

## STATEMENT BY THE GOVERNOR OF THE FUND FOR ISRAEL

*Avraham B. Shochat*

It is an honor and a privilege for me to address this distinguished assembly on the occasion of the Annual Meetings of the International Monetary Fund and the World Bank Group. Before I begin, I would first like to thank the staffs of both the Fund and the World Bank for all their hard work in organizing this conference, which holds great significance for the world economy and for Israel as an active participant in it.

The peacemaking process in which we are now involved is a historic one. When the late Prime Minister Rabin and Shimon Peres decided to conclude an agreement with the Palestinians after a hundred years of conflict, they understood that the matter would require painful compromises. The Oslo process marks the beginning of a complicated path to peace. This complex process is having an impact on the entire Middle East—peace with Jordan, economic conferences, reducing the intensity of the Arab boycott, and opening of Arab countries' diplomatic missions in Israel. For the Israeli people, the peace process will create an environment that stimulates economic growth.

*The Health of Israel's Economy*

The shocks of the world economic crisis last year did not pass over Israel; they did not leave permanent scars either. Israel's economy, like those of the industrial nations of Europe and North America, demonstrated resilience, stability, and strength. Our ability to weather the storm is based on strong fundamentals. The international investment community has recognized the inherent stability and health of the Israeli economy and, through its actions, has expressed confidence in it. In fact, foreign direct investment in Israel has grown steadily. There is good reason for the confidence of the international community in Israel's economy. Since the mid-1980s Israel has been undergoing a revolution, marked by two major features:

- the transition from an economy troubled by excessive government intervention to a free-market economy, driven by the private sector and open to competition both at home and from abroad; and
- the transition from an economy based on traditional industries to one based on information technologies and high-tech industries.

The public sector has played an important role in these developments. Responsible fiscal policy, control of inflation, liberalization of trade and foreign currency regimes, antitrust legislation, and capital market reform have contributed to the business-friendly environment in Israel. The primary credit for Israel's transformation, however, goes to the private sector. Our human capital—significantly boosted by the arrival of 1 million new immigrants who have blessed our shores since 1990—has once again proven to be our greatest resource. Know-how and entrepreneurial spirit has launched new enterprises, many of which today comprise some of Israel's largest companies.

- We will continue to control both inflation and the budget deficit through sound and responsible fiscal and monetary policies.
- We will mobilize resources to stimulate growth through renewed investments in infrastructure, education, human capital, and peace.
- Structural reform of the economy and privatization will continue, encouraging a competitive business environment.
- We will go forward with capital market reforms, with an eye to promoting international integration.
- We will continue to invest heavily in research and development.

### *Israel and the Region*

The strategic location of the southeast Mediterranean as an axis between three continents and two oceans offers vast business opportunities for all economies in the region. The economic potential created in this simple geographic fact has been ignored far too long. Only through regional cooperation and partnership can we create an economic environment that favors peace. To encourage this process, international assistance is needed. While some groundwork toward establishing regional cooperation was laid in years past, the time has now come to vigorously move forward. On September 13, Israel and the Palestinian Authority began working on a final political settlement. Teams on both sides have started to negotiate a comprehensive agreement that will bring full reconciliation and create a new political and economic environment.

### *Israel as a Donor Nation*

On the eve of the new millennium, Israel sees itself as a fully developed post-industrial economy and we are prepared to take our place in the global community as a donor nation, and joined the International Development Association. Finally, the new government is moving the peace

process ahead, including sincere and genuine negotiations with Syria—negotiations that, among other things, will solve the Lebanon problem and eventually result in comprehensive peace in the Middle East. We are looking forward to an era of newly formed partnerships both inside and outside the Middle East for the benefit of all involved.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ITALY

*Giuliano Amato*

International economic conditions have considerably improved since our last meeting. The U.S. economy continues to perform strongly. Economic activity in the euro area is accelerating. Signs of an upturn are coming from Japan. The financial and real instability that has recently characterized the emerging markets has been subdued. While the risks for the world economy seem to have diminished, steadier economic growth continues to be burdened both by the imbalances in the current account positions of the main industrial countries and by delays in structural reform and fiscal consolidation in several developing and transition countries. Action is certainly needed in the United States, to increase private savings while ensuring a soft landing of the economy; structural policies are needed in Europe, to improve the functioning of markets and increase the overall productivity of European economies, as well as in Japan, where the efforts to sustain aggregate demand and press ahead with structural reforms are key for the turnaround of the economy.

