Second, the need for strong financial structures and institutions that are able to withstand the types of shocks that affect more

open economies. The lesson is now very clear—as part of the reform process, policymakers should work toward developing systems, institutions, and financial markets that are strong enough to withstand potential shocks to the economy. Strong domestic financial sector regulation and prudential oversight are important ingredients for weathering financial storms.

- Third, sound macroeconomic management, which include strong fiscal positions that provide governments some cushion to withstand unfavorable shocks. Appropriate monetary policy is also important to maintain stability and confidence in the financial system.
- The fourth major lesson that comes from the experiences of the past couple of years is the need for greater transparency, by both the public and private sectors. Better and timely information allows better risk assessment and decision making by policymakers and the private sector. The recent codes of good practices on transparency in monetary and fiscal policies are good examples of recent initiatives in this area. I understand the SDDS have now been adopted by some member countries. Fiji has been involved in the GDDS pilot in the Pacific region.

The events of the past two years have focused attention on building the international financial architecture and reviewing the multilateral institutions' policy prescriptions. The new financial order will no doubt take into account the lessons learned, in particular, the need to encourage transparency and accountability. Higher and volatile capital flows ought to be properly managed to minimize their disruptive impact on domestic markets.

This new financial system calls for closer consultation and better burden sharing. We therefore welcome recent discussions at the Fund and the Bank about better ways to involve the private sector in preventing and managing financial crises. This is a complex issue, but one of utmost importance. In practice, it involves finding ways of getting creditors and debtors to come together in a collaborative manner to assess problem situations and arrive at mutually beneficial processes for recovery.

We are also pleased with other recent Fund and World Bank initiatives. On the Fund side, we welcome the introduction of two new facilities—the Contingency Credit Line and Y2K facilities. These facilities will provide a useful complement for existing techniques and may help member countries respond quickly to financial crises.

On the Bank side, we would like to reaffirm our support for the Comprehensive Development Framework. We certainly look forward to further developments on the framework, particularly the dissemination of lessons learned, which we could draw upon to help us refine and strengthen our development strategies. Undoubtedly, the CDF will allow us to look at our development strategy in a coherent manner with the appropriate balance between macroeconomic and financial concerns on the one hand, and social and structural issues on the other. Furthermore, the emphasis on country ownership and partnership, with the required longer-term foresight, are fundamental principles that will ensure effective policy building and implementation in developing countries.

Fiji's overriding goal to improve living standards through sustainable and equitable growth is very much in line with the CDF approach. Our government is strongly committed to addressing the social and structural imbalances we currently face. Broadly, these involve increasing employment opportunities in areas where we have comparative advantages, increasing and improving the delivery of social services, protecting the poor, and effecting social transfers to reduce the cost of living for low-income earners. From the lessons learned from the international experience over the past two years, we definitely see the need to cushion the economically vulnerable from income fluctuations.

As a small state, we are optimistic that the CDF principles of ownership and effective collaboration with development partners should bring about more sensitivity to the special problems of our economies. We welcome the small states' strategy jointly developed by the World Bank and Commonwealth Secretariat. In our view, the strategy for such an initiative should concentrate on the vulnerabilities of small states. For Fiji, as a small South Pacific Island state, our major challenges are our isolation from major markets, meager resources, and susceptibility to natural disasters, such as hurricanes and droughts. We eagerly look forward to the finalization of the strategy for small states after full consultation with the relevant member countries.

Let me comment on another of the Fund and the Bank's recent initiatives—the proposed debt relief for highly indebted poor countries. This is a very worthwhile initiative and commands wide support. We are heartened by the Fund's decision to undertake off-market transactions, rather than open market sales of gold to fund this initiative, which would avoid the disruptive effects on gold-producing countries such as Fiji.

On a final note, let me just touch on one other issue that is on everyone's minds at the moment—the Y2K problem. Dealing with the issue has become quite complex—as you are aware the issue is not just about fixing a computer problem—as policymakers we must recognize that the Y2K issue involves managing risk. In Fiji, we have been taking the necessary steps to minimize Y2K-related problems in our financial system. We applaud the decision by the Fund to introduce a temporary facility that will help members deal with unforeseen balance of payments problems that may arise in connection with the Y2K problem.

I conclude by thanking the Bank and the Fund for their assistance and support to Fiji and the Pacific region. As always, we will continue to look to the Fund and the Bank for assistance in infrastructure, human resource development, institutional strengthening, and economic and financial policy advice. We commend the services of the Pacific Financial Technical Assistance Center and thank the Fund, the United Nations Development Program, and other donor countries for their continued support in this and other areas. I would like to wish the Fund and the World Bank well in their future endeavors.

## STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR FRANCE

*Jean-Claude Trichet*

The latest forecasts established by the Fund confirm the dynamism of world growth. This favorable situation does not dispense us from reflecting upon new kinds of regulations for a more effective and equitable world. To do so, we must identify the ways to achieve long-term, balanced growth and to define the framework that will enhance this dynamic movement. The international financial community has a considerable responsibility in this regard. It is in this spirit that we have made several proposals. The improvement in the general situation now allows us to focus on the most pressing problems of the poorest countries.

### *Mobilization for Long-Term, Balanced Growth*

Nine months after the successful creation of the euro, the economic recovery in the European Union and the euro area is confirmed and the conditions for a robust and sustainable growth are present. Prospects for industry have been improving for the past few months, households' confidence is strong, their purchasing power remains well oriented, and exports are on the upswing. The French economy is contributing substantially to the European growth.

So, we are confident in our economic prospects, but of course we should also remain vigilant so that the more robust growth that we currently enjoy lasts as long as possible. We particularly should take into account incipient short-term pressures on consumer prices related to the higher oil prices observed over the past months and the lagging effects of the evolution of the euro. With a view to extending the period of noninflationary recovery and to significantly reduce unemployment, it is also necessary to continue implementing structural reforms.

In Japan, self-sustained growth is not yet guaranteed, despite recent more favorable indicators. I welcome the commitment of the Japanese authorities to continue policy aimed at avoiding any further growth weakening. External demand can play an important role on the condition that the value of the yen ceases to rise: this analysis is shared by the Group of Seven countries.

Strong growth in the United States remains impressive. In this regard, I welcome the fact that fiscal policy is contributing to reducing the national saving deficit: lowering taxes would only increase existing imbalances. Yet, household saving remains insufficient.

The emerging and developing economies are gradually recovering, after having experienced a very difficult and uncertain period as a result of the financial crises and of the 1998 decline in commodity prices. But improvement remains uneven. The positive signs that have appeared in the last several months, especially in Asia, should not lead to underestimating the vulnerability of these economies to external shocks or the scope of the structural reforms still to be undertaken. In most Latin American countries, courageous adjustments have taken place. But activity in the region continues to be sluggish, or even losing some ground.

A year ago, our meeting opened in an atmosphere of anxiety. The sound economic policies followed in Europe and the United States, the determined action of the Bretton Woods institutions—I wish to pay special tribute to their heads—the courage of the governments and people of countries affected by the crisis in the emerging world, made it possible to avoid the worst. Current prospects for world growth are such as to inspire new optimism. We should now consolidate these results.

*For This Renewed Growth, We Need a Better Framework in Support of Good Governance and Against Money Laundering and Corruption.*

We need a better framework for banking and tax havens, especially for combating money laundering and corruption. To meet the challenge of globalization, we must define new regulations. In international trade, fair competition is crucial for efficient international competition. For the past two years, encouraged notably by France, initiatives have been launched within the relevant international fora. These should rapidly result in concrete reforms. If not, these scourges will continue to develop. It is in this spirit that France has made the following proposals in favor of the following:

- more specific and stringent rules, especially as concerns a ban on underregulated legal entities (shield companies) and strengthening legislation against money laundering and bribery;
- strengthening our power to act through the rapid establishment by the Financial Action Task Force and prudential authorities of a list of noncooperative states and territories and engaging reinforced technical cooperation with those states and territories to implement international standards according to a defined timetable;
- identifying drifts more effectively by an increased mobilization of the international financial institutions in the fight against money laundering and corruption. These institutions, especially the Fund, could adopt a "Governance Charter," which could review good governance in the context of assessing a country's economic situation (Article IV). This could also be a precondition for providing financial support; and
- graduated sanctions going from incentives to sanctions within the multilateral framework and, in bilateral relationships, up to and including measures to progressively restrict capital movements with offshore centers to be implemented under the aegis of the prudential authorities.

The next step: toward a better international financial architecture. The transformation of the Interim Committee is an important step toward reinforcing the governance of the Fund and improving its functioning. The Fund would thus become all the more effective. We have made a very positive step today, but it is still only a step. For France, the arguments for a "Council" of the Fund remain valid, and a more ambitious reform is perceived as both necessary and inevitable.

The reform of the international monetary and financial system that we launched over a year ago has made real progress. Working out the different codes, strengthening the Fund's surveillance mechanism for assessing potential economic vulnerability, and defining an orderly strategy for liberalizing capital flows are all essential building blocks.

There are nevertheless three issues that deserve more progress: exchange rates regimes, regulation of financial activities, and private sector involvement in crisis resolution. In the context of financial globalization, they are essential for a more efficient regulation.

First, we need more transparency and consistency as regards exchange rates regimes. Exchange rate systems and policies have played a crucial role in the recent crises. In conformity with its mission, the Fund must develop a global strategy. But we should remain pragmatic. Pure floating or currency boards are not the only available alternatives. Had only a polar approach prevailed, the euro would not have become the

European currency and would not be a magnet for many European countries. Room should be left for regional cooperation.

Transparency and consistency should prevail: in adopting a particular exchange rate regime, a country should make clear the objectives it is pursuing. The Fund should continue to reflect on this, taking into account the policy choices of each country.

The experience of the 1990s demonstrates that, in countries where capital account liberalization has been completed, consistent macroeconomic policies are a prerequisite for appropriately managing or pegging exchange rates. Nonetheless, financial crises in various emerging economies have highlighted that macroeconomic discipline alone does not suffice to sustain pegs and must be accompanied by sound and robust financial systems, effective regulation and supervision, good corporate governance, as well as greater transparency in the conduct of monetary and financial policies.

In regulating financial activities, the issue of hedge funds must be addressed. Traditionally limited to protecting savings, it is now recognized that prudential regulation impacts the macroeconomy. The creation of the Financial Stability Forum, which unites the Bretton Woods institutions and the financial oversight organizations, illustrates this point.

In the context of the Forum's activities, I wish that the will to act would prevail. For example, a large commercial bank whose potential difficulties could have a systemic impact on markets must be subject to prudential regulation to limit its leverage, its liquidity risks, and its exposure concentration. In my view, it is not inconceivable to submit an investment bank or a hedge fund to similar regulations. These institutions can harbor exactly the same systemic risks. For this reason, it seems indispensable to develop regulations applicable to these funds and as a first step to request more transparency in their operations vis-à-vis both their financial counterparts and the market.

Finally, the private sector must be involved in resolving crises. The principle of private sector involvement in crisis management is a given. But recent examples of negotiation with the private sector have demonstrated the limits of a strictly cooperative approach. We must be prepared to disseminate an agreed framework to facilitate private sector involvement. I would like the Fund, along with other interested institutions, to work as quickly as possible on the basis of the principles proposed by the G-7 at the Cologne Summit, and with the intent to achieve equitable treatment for all private creditors.

With the Paris Club principle of comparability of treatment, we have at our disposal a preliminary response. I would ask that in other cases, the international community be sure that all categories of creditors be involved equitably, no matter what the nature of the debts at stake. We must also be ready, in situations where the cooperative approach upon which we have based our procedures reaches its limits, to have recourse to more forceful solutions.