At the close of this decade, inflation has been driven to very low levels in almost all industrial countries. This is the result of appropriate monetary policies and of structural factors, including increased competition and technological advances. Somewhat paradoxically, though, price stability has been accompanied by more, not less, exchange rate volatility between the major currencies. We must be aware that such volatility produces repercussions on other countries' economies. This does not mean, however, that we should introduce forms of exchange rate rigidity between the three major currencies, which would only come at the expense of domestic stability.

Emerging market economies must be careful in choosing their exchange rate regimes. With increased capital mobility, countries should peg their exchange rate only if they can implement economic policies

that are consistent with both domestic and external requirements. The Fund has the responsibility to assist countries in devising the most appropriate exchange rate regime and supporting policies.

Major challenges remain for achieving a stable international financial system. First, efforts should be renewed to preventing financial crises. Standards and codes of good practice have been designed by the Fund and the Bank, in collaboration with other standard-setting bodies in a number of areas. They should now be implemented by all countries on a voluntary basis, but according to an agreed-upon and transparent timetable. The Fund has a major responsibility in monitoring the implementation of these standards. In this endeavor, the Fund and the Bank must strengthen cooperation among themselves and with other relevant international organizations as well.

Second, progress has to be made in involving the private sector in crisis resolution. Building on existing experience, and on the broad principles that have been agreed upon, the Fund must now design the "rules of the game" for a consistent approach to crisis management.

Third, and most important, poverty reduction must come at the core of the activities of the international financial institutions. The enhanced HIPC Initiative provides deeper, faster, and broader debt relief and establishes a close link between debt relief and poverty reduction. The funding of the initiative needs to preserve the principles of additionality and the financial integrity of the international institutions. Multilateral institutions thus need additional support on a bilateral basis to cover the costs associated with the enhanced framework. Let me say that Italy has already made a substantial contribution to a stronger link between debt relief and poverty reduction by canceling all commercial and ODA debt to HIPC countries with a per capita income lower than 300 dollars. In addition, Italy has contributed its full share, around \$60 million, to the ESAF-HIPC Trust of the Fund. Italy will contribute \$70 million to the HIPC Trust managed by the World Bank.

Let me stress again, going toward my conclusion, that no economic progress and no social progress is attainable without a parallel process of poverty reduction. Priority must be given to assist countries affected by conflicts. Marginalization, social unrest, and external conflicts always have their roots in inadequate economic development and inequality. The World Bank, which is engaged in efforts to help countries that are in post-conflict transition, must use its resources to provide assistance for reconstruction, thereby reestablishing stability and growth in these countries.

These are ambitious tasks. And our task will have to be even more ambitious in the not-so-distant future, when many people will live in this world, and an increasing number of them may fall below the poverty line. The significant progress achieved in these days is the result of

effective and meaningful cooperation among the member countries. It is a good promise for the future. In this respect, Italy fully supports the institutional changes proposed to the Board of Governors. They will strengthen the role of our institutions and make them better equipped to meet the challenges ahead.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK AND THE  
FUND FOR JAPAN

*Masaru Hayami*

*Introduction*

I am very happy to have this opportunity today to address the Annual Meetings of the World Bank Group and the International Monetary Fund as Alternate Governor for Japan.

First of all, I sincerely welcome the reappointment of Mr. Wolfensohn as President of the World Bank. Since his appointment in 1995, Mr. Wolfensohn has been taking the lead on bold reforms of the institution and strategy in the World Bank, and has been tackling many challenges, such as the response to the Asian crisis. I am confident that Mr. Wolfensohn will play, in his next term, an increasingly important role in addressing various development issues that the Bank Group will face.

*The Post-Crisis World Economy*

As I look back to our meeting last year, I am reminded of the grave sense of uncertainty and tension that gripped the international financial markets at that time. The negative impact of the Russian crisis that had erupted in August was spreading to Brazil and other Latin American countries, as well as to Asia's emerging market economies, which were just beginning to regain their footing after the previous year's crisis. The United States was shocked by the near collapse of Long-Term Capital Management, while in Japan, major banks were in dire difficulty. But what a difference a year can make. The Brazilian crisis has been brought under control through the assistance program led by the Fund, the United States has successfully calmed the market through a number of interest-rate cuts, and Japan has taken the necessary actions to strengthen its financial sector. These and other efforts by the international community have helped shake off the uncertainty in the international financial

markets and reestablish a sense of stability in the world economy. It is particularly noteworthy that positive growth has been projected this year for almost all of the Asian emerging economies that were in crisis two years ago—Indonesia, Korea, Malaysia, the Philippines, and Thailand. Their growth is expected to accelerate next year, with the region enjoying a conspicuous upturn in economic activity.