*The Way Is Open for Dealing Quickly with the Heavily Indebted Poor Countries.*

The debt burden in the poorest countries represents a major obstacle to their development. When a country's debt service is greater than its education or health budgets, it is impossible to envisage steady development progress. France has always fought in favor of debt cancellation. It will now be necessary to go much farther to free the poorest countries from debt overhang. We must be watchful that this goal is achieved in full accordance with three fundamental principles that France has put forward from the outset:

- solidarity, which should lead us to concede the most favorable possible treatment to the poorest countries;
- equity, which is the basis of fair burden sharing between all bilateral and multilateral creditors; and
- responsibility, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

This new impetus must be equitably financed. France has not stalled, waiting for others to pay in our place. France is definitively in the front ranks of funding the initiative. We are waiting for other developed countries to commit to a comparable effort. Countries like France that make large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on equitable burden sharing.

I warmly thank Michel Camdessus and James Wolfensohn for the efforts they have made to come to a solution. I know that it was not without sacrifice. It will allow us to take advantage of a global solution, which directs additional resources to the institutions whose situation is critical, thanks to the efforts realized by the Fund and the World Bank to mobilize to the maximum of their internal resources.

Dealing with debt must lead to an effective fight against poverty provided by debt cancellation. The dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to the developing country governments to adopt economically and socially coherent development policies and to improve governance.

Our consistent action in support of development must also go forward. France has increasingly affirmed that, in view of the constant reduction in public aid flows, simply dealing with debt and private investment flows in a few emerging countries will not alone suffice to resolve the problems of development.

Maintaining a sufficient flow of public aid is vital. The concessional loan funds, principally the International Development Association and the African Development Fund, at the multilateral banks must in fact receive the resources committed during the recent replenishments.

At the moment when the World Trade Organization is opening a new cycle of commercial negotiations, it also behooves each of our governments to reflect on how they will affect development in poor countries. The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries' markets. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

Regional integration is also a necessary step. Integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional economies critical mass in the global one. It is not a question of creating new regional fortresses, but of facilitating global integration.

To conclude, I would like to emphasize two points:

- First, the global economy is doing much better than it was a year ago. This calls for two *coups de chapeau*: one to some emerging economies, notably in Asia, that have demonstrated remarkable efforts to adjust in a very short lapse of time; the second, to the international financial institutions, and in particular the Fund and the World Bank, which have demonstrated—in the most difficult circumstances—lucidity, determination, and courage.
- Second, this is not the time for complacency. The global economy is in much better shape, but there remain risks and challenges. We must demonstrate that we can take advantage of a quieter and calmer period to embark resolutely on the reforms that are needed.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR GERMANY

*Ernst Welteke*

Two years on from the far-reaching currency and financial crises in Southeast Asia and the subsequent financial turmoil in other regions, we are now able to look to the future with some degree of optimism. The past few months have witnessed a considerable improvement in the world economic situation and its medium-term prospects in virtually all regions.

In many emerging economies, especially in Southeast Asia and Latin America, reforms are showing the first positive effects: the massive currency distortions have been largely overcome, and economic recovery has set in. The economic climate has continued to improve in industrial countries as well. All major economies can note continuing favorable growth trends or are in a recovery phase.

This also holds true for the countries that launched the euro as their common currency on January 1 of this year. The Fund expects growth of 2.8 percent for the euro area in the year 2000. This performance will contribute to a more balanced growth among major industrialized countries. At the same time, the euro has already become the second most important currency in the world. The countries making up the euro area are aware of the responsibility this imposes on them. With the continuation of fiscal policy consolidation and structural reform, the euro countries will create the conditions to promote sustained, vigorous growth and high employment.

But risks remain, despite the improvement in global prospects. Hence, it is vital to press ahead with the necessary reforms. We must also be prepared for the possible threats posed by the Y2K computer problem. The Fund has made preparations to offer temporary financial help to member countries encountering difficulties from the Y2K problem. However, it will be the foremost responsibility of all countries to prepare thoroughly and convincingly for the date change.

The positive results of the past few months should not distract us from further resolute action to reform the international financial architecture. Much has already been achieved in the course of the past months:

- The Fund and the World Bank have enhanced the transparency of their operations, providing the financial markets with an improved basis for decision making.
- The new Financial Stability Forum will bring together the international supervisory bodies and the Bretton Woods institutions

and create the opportunity to improve early identification of crises and strengthen global cooperation.

- Initial progress has also been made on involving the private sector in crisis prevention and resolution. Given the potential for a variety of situations on the part of debtors and creditors, it is reasonable to assume that the precise modalities for the involvement of the private sector can only be determined on a case-by-case basis. What is important, however, from the German perspective is that the financing role of the official sector will be determined a priori in a way that precludes a "bailout" of private creditors.

The Fund and the World Bank have done excellent work in reforming the international financial architecture. I expressly welcome the contribution by Michel Camdessus and Jim Wolfensohn and the work by the staffs of both institutions. But much remains to be done.

People in economically less-developed countries must also be enabled to benefit from the opportunities for lasting growth, innovation, and socially equitable, ecologically acceptable development provided by globalization. We must all work together to create the conditions for this.

In view of the continuing vulnerability of many highly indebted poor countries to exogenous shocks, Germany and other major industrial countries have proposed to enhance the HIPC Initiative, which was put into effect in 1996. The initiative of the Cologne Summit has been brought to a successful conclusion during these Annual Meetings.

The enhanced debt initiative presents major financial challenges to bilateral and multilateral donors. Many industrial economies are in the process of budget consolidation calling for cutbacks by the population as well. Yet, Germany will contribute to the World Bank Trust Fund and will cancel substantial amounts of bilateral debt. Within the Fund, Germany will make an appropriate contribution to financing the ESAF enhancement and the Fund contribution to the HIPC Initiative.

Other multilateral donors must now step up their efforts to secure financing for the HIPC Initiative as well. We must especially endeavor to ensure that the most efficient and broadest possible use is made of the institutions' own resources. However, debtor countries' enhanced scope for policy action offered by debt relief will only prove beneficial to them if they pursue sound economic policies and avoid unproductive expenditures to a higher extent than in the past.

The funds released through debt relief must—in the context of a comprehensive poverty-reduction strategy—be targeted at social improvement. Promoting health care and education, for example, is a crucial requirement to ensure lasting economic development and, hence, economic and political stability.

What is important is that the Fund and the World Bank participate in these tasks within the confines of their respective mandates. Poverty reduction strategies are the task of the countries concerned and the World Bank. The World Bank should concentrate on social and structural issues. The Fund should restrict itself to the macroeconomic issues.

Economic growth cannot achieve sustained development and overcome poverty unless it wears a human face. In the same vein, the efforts of the Fund and the World Bank, as well as the bilateral and other multilateral donors, will fail unless they are backed up by vigorous efforts on the part of the developing countries themselves. This would foster the creation of a political and economic environment within the country, which motivates individuals and allows them to put their capabilities to productive use. In this context, encouraging transparency and good governance is indispensable in securing the effective deployment of bilateral and multilateral assistance.

The importance of good governance is demonstrated not least by the problems of money laundering and corruption. In any case, recipient countries must always take all necessary actions to avoid a misuse of funds.

The Fund and the World Bank must stick to their respective mandates, but close cooperation between the two institutions, based on mutual trust, is vital. It is also vital for both institutions to retain their roles as the central forums of international cooperation. Ensuring this is the task to which we are all committed.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR GREECE

*Yannos Papantoniou*

When we last met here a year ago, the world financial markets were still in turbulence and we were reflecting on the causes of the crises, their expected effects, and the best ways to react. Since then world economic developments have turned more positive.

- World growth has picked up.

- We have started implementing the actions necessary to prevent and detect crises, and to improve the functioning of the international financial system.

It is generally accepted, however, that even if progress has been made, this is no time for complacency. Actions are needed in coordinating the surveillance process and in designing incentives so that the private and the public sector alike benefit from international financial stability.

The introduction of the euro in 1999 played a substantial part in fostering a climate of stability. Today, the sound macroeconomic policies pursued by the euro member states have led to an environment of low inflation and healthy public finances. Members of the euro area can now enjoy the benefits of stability and exploit the opportunities created by the Single Market. Stability in the euro area has led to a resumption of economic growth, while improved coordination of economic policies is expected to lead to higher efficiency and employment. Greece is about to join the Economic and Monetary Union, effective January 1, 2001, and to share in the advantages that it creates.

The case of Greece could serve to illustrate the benefits that arise from sound macroeconomic policies and a positive attitude toward reform. The Greek economy has shown resilience to the financial crises and is exhibiting high rates of growth.

The process of macroeconomic rationalization started in Greece later than in other European countries. With the 1994 convergence plan, we pursued policies designed to achieve the Maastricht Treaty criteria and have made substantial progress in achieving them. Indeed, from the middle of this year we satisfy four out of the five criteria, and we are confident that in the next few months we will be successful on all five.

- Following the devaluation of the drachma in March 1998, we participated in the exchange rate mechanism, and from January 1999 we are members of its successor, ERM2.
- We reduced the general government deficit from 13.8 percent of GDP in 1993 to 2.5 percent of GDP in 1998 and 1.5 percent of GDP this year. This is a reduction of over 12 percentage points of GDP and is almost three times as big as the improvement registered in the rest of the European Union in the same period. The lowering of the government deficit resulted from applying strict controls on public expenditure and from increases in the revenue side owing to a broadened tax base and an effective combating of tax evasion.

- Government debt was reduced from 111.8 percent of GDP in 1993 to 106.1 percent of GDP in 1998 and 105.1 percent by the end of this year. Privatization revenues contributed substantially to debt reduction.
- Increased credibility of the government policy has led to a substantial fall of government bond yields. The yield on the 10-year government bond was 10.7 percent in 1997, 562 basis points above the yield on the German 10-year government bond. At the middle of September of this year, the yield stood at 6.75 percent, about 160 points higher than the German 10-year government bond.
- The anti-inflationary incomes policy pursued in the public sector and the increased competition in a number of areas, such as telecommunications and transport, together with a reduction in inflation expectations, have led to a drastic drop in the annual rate of inflation. In 1993, the average annual rate of inflation was 14.4 percent. In August 1999, the annual rate of inflation was only 2 percent. These are rates of inflation last recorded in Greece more than three decades ago.

In the past few years, we have proceeded with structural reforms in the product, capital, services, and labor markets. Our privatization program has been intensified in the past two years; at present, 27 state corporations either have been privatized or are in the process of being privatized. Receipts from privatization in 1998 and 1999 have reached 7 billion dollars.

Economic reform, together with substantial public infrastructure investment, partly financed by the European Union, led to a substantial acceleration of real growth. In fact, 1999 will be the sixth consecutive year of substantial growth, while in the past three years, growth rates reached 3.5 percent, significantly higher than the European Union average.

The prospects point to further considerable growth in the next few years. The investment opportunities that arise from making Thessaloniki the center for the development of southeastern Europe, the direct and indirect productivity gains from faster investment and output growth itself, and the organization of the Olympic Games in Athens in 2004 are likely to introduce further dynamism in the growth process. At the moment, we are forecasting an increase of GDP of the order of 3.7 percent for the year 2000 and more than 4 percent in 2001.

The crises of the past few years have made it clear to all of us that transparency in corporate, financial, and state institutions is paramount in preventing and detecting nonviable situations. It is in the interest of transparency that Greece, one of the very first countries to do so, is participating in the two Fund initiatives in this direction—the release of the conclusions of Article IV consultations as well as the fiscal transparency exercise.