Let me now turn to the Japanese economy. For the first time in nearly two years, we have experienced positive growth of real GDP in two consecutive quarters. The worst is now over, and economic activity is improving somewhat. The positive signs that we are beginning to see are the result of assiduous efforts with regard to macroeconomic and structural policy. Since last summer, the government has made economic recovery its main priority, while recognizing the eventual need to implement fiscal structural reform. We have also tackled the problems of the financial sector by recapitalizing banks with public funds on condition that they implement far-reaching restructuring plans. The financial sector is now regaining the confidence of the markets, and financial institutions are making dramatic moves that will facilitate the reform of this sector. We will continue to monitor carefully developments in the economy and to concentrate our efforts on the implementation of various measures to strengthen the foundations for recovery.

#### *The Need for Global Response*

As I mentioned, conditions in the international financial markets have improved significantly in the past year. However, we must consider preventive measures for the future, as we cannot completely avoid the risk of crisis, and be prepared to implement them swiftly when a crisis erupts. We have discussed the relevant issues from various perspectives, and now two years after the Asian crisis, a consensus has been established on a number of important matters. Based on this consensus, the Fund Executive Board is currently discussing various reform measures and moving toward their implementation. We must remember that no single reform measure can act as a panacea for reinforcing the international monetary system. All parties should be required to implement their share of reforms: emerging market economies, which are exposed to the risk of currency crises; private investors who are investing in these countries; developed countries, which are responsible for instituting prudential regulations covering their investors; and the Fund and other international financial institutions. I would like to present Japan's thinking on various points pertaining to these reforms.

*Issues for the Emerging Market Economies—Responses of Capital Recipients.* The massive inflow of foreign capital into the emerging

market economies creates opportunities for accelerated economic growth in these countries. However, at the same time, it entails potential risks. In order to minimize these risks, it is essential for individual governments to pursue sound macroeconomic and structural policies. The Asian crisis has also impressed upon us the importance of reinforcing the financial system by instituting appropriate prudential regulations and strengthening the existing supervisory arrangements. In this context, we must not forget that when steps are being taken toward capital liberalization, it will be even more important than before to closely monitor private sector liabilities, including those of the financial sector. It is also necessary to improve debt management and liquidity management for countries as a whole. This issue is currently being considered by the Fund and the World Bank, and we look forward to seeing the results of these deliberations.

On the question of what type of exchange rate regime should be adopted by emerging market economies, we must remember that numerous crises have been caused by misguided efforts to maintain a de facto fixed exchange rate pegged to a single currency. Based on extensive past experience, the Fund should provide appropriate advice on this matter through the programs it supports and its surveillance activities.

Issues related to capital liberalization and restrictions on capital flows are of vital importance and require continued examination. In the course of recent IMF discussions, we have seen growing support for the view that, if combined with appropriate measures, such as a more flexible exchange rate system, restrictions on capital inflow can suppress the inflow of speculative short-term capital. Malaysia's recent use of restrictions on capital outflow was effective in drawing a line of defense against speculative attacks and stabilizing the foreign exchange market. We expect further discussions on the usefulness of restrictions on capital flows from a practical point of view. Possible effects include the reinforcement of appropriate macroeconomic policies and strengthening of the financial sector in some cases, especially the supplementing of prudential regulations.

*Issues for Private Investors and the Developed Countries—Response of Capital Providers.* To maintain stability in the international monetary system, improved risk management is needed on the part of investors. A particularly important issue, which is currently being discussed in the Financial Stability Forum, is the question of hedge funds and other highly leveraged institutions (HLIs). A consensus has been reached on the need to expand the scope of disclosure for all market participants, including HLIs, and to institute more thorough risk management by counterparties to transactions. As an initial step, it is important to translate this consensus into concrete action. At the same time, we believe that it is also necessary to further examine the following types of defensive actions by the

emerging market economies. When there is a possibility of market manipulation, measures may be taken, such as requiring HLIs to report on their activities in the interest of maintaining market integrity. The use of nonstandard interventions like those recently made by the Hong Kong Special Administrative Region and Malaysian authorities—which are different from traditional policy responses, namely, intervention in foreign exchange market or the adjustment of interest rates—may be necessary in special circumstances.