Our economy has been put to the test by the financial crises of the last few years. Our exchange rates, short-term interest rates, bond yields, stock market, and real economy remained unaffected in all but the very short run. Last year, Michel Camdessus noted in his concluding statement that programs work only if governments want them to. We have indeed been determined to succeed.

Last year the Meetings were sessions of reflection on how to go about preventing, detecting, and remedying crises. This year, we are in the more comfortable position of being able to evaluate our actions in these areas. Let us hope that we will carry on in this direction, so that next year we can appreciate the results in the form of accelerated growth, more employment, and improved welfare.

## STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR INDIA

*Yashwant Sinha*

Participation in the Bank and Fund Annual Meetings is always a source of great pleasure and inspiration for us. But this year, our happiness is even greater, because the meetings are being chaired by our neighbor and a member of the South Asian Association for Regional Cooperation (SAARC), Nepal. I have no doubt, Mr. Chairman, that the proceedings this year will greatly benefit from your rich experience and sagacity.

At the outset, let me congratulate both the Fund and the Bank for their active role in reviving global economic and financial prospects. Although the signs of recovery are visible, there is a need to temper the optimism with caution. The sustainability of the recovery is not yet assured, and a number of risks and uncertainties continue to cloud the outlook for the near future, especially for developing countries.

The economic crisis that began two years ago has pulled down the world growth rate in the 1990s to the lowest level in the past three decades. The crisis has impoverished millions in the developing world and blunted the aspirations of many more millions. We owe it to them to rectify this unfortunate situation in the first decade of the coming millennium. At this critical juncture, we need to go beyond short-term policy perspectives and seek a new mandate for the enduring goal of more rapid and sustained economic development. Toward this goal, this last Annual Meeting of the twentieth century provides an important opportunity.

The recent crises have underscored the critical role of multilateral public resources in calming exchange and financial markets and in paving the way for economic recovery. While there is every need to empower the Bretton Woods institutions, so as to enable them to effectively deal with the emerging challenges, we must not lose sight of the basic mandate of these organizations. The preoccupation with crisis management in some countries must not distract the Fund and the World Bank from their basic missions of providing temporary balance of payments support and long-term development finance in all developing countries, respectively. The recent upheavals have also sparked a debate on the approach to macroeconomic policy, capital flows, exchange rate regimes, fiscal and financial systems, and standards and codes. The debate is still on, and we must be prepared to reassess earlier positions.

We endorse the efforts currently under way to improve the international financial architecture. After the initial spurt of ideas on basic changes in the institutional framework, attention is now increasingly being focused on limited modifications to the existing system. While there is an imperative need for improvements in the present structure, there is also a risk that such efforts may not go far enough, especially if the long-standing concerns of developing countries do not receive their due attention.

I would like to remind this distinguished assembly that issues, such as the declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial stress, low primary product prices, and the limited access of most developing countries to private capital flows, need to be brought to the forefront of the global agenda. Furthermore, we must ensure that political considerations are not injected into the programs and operations of the Bretton Woods institutions. We must consciously strive to protect the integrity and objectivity of these great international economic institutions from the encroachments of short-term national and foreign policy expediencies.

It is one of the ironies of the past 40 years that, although developing countries as a group have grown much faster than the developed countries over this period and their relative economic strength in terms of output and trade has increased substantially, their role in international economic governance has not expanded commensurately. This anomaly needs to be corrected in the next quota exercise in the Fund. In the decision-making structures of the "new" financial architecture that is taking shape, developing countries must also have due representation. This will enhance the strength and credibility of our international institutions.

While considerable progress has been achieved by developing countries over the past 50 years, it is amply clear that, in terms of poverty reduction, progress has been less than satisfactory. The international community cannot turn a blind eye to certain iniquitous aspects of global financial and economic developments during the recent past. In fact, while there is a lot of talk about the world being made smaller by the information technology revolution, for hundreds of millions of people who are outside the envelope of this technology, the emerging "cyber-based" world is getting more distant. We live in a world where the rich are enjoying the best-ever quality of life, while the poor continue to suffer from deprivation, sickness, and malnutrition. This is unacceptable. To my mind, equitable distribution of the enormous benefits of the new technological revolution is going to be one of the central issues for the new millennium.

An important sector where private initiative had been expected to play a much larger role is the provision of physical infrastructure. So far, the results have been mixed at best. Private provision of infrastructure has been characterized by long delays, considerable legal wrangling, and often intense politicization. The fact is that much of what constitutes infrastructure has a "public good" dimension and long gestation periods. The World Bank used to play a central role in financing the physical infrastructure needs of developing countries. It should reassert its leadership in this area.

I am happy that social sector issues have gained in prominence in the Fund-Bank agenda, and that the link between debt relief and poverty reduction has been emphasized. Larger HIPC funding should, of course, be effected on the principles of additionality and equitable burden sharing among developed countries without affecting the financial integrity of the Bretton Woods institutions. Moreover, it must be recognized that strategies for global poverty reduction will not be successful unless there is also an adequate flow of additional development assistance to those countries that have managed their economies prudently and have met their debt obligations despite difficulties.

The pressure on the World Bank's resources will be considerable if it is to respond effectively to the challenge of meeting the poverty reduction goals that have been established. This and other demands on the Bank's net income have meant that the financial strength and integrity of the World Bank could be weakened unless remedial steps are taken. Since we have already increased loan charges last year, I feel that a general capital increase will be more equitable. It would also send out a strong and clear message of shareholder support for the institution.

Let me take this opportunity to apprise this distinguished gathering of recent developments in the Indian economy. We are indeed happy that our program of economic reforms and commitment to macroeconomic stability continue to yield impressive rewards even against the background of a serious global slowdown. India improved its GDP growth rate from 5 percent in 1997–98 to 6 percent in 1998–99 and is expected to register a higher growth rate in 1999–2000. This makes India one of the 10 fastest-growing economies during the 1990s. Furthermore, this recent revival in India's growth has been accompanied by a welcome decline in the rate of inflation to below 2 percent, the lowest attained in 17 years.