Even more important on the investor side is to increase private-sector involvement in order to both prevent crises and help resolve those that do occur. The continued use of public funds to bail out private investors is not viable and invites moral hazard. We now have an international consensus that private creditors, including bond holders, must be asked to cooperate appropriately. However, it is true that the actual implementation of such a cooperative approach entails numerous difficulties. There are certain matters that must be borne in mind in promoting greater private sector involvement. It must be clarified that the objective is to promote appropriate burden sharing and cooperation between public sector and private sector creditors.

From this perspective, measures should be taken to promote dialogue with the private sector concerning conditions in borrowing countries and to improve ways and means to encourage private sector involvement. Moreover, a framework should be developed for cooperative action for individual country cases. It is important that the Fund lead the way in discussing specific measures in this area, and that the entire international community cooperate toward achieving appropriate private sector involvement.

*IMF Reform.* As the central institution in the international financial system, the Fund should strengthen its functions of providing assistance to countries in crisis—subject to proper terms and conditions—and providing appropriate policy advice to member countries. A decision has been reached to re-institute the Fund's Interim Committee as a standing committee to be renamed the "International Monetary and Financial Committee." We urge the new Committee to work toward enhancing the functions of the Fund and to play an important role in the international community's engagement in problems related to international finance. In this connection, I would also like to mention the Group of Seven's proposal for the first meeting of a new mechanism for informal dialogue, which would include the emerging market economies, to be convened at the end of this year. We hope that this forum will play a constructive role in reinforcing the international monetary system.

Finally, I should like to touch briefly upon some recent improvements in Fund procedures. We welcome the higher level of transparency

achieved through the publication of Fund staff papers. This year has also seen Fund surveillance and research activities undergo external evaluation, yielding a number of positive recommendations. Let me reiterate a point made in this external evaluation process: Fund surveillance and programs should remain focused on the core areas of fiscal and monetary policies, exchange rate regimes, the financial sector and capital movements, and problems directly related to these core areas.

*Regional Responses—Manila Framework and New Miyazawa Initiative*

Today's international financial crises are both global and regional in nature: global in the sense that they are rooted in characteristics of an international financial system, regional in that, once started, they tend to spread very rapidly within specific regions. Therefore, intraregional cooperation among countries with close ties has proved particularly effective in coping with such crises. For example, in the case of the Asian crisis, Japan hosted a meeting of countries in the region to rescue Thailand, and the participating countries complemented the Fund's global action with a speedy and large-scale regional response. Based on the experience of the Thai currency crisis, the Manila Framework was created, and it has functioned effectively in complementing the actions of the Fund in terms of both surveillance and financing.

In addition to this, last October, Japan launched the New Miyazawa Initiative, which includes a \$30 billion financial support package for the affected Asian countries. The urgent capital needs of each Asian country were met through funding via the New Miyazawa Initiative and other public assistance, and the economies in the region are bottoming out. It is now essential to mobilize domestic and foreign private sector funds to achieve a full-scale, vigorous recovery in these economies. With this purpose in mind, Japan announced the "Resource Mobilization Plan for Asia (Second Stage of the New Miyazawa Initiative)" on May 15, 1999 at the APEC Meeting of Finance Ministers. As part of this program, in line with the scheduled establishment of the Japan Bank for International Cooperation in October, we have enacted the necessary legislation to allow it to guarantee public sector bonds issued by the Asian countries. Japan has also contributed about \$3 billion for the creation of the Asian Development Bank's "Asian Currency Crisis Support Facility," which is to be used to provide guarantees for raising of funds from the markets and for interest subsidies.

Recently, Japan called on various countries in the region to participate in cooperative efforts for the establishment and development of bond markets throughout the Asian region, and discussions are already under way. We will also increase our efforts to provide technical and personnel

assistance for the establishment of a stable financial system in the region. I would like to reiterate that Japan is committed to implementing this initiative while maintaining close cooperation with related countries and international institutions.

### *Issues in Development*

*The World Bank's Response to Crises.* During the past two years, the central issue in the area of development has also been how to respond to the crises in the emerging market economies. The World Bank and other multilateral development banks (MDBs) have responded to the crises by providing a wide range of assistance, which was beyond their traditional functions. At the outset of the crises, by utilizing their fundraising functions from the markets, together with the Fund, they supplied funds expeditiously to the affected countries, and prevented the entire loss of the fruits of development for years. The New Miyazawa Initiative, Japan's bilateral assistance that responds to the sharp economic downturn, has been also implemented in close coordination with the World Bank and the Asian Development Bank.

The World Bank's swift and effective response to the crises should be highly appreciated now. Such a response was made possible by the World Bank's flexible management and financial soundness, and we must spare no effort in restoring and maintaining the World Bank's risk-bearing capacity.

As a recent example of such a swift response by the World Bank, I would like to point out the World Bank's announcement of its assistance to aid in the aftermath of the Marmara earthquake within 36 hours. As a country that has also suffered from earthquakes, Japan expresses its deepest sympathies to the victims of the earthquake in Turkey and will extend reconstruction support. At the same time, we fervently hope that as the core of the international community's assistance, the World Bank will contribute to the reconstruction in Turkey by providing timely and large-scale loans. Another important challenge is assistance for reconstruction and development from the recent turmoil and destruction in East Timor. We expect the World Bank to lead the reconstruction process, and Japan intends to play an important part in the reconstruction and development.

In a number of Asian countries, signs of recovery from the crisis are now discernible in economic dimension, although with regard to the social dimension the situation is still serious particularly in the poor and vulnerable groups. Those who had received the smallest fruits of economic growth are now being left behind. Moreover, this is not unique to directly crisis-hit countries, but also to those affected indirectly.

We call on the World Bank to challenge the new poverty generated by the crises as one of its top agenda items and to further strengthen its assistance in areas such as health, sanitation, education, and employment, underpinned by high standards of governance. In close coordination with MDBs, Japan will identify its support to meet these urgent needs by making new contributions to the World Bank and the Asian Development Bank.

*The Enhanced HIPC Initiative.* Assistance to heavily indebted poor countries represents another vital area in combating poverty. I welcome the fact that the enhanced framework of the initiative for “broader, deeper, and faster” debt relief was recently endorsed. Under the enhanced initiative, Japan will provide the largest-scale bilateral official development assistance for debt relief. The enhanced initiative is now expected to be implemented speedily.

In the implementation of the enhanced HIPC Initiative, it is necessary to identify financial resources to meet the increasing cost to international organizations. Maximizing the use of their internal resources should come first and then, bilateral contribution on the basis of the principle of fair burden sharing. I welcome the agreement on a financing plan that will permit the enhanced HIPC framework to be launched and the delivery of debt relief to begin for countries requiring retroactive relief and those expected to reach their decision points over the near term. I would like to express my appreciation for the efforts made by the managements of the Bank and the Fund.

It is also important to clearly identify the initiative as an integral part of the World Bank’s poverty-reduction strategies and to ensure a link between debt relief and poverty reduction. It is essential to secure developing country governments’ ownership and participation of civil society during implementation. We should fully recognize the necessity of tailoring assistance to reflect each country’s poverty situations, available resources from debt relief, and implementation capacity.

*A New Vision for the Asian Economies.* It has been only six years since the World Bank published its highly acclaimed “East Asian Miracle,” in which it analyzed the high growth of the Asian emerging market economies during the 1980s and presented the growth potential and policy issues in the region. The recent crisis in the region was not only an economic crisis, but also a challenge to our vision of the Asian economies. From this viewpoint, it would be meaningful for the World Bank as a “knowledge bank” to comprehensively analyze the unprecedented recent economic turmoil, to show its long- and medium-term prospects on the road to overcome poverty, and to indicate a direction on policy management for the region. I would like to propose that the World Bank undertake a comprehensive research project, under a title such as “Toward

a New East Asia—Revisiting Its Miracle,” and hereby announce that Japan will support this project.

### *Conclusion*

Throughout the twentieth century, and particularly during the first half of the century, the global society repeatedly suffered the calamities of war and serious economic dislocation. However, when we look back at this century in its entirety from our current vantage point, we realize that this was a century in which mankind sought to liberate itself from the shackles of poverty, and growing numbers of people were in fact able to do so. It goes without saying that the Fund and the Bank have made extremely important contributions to the stability and development of the world economy during the second half of the century.