Although world trade growth has remained anemic, our external sector continues to exhibit strength, with the current account deficit expected to be below 2 percent in 1999/2000, despite the sharp increase in world oil prices. The major indicators of external stability continue to improve. The debt-service ratio is expected to decline even further to less than 18 percent in 1999/2000. Foreign currency reserves have increased substantially in the last 18 months despite the slowdown in the world trade and the effects of the East Asian crisis. It has been our policy to ensure that short-term debt is kept within prudent limits, and it now constitutes less than 5 percent of our aggregate external debt.

As you are aware, our country is currently going through the largest democratic election ever held in the history of mankind. I am proud to say that our economic progress has been achieved within a vibrant democratic framework. We are fully conscious that in order to maintain and improve upon a strong economic record, we have to implement an ambitious agenda of second-generation reforms and continue to conduct vigilant macroeconomic management. The next wave of reforms will cover the entire spectrum, including revitalization of the rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure, and industrial relations, as well as the rightsizing of government and the restructuring and privatization of public enterprises, as necessary. With these reforms, we are confident that the daunting task of lifting hundreds of millions of people out of poverty is attainable within the first decade of the new millennium.

## STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK FOR INDONESIA

*Boediono*

It is reassuring to hear the recent news about the world economy. The U.S. economy continues to show strength, while Europe and Japan are transmitting positive signals. Meanwhile, emerging economies as a group are also faring better. Japan, in particular, deserves to be congratulated for its remarkable turnaround. Meanwhile, the proposed reform of the HIPC Framework would make not only good politics, but also good economics.

Turning to my country, Indonesia, it is clear that the better prospects of the world economy should provide a better environment for our recovery. Conversely, the world economy is bound to benefit from our quick recovery. Let me mention some recent facts about Indonesia.

One year ago, at the time of the last joint annual meetings, Indonesia's economic fortunes had reached a nadir. Inflation had risen to an annual rate of 82 percent, the rupiah had depreciated by some 75 percent and traded at Rp 10,000 per $1, one-month interest rates were at 64 percent, and real GDP had collapsed by 16 percent. At that time, no one knew whether things would get better or worse in the months to come. Significant political uncertainties lay ahead.

Today the Indonesian economy is in far better shape but, unfortunately, similar uncertainties remain. Inflation has almost been eradicated, with the annual rate falling to less than 6 percent in August. The one-month interest rates have dropped below 13 percent. By mid-July of this year the rupiah had strengthened to Rp 6,600 per $1, before it weakened again to the current level around Rp 8,400 per $1. Share prices on the Jakarta Stock Exchange have risen by more than 60 percent from their level one year ago. Consumer spending, agricultural production, and a few manufacturing activities are starting to look up. With oil prices having doubled from the beginning of the year and commodity prices beginning to stabilize, Indonesia's external payments position should improve in coming months.

In recent weeks, these clear signs of economic recovery have been blurred by uncertainties arising from the emergence of a bank scandal, events in East Timor and rising political temperature in the run-up to the Presidential election. There is a lesson to be learned here. The underlying message of this experience is that despite two years of unprecedented economic misfortune, the Indonesian economy remains alive and fundamentally strong. Given half a chance, it will bounce back. At the same time, it is also clear that the recovery remains fragile and requires constant nurturing by a steady and caring hand.

Much of the credit for the improved outlook is due to the implementation of a consistent economic stabilization and restructuring program, in support of which the international community has played a crucial role. We wish to express our appreciation for this support. Financial sector restructuring and corporate debt resolution have been key elements of this program. Over the past year, notable progress has been made on both fronts, which I shall not elaborate here.

However, recent events threaten to undo much of such progress. The restructuring program has been paralyzed by a banking scandal that strikes at the integrity of the institutions charged with recapitalizing and restructuring our banks. We consider it to be a very serious matter and we know that we need to resolve it in a transparent manner and in a manner that is consistent with Indonesian law. A judicial process for the case will start within a matter of days. I should add that the prevailing public sentiment ensures that only a transparent and complete resolution will meet the public's expectations. The upcoming presidential election is another source of uncertainty. It is our hope that the resolution of these two issues will allow us to regain the momentum that we had attained earlier this year.

Finally, I would like to express the deep regret of the people of Indonesia for the loss of life caused by events in East Timor. Let me reaffirm that the government of Indonesia is committed to taking the steps necessary to enable the fulfillment of the newly expressed will of the majority of East Timorese to seek a new destiny outside Indonesia.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ISLAMIC REPUBLIC OF IRAN

*Hossein Namazi*

Global economic and financial conditions after the turbulence in emerging markets in 1997–98, which gave rise to fears of a widespread credit crunch and global recession, have now markedly improved, and most of the economies recently in crisis have begun to recover. Economic improvement in economies afflicted by the Asian crisis has been faster and more robust than expected earlier, and the further bouts of financial turbulence in other parts of the world have been effectively brought under control. Nevertheless, many challenges remain to be addressed to ensure that these recoveries are sustainable and that prerequisites for a stronger and more stable growth in the world economy in the next decade are in place.

Now, the concern over the collapse of the international financial system has given way to the need for better policy coordination among the industrial countries to maintain the continuity of orderly economic growth in the world. There are positive signs for the restoration of an atmosphere of trust and confidence in the international financial markets. Despite such a positive development and the relative improvement in global financial and economic conditions, those crises, mainly the Asian crisis, have made the international economic environment more difficult and uncertain for developing countries, and the financial flow from international capital markets to developing countries has been cut in half compared to the pre-crisis period. Moreover, access to these resources has become prohibitively costly and limited solely to creditworthy borrowers.