As we stand on the threshold of the twenty-first century, we have been made to witness and to realize that our globally integrated international financial system has a shadow side of putting national economies at risk of grave crisis through sudden and massive reversals in capital flows. Yet, in crisis, we have observed how the countries of the world, including those directly affected by the crisis, in earnest consultation with the Fund and the Bank, have been drawn together as a single international society to work toward the prevention and resolution of future crises. Herein lies our hope for the twenty-first century. Let us remember that we have overcome numerous difficult problems during the twentieth century. In the process, we have been able to develop a firm foundation for international cooperation and coordination, and have learned to bring together and share our knowledge and our wisdom. If we continue to apply these valuable global assets to the challenges and issues that lie ahead, I am certain that we will be able to overcome the problems of the twenty-first century as well.

STATEMENT BY THE GOVERNOR OF THE FUND FOR KOREA

*Bong-Kyun Kang*

It is a great pleasure and honor for me to represent the Republic of Korea at this fifty-fourth Annual Meeting of the Fund and the World Bank Group. I would like to take this opportunity to express my profound gratitude to the Fund and the World Bank, and to member

countries for helping Korea to not only overcome the financial crisis, but also quickly restore economic vitality.

*International Cooperation for Stable Global Economic Growth*

I am pleased to see that most economies in Asia have recovered from financial crisis faster than expected, and that the instability in other regions of the world has largely abated. In this regard, international financial institutions have played an indispensable role in stopping the spread of financial crises. Indeed, they have done this in many ways, but most importantly, they have guided crisis-affected countries in the right direction by assisting them to set up and implement their own structural reform programs. I praise the World Bank and the Fund for their accomplishments.

Yet for structural reforms to become deep-rooted and effective, it is critical that the global economic environment remains stable. Specifically, we look to a soft landing for the U.S. economy and a sustained economic rebound in Japan and the EU member countries. By achieving stability in the global financial environment, we will all benefit from strengthened policy coordination among the world's major countries.

*Korea's Economic Reform and Recovery*

Since the onset of the crisis, Korea has spared no efforts in overcoming the crisis and reforming its economy. We have acted to revitalize our economy; we have continuously implemented structural reforms to build a foundation for sustainable growth; and we have greatly emphasized a social harmonization policy throughout the reform process.

Thanks to the strong leadership of President Kim Dae-jung and the resolve of the Korean people, Korea's economic recovery has been remarkable. GDP growth recorded 7.3 percent for the first half of this year and is expected to be around 7 percent for the year as a whole. Other major macroeconomic indicators show equally favorable developments, including a historically low inflation rate of 0.7 percent during the first eight months of this year.

Korea's foreign exchange reserves have reached record-high levels, rising dramatically from near depletion at the onset of the crisis to more than \$65 billion. The large current account surpluses and the active capital inflows contributed to the rapid buildup of reserves. At the same time, foreign exchange markets have stabilized since the beginning of the year.

The total amount of external debt has continued to decline and its structure too has improved toward a much lower share of short-term debt. Based on these achievements, Korea was able to repay the entire amount of its Supplemental Reserve Facility (SRF) borrowings from the Fund—\$13.5 billion—nine months ahead of schedule.

A significant improvement has also been achieved in Korea's financial markets, now equipped with greater capacity to absorb shocks. Interest rates have declined to the single-digit range for the first time ever, and the stock market index has nearly doubled this year, recovering above pre-crisis levels. These conditions have translated into an environment conducive for corporate sector reform, particularly for the rapid improvement of debt-equity ratios. The success of corporate restructuring is paramount for enhancing the overall competitiveness of the Korean economy and achieving international credibility.

Korea's strong reform drive proved to be painful to many of our people, especially those in the middle- and low-income class. Thus, following through on our conviction that the government's drastic structural reforms cannot succeed without strong social cohesion, we have greatly expanded the social safety net to provide adequate protection for those most vulnerable. The government has also strengthened its support programs for small- and medium-sized firms and venture capital enterprises to help contain unemployment problems.

### *Reforming the International Financial Architecture*

I would now like to turn to the issue of reforming the international financial architecture. I welcome the international community's efforts to enhance transparency through the establishment of more stringent global information standards. Also, to promote an orderly financial integration, the international community should cooperate closely in strengthening regulations on short-term capital flows and devising safeguards that can be readily implemented during times of crisis. In this context, I urge stepped-up international efforts for improved monitoring and regulation of hedge funds to minimize their disruptive effects on emerging market economies.