The developing countries are the essential partners of the industrial nations in the globalized world. It is, therefore, incumbent on the industrial countries to work closely with all developing countries, especially with the poorer nations, and to increase the volume of official development assistance in support of their efforts to eradicate poverty, launch effective policies for sustainable development, and build the economic capacity of their countries. Needless to say, the stability and integrity of the world economy depend on rational relationships between the industrial and developing countries and the political support for the efforts of every developing country that seeks to achieve sustainable development.

Our meeting is taking place at a time when the dawn of the new millennium approaches, and our world is facing pressing challenges in all areas of political, economic, financial, social, and cultural endeavors. Accordingly, the need to have a holistic and comprehensive approach toward development issues has become more critical, both at national and international levels. The significance of this comprehensive approach has been duly recognized by the Bretton Woods institutions. Many issues that are interlinked with comprehensive and multifaceted economic, social, and cultural development of human societies have made their way onto the agendas of these institutions. These issues are essential parts of human prosperity and well-being, such as debt reduction of heavily indebted poor countries, poverty alleviation, strengthening of the international financial architecture, management of social dimensions of crisis, and in particular, a multifaceted approach, under the theme of "Comprehensive Development Framework."

The comprehensive approach to development in the conceptual plan is welcomed. However, it should be ensured that this framework does not constitute an intrusion on national decision making. While supporting the need for such a comprehensive approach toward all economic, political, financial, social, and cultural issues, I wish to express my concern over any instrumentalization of this concept. Now that there is a clear recognition at the international level of the significance of this comprehensive approach, we need to pay attention to the following facts:

- The main objectives of the founders of the Bretton Woods institutions, according to their Articles of Agreements, were to assist the member countries in the reconstruction and development of their territories and to promote economic cooperation among them. To achieve these objectives, the Bretton Woods institutions offer advisory services that are of the utmost importance. The important point in these efforts lies in the distinction between offering advisory views and dictating a series of inflexible instructions to developing countries with a view to putting their economic house in order.
- The target audience for the rules and regulations of these institutions has consistently been a set group of member countries, while the issues dealt with by these institutions are very broad and universal, and should target, as a general rule, all members—industrialized or developing. Indeed, a one-sided and selective approach will not serve the above-mentioned purposes and objectives.
- The chief objectives of the founders of the Bretton Woods institutions were purely economic in their nature and character. It is imperative that these institutions adhere to principles clearly stated in their founding agreements and strive to achieve these concrete objectives. Tainting the decisions of these institutions with political considerations will inevitably lead to imposition of discrimination on certain members, which is neither desirable nor in line with the objectives of these institutions.
- Differences in the structure of economies and institutional capacities among countries with varying levels of development requires the Bretton Woods institutions to adopt a broader view in advising member countries, and to refrain from forging one-size-fits-all policies. As it has been increasingly realized, country-specific features play a greater role than previously envisaged in determining the set of appropriate macroeconomic policies toward stability and growth. This point should be truly recognized and fully appreciated in dealing with the member countries.

The most obvious policy recommendation that needs to be revisited in the light of recent experiences is the liberalization of the capital account. Recent experiences suggest that the liberalization process should be very cautious and orderly. The member countries should not be advised, let alone pressed, to liberalize their capital accounts in the absence of necessary financial structures and a supervisory and regulatory capacity. Structure and capacity development requires time, which itself varies with the social and cultural foundations of countries. It would also require a substantial amount of financial and technical support from the Fund and the Bank. I would like to reiterate that the Executive Board of the Fund must also carry on very careful deliberations in designing an effective and protective framework, allowing the members to undertake capital account liberalization at their own pace and with full confidence that appropriate safety nets are in place should their economies be subjected to shocks in the process. We welcome the international support for poverty reduction and commend the Fund and the World Bank for further progress being made in the initiative to assist heavily indebted poor countries and post-conflict societies. It is hoped that by broadening the scope for eligibility under the HIPC Initiative and by increasing financing, more substantial assistance to a larger number of poor countries will be made available. We also welcome the efforts made in ensuring adequate funding for the ESAF (the Poverty Reduction and Growth Facility).

In conclusion, I would like to present a general view of the economic condition in my country. The continuation of global recession and the declining trend in the oil market, particularly the sharper fall of oil prices in the second half of 1998, brought about heavy pressure on the balance of payments and resulted in a carryover of the budget deficit to the first months of 1999. Nevertheless, the available statistics indicate that, despite the shocks, the nation's economy managed to absorb to a large extent these pressures, and the negative effects of these shocks were much less than what we initially expected, mainly because of advance preparations and capacity building, and investments in the past decade. The preparation of the third five-year economic development plan, which will be implemented in the next fiscal year, is going through its final stages. Some of the main objectives of this plan are as follows:

- greater transparency in the macroeconomic system and regulatory frameworks;
- budget reforms;
- tax reforms;
- downsizing of the government's role in economic activities and privatization of government enterprises;

- promotion of the private sector;
- dismantling of monopolies and promotion of competition; and
- establishment of a comprehensive social safety net to protect the most vulnerable groups.

Once fully operational, the program will pave the way for the full integration of the Iranian economy into the global system.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR IRAQ

*Issam Rashid Hwaish*

Governors, ladies, and gentlemen, I am honored to greet you on behalf of the Iraqi delegation and to express our wishes for continued success to you, and to the Managing Director of the International Monetary Fund, the President of the World Bank Group, and the governors attending this meeting today, in your efforts to achieve the goals pursued by the international community, and by the Bretton Woods institutions in particular.

Over the past nine years, the Iraqi delegation has pointed out that the economic sanctions imposed on Iraq, along with the freezing of its assets and bank deposits, contradict one of the Fund's most important purposes set forth in Article I, paragraph (iv), of the Fund's Articles of Agreement: to eliminate restrictions that hamper the growth of world trade and to strive to achieve international economic stability and prosperity. This abnormal situation, which is in conflict with the Fund's philosophy and its Articles of Agreement, remains in effect after more than nine years. That is why I am requesting the Fund, in accordance with its objectives, to denounce the continuation of these long-standing economic sanctions against Iraq, one of the founding members that signed the Bretton Woods Agreement in 1945.