In the spirit of a more balanced approach to improving the global financial system, I strongly support the expansion of the existing G-7 consultation framework to include so-called "systematically important countries" such as Korea.

### *Helping the Heavily Indebted Poor Countries*

Before closing, I would like to take this opportunity to express Korea's support for the Fund-World Bank initiative to help heavily

indebted poor countries. Korea is willing to contribute to the ESAF-HIPC trust fund on the basis of a fair burden-sharing principle.

*Conclusion*

This Annual Meeting takes place as we approach the turn of a century, at the time when the world economy is moving into a new era marked by challenges and opportunities. I can assure you that Korea is fully committed to playing an important role toward promoting global economic prosperity. To this end, Korea will push forward major reforms to achieve its historical goal of a simultaneous achievement of democracy and market economy.

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

*Boungnang Vorachith*

I have the greatest honor to represent the government of the Lao People's Democratic Republic at the fifty-fourth Joint Annual Meetings of the World Bank and the International Monetary Fund. These Annual Meetings are being held in the midst of an improving global economy, compared with that of the past year. With assistance from the international financial institutions, especially the World Bank, the Fund, and developed countries, the economies of the countries encumbered with the financial crisis in Asia and other parts of the world have been able to restore the confidence of investors, enabling the economies of those countries to emerge from the recession. This is the preliminary achievement of the concerted efforts of the international financial institutions and developed countries toward resolving the adverse effects of the crisis. However, the challenge in the future is the maintenance of coordination and cooperation, so as to ensure that the global economy in the twenty-first century be truly rid of the recession trend. In my view, I think that it is the responsibility of this Joint Annual Meeting to consistently explore approaches and measures to guarantee the persistent efficiency of the international coordination, particularly ensuring that the concentration of efforts for solving problems in countries facing the economic crisis does not impede the needs of other groups of countries of the world.

The Lao People's Democratic Republic is one of the least developed countries in Asia that is being affected by the financial crisis in the region. During the 1998 Annual Meetings, the impact of the regional financial crisis on our economy were not clearly portrayed in our report to the Meetings. Even though macroeconomic problems had started to emerge, specifically the devaluation of the kip and the increase in the consumer price index, the annual growth rate of the economy of the Lao People's Democratic Republic was sustained at a level of about 7 percent—a level witnessed by the years during which the Lao People's Democratic Republic has embarked on an open-door policy in investment and cooperation with other countries. For 1998, the adverse effects of the regional financial crisis could be clearly seen, particularly in the decrease in the flows of foreign investments, which were reduced by 48 percent, compared with 1997. Moreover, owing to the rigidity of the conditionalities of the external assistance, disbursements of foreign loans were also diminished. Meanwhile the volume of Lao commodity exports was limited. This adverse situation caused the growth rate of the economy to be reduced to a level of 4 percent in 1998.

The growth of the economy in the Lao People's Democratic Republic could have dropped to even a lower level had it not been for the government's effort to concentrate public investment in the agricultural sector, the base of the Lao economy, by expanding the irrigation network. Agricultural production in 1998 increased by 3.7 percent, accompanied by the growth in hydropower production following the completion of the Theun Hinboun dam, which began producing in the second quarter of 1998. In addition, the recovery of the textile industry following the restoration of the Generalized System of Preferences given to garments made in the Lao People's Democratic Republic by the European Union has substantially contributed to the maintenance of the recorded level of economic growth in 1998.

Because the domestic production base has not expanded in recent years, society's demand for consumption and capital goods continues to depend heavily on imports. Public investments are largely dependent on domestic loans in the form of advances from the central bank, as a result of the shortfall of budget revenue collection owing to the slow growth of production in the economy. As a consequence, broad money increased by 113 percent by the end of 1998, compared with 65 percent at the end of 1997. This has resulted in increasing pressure on foreign exchange demand to finance imports, which, in turn, caused the kip to depreciate even further, resulting in a consumer price index increase to a three-digit level that continues to persist through the present days. With such high inflation, even the upward adjustment of public service salaries by 100 percent at the end of 1998 could not resolve the hardships in the living

conditions of the poor and low-income public servants. The devaluation of kip and the increase in the consumer price index can be explained by the deterioration of balance of payments which witnessed the reduction in official foreign reserves from a level equivalent to 2.7 months of imports at the end of 1997 to only 2.2 months at the end of 1998.

The prevalent macroeconomic instability can be attributed to the lack of conduct of appropriate and prudent fiscal and monetary policies. In order to restore macroeconomic stability in the immediate and medium terms, the government of the Lao People's Democratic Republic has committed to implement more prudent fiscal and monetary policies, with an aim of bringing down the inflation to a two-digit level and confining the devaluation of kip within a limit acceptable to the society.

In this connection, the government, within the framework of 1999/2000 budget, will exert efforts toward fiscal consolidation, with a revenue collection target of about 12 percent of GDP. By adhering to a prudent and tight fiscal stance, the government expects to realize a budget deficit not exceeding 5–6 percent of GDP, while maintaining investments in the priority sectors within the range of 11–12 percent of GDP.

With respect to monetary policy, the Bank of the Lao People's Democratic Republic is determined to implement measures to curb inflation by limiting credits to all sectors. Furthermore, in view of limiting the devaluation of kip and supporting the exchange rate policy, a policy involving the use of the interest rate as a means to absorb excess liquidity into the banking system has been put in place. The structural adjustment, especially the reform of the banking system, will be steadfastly carried out. The newly merged state-owned commercial banks have set up the reserves for nonperforming loans to improve their financial situation. Concurrently, the process is ongoing to establish plans for recapitalization and to upgrade the knowledge and skills of managers of the newly merged state-owned commercial banks through the process of modern banking technology transfer training to be conducted by foreign experts. To enhance the confidence in the Lao banking system, the Bank of the Lao People's Democratic Republic has committed to improve its regulatory and supervisory role through the prudential regulations for commercial banks. In this connection, emphasis will be placed on the importance of external auditing and the publication of an annual report to increase transparency and promote public confidence in the Lao banking system.

In the area of international cooperation and trade, the government continues to implement the open door policy to foreign direct investment and to promote production of tradable goods and services. This is particularly important to enable the country to make greater benefits from the present era of globalization, especially after having integrated itself

into the ASEAN. To promote trade as a means of attaining sustainable growth and poverty reduction, work is under way to prepare the ground for future involvement under the regional free trade agreement, the AFTA. Furthermore, preparation is ongoing for the purpose of accession to WTO membership in the near future.

Prior to the outbreak of the regional financial crisis, the Lao People's Democratic Republic was able to witness strong growth and thereby the improvement in the quality of life for the multi-ethnic people thanks to the strong foreign investment and assistance flows. The future efforts to sustain high growth and stability are highly dependent on the external environment, particularly the continuing recovery in the crisis-stricken countries in the Asian region. The speedy recovery of those economies becomes, therefore, imperative to enable the investment projects presently on hold to resume and the negotiation or implementation of new projects to be expedited. We, therefore, commend the authorities of the economies concerned for their remarkable progress made thus far and wish them all the best for their continuing endeavors.

The improved global economic environment is also very important for the purpose of ensuring the environment of a more balanced treatment among groups of countries of the world. In the recent past, we feel that the concentration of efforts by the international community to address the problems of the crisis-stricken emerging markets and large economies was made at a cost to other groups of countries. While appearing more accommodating to countries in crisis, the treatment given by the international community to other countries also suffering from the adverse impact of the crisis seemed to have become more rigidly orchestrated. Had a more flexible and balanced approach been followed in the recent past, the much needed financial aid flows would have been forthcoming to enable our authorities to stabilize the kip and thereby reduce inflation. As a consequence, our already poor population and low-income public servants would have been salvaged from the intense hardship caused by the long-lasting high inflation.

We strongly believe that any efforts toward macroeconomic stabilization without the availability of financial support and assistance from the international community would not be productive, particularly in the case of a least-developed economy in the process of transition, having a very small and fragile economic base and suffering from the contagion effects of the regional crisis, like the Lao People's Democratic Republic. However, we have been very encouraged by developments during the recent months and days leading to the present joint Annual Meetings. We welcome and fully endorse the proposals made by the Group of Twenty-Four (G-24) countries concerning the attenuation of conditionalities attached to assistance and loans provided by the international community

to countries with low-level socioeconomic development. At the same time, we welcome the initiative made at the G-7 Summit in Cologne to further enhance the HIPC Initiative and the proposal to replace the ESAF with the new Poverty Reduction and Growth Facility. We congratulate those institutions, countries, and individuals concerned for their contribution to this very desirable and timely move to address the long-lasting problems of debt and poverty in the world and to an expeditious and successful realization thereof