The suffering of the Iraqi people and humanitarian considerations require that the international community raise its voice to rectify the deteriorating situation in Iraq, which could lead to a great human tragedy if measures are not taken soon to lift sanctions. The Iraqi delegation has addressed this assembly on several occasions over the past years, describing in detail the economic and social effects of continued sanctions, including their direct adverse effects on the production of goods and services in all sectors of the economy, rising inflation rates and the concomitant deterioration of household incomes, the shortage of tant deterioration of household incomes, the shortage of medicines and medical equipment, potable water, and sewerage facilities, resulting in significantly higher death rates in the various age groups and the spread of communicable diseases that had once been practically eliminated from Iraq, such as polio, cholera, hepatitis, etc., not to mention the contamination of the environment and its harmful effects on life in Iraq.

More than two years have elapsed since the initial implementation of the memorandum of understanding concerning the "Food for Oil" agreement signed by Iraq and the United Nations on March 20, 1996, whereby limited quantities of crude oil would be exported in order to import food, medicines and medical equipment, and other basic necessities of life. Yet Iraq continues to face a number of artificial obstacles to implementing contracts signed on the basis of this agreement, owing to the position taken by the United States and supported by the United Kingdom—alone in the international community—which contradicts the agreement's objective of relieving a small measure of the suffering and pain the Iraqi people are enduring as a result of these protracted sanctions, which are unprecedented in human history and in complete contradiction with the provisions of international law. Governors, I am speaking not only of the sanctions imposed upon the Iraqi people and their harmful effects upon an entire nation, a nation that had a pivotal role in advancing human civilization. I am also speaking of sanctions that are being used as a political weapon against particular countries, in conflict not only with the Articles of Agreement of the Bretton Woods institutions, but also with their principles and announced policies, and with the desires of the international community to promote development, fight poverty and hunger, and achieve a world in which justice and peace prevail.

Iraq has both rights and obligations with respect to the Fund and the Bank, and we wish to exercise these rights to meet our obligations. Therefore, Iraq requests the Fund's management to consider the possibilities for legally accommodating such a situation, whereby countries facing economic sanctions—on the basis of international legitimacy or other pretexts—would be allowed to exercise their rights and meet their obligations in accordance with the agreements signed with the international institutions concerned.

I stand before you today, asking the Fund and the Bank, in the spirit of their Articles of Agreement, to call for an end to the economic sanctions against Iraq and the release of its assets in international banks. I likewise call on the distinguished governors, ministers of finance, and central bank governors to spare no effort in urging their governments to help end the suffering of the Iraqi people, restore balance to our relations with the international community, and prevent the domination and coercion of Iraqi society carried out by certain countries today, with no guarantee that such domination will not be extended to other countries tomorrow. I call for a joint effort to end economic sanctions and airspace restrictions, which are unsupported by any Security Council resolution or international endorsement.

## STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR IRELAND

*Charlie McCreevey*

Ireland's general views on current issues are reflected in the statement made on behalf of the European Union. There are, however, a number of topics I would like to highlight that are of particular concern to Ireland.

### *International Financial Architecture*

Considerable thought and debate has taken place in the past year about the appropriate structure for what is referred to as the international financial architecture. As a small, open economy, Ireland has a vital interest in a stable international economic and financial environment, and we strongly support current efforts to address the challenges posed by globalization. As recent crises have shown, various aspects of this process are interrelated, and it is important to develop a holistic approach, particularly in dealing with developing economies.

### *Role of Bretton Woods Institutions*

The Bretton Woods institutions have a vital and central role in the international economic and financial area. To carry it out adequately, they will need to intensify cooperation among themselves, with other agencies in the economic, social, and political arenas, and with the various informal groupings. Cooperation will need to be intensified not only with member governments, but also with a wide range of civil society, particularly in program countries. Ownership of programs by stakeholders is a prerequisite for successful implementation. An implication of this is that, for example, Fund programs need to take on board, at the design stage, the social and civic implications of their implementation. This is not the same as saying that the Fund should engage directly in the social or developmental aspects, but that the macro-design of its programs should be able to fully integrate outside expertise.

*Transparency*

In keeping with evolving trends at the national level, the Bretton Woods institutions need to be more transparent. Such a trend has been quite marked in the past 12 months, not only with the publication of hitherto unpublished information, but also with its speedy publication in a widely accessible form over the Internet. This has enabled many interested parties to have easier and quicker access to the work of the institutions. This, in itself, constitutes a form of empowerment of stakeholders, which will become more evident as time goes on. Information is not, however, a substitute for active participation by stakeholders, and the current trend needs to be accompanied by positive efforts by the institutions to involve stakeholders more in their work, as the ultimate responsibility lies with the member governments representing their citizens.

*HIPC Initiative*

Debt relief is a vital element in a more broad-based development strategy aimed at growth and poverty alleviation. The HIPC Initiative, driven by the Bank and the Fund, is clearly at a crucial stage in its development. Although its beginnings were relatively modest, its ideals—or declared aims—were ambitious. It aims at both freeing the most heavily indebted poorest countries from the burden of the unpayable element of their debt, and offering them a definitive exit from the debt treadmill, which is seriously undermining their development.

We are all aware of the wide public support for a serious attack on the problem of unbearable debt, which is reflected in the extent of popular support for Jubilee 2000. This must be addressed, and the HIPC Initiative must be implemented in a way that achieves its basic aims. We must remain open to any further enhancements required for this to be achieved, in particular, taking greater account of human needs in determining eligibility and the extent of the relief required. I would, therefore, call on Governors to resolve any outstanding difficulties in implementing the enhanced HIPC Initiative at this stage, particularly in regard to its financing. Earlier this year, Ireland adopted legislation enabling it to participate in funding the enhanced initiative to a degree commensurate with its relative standing in the donor community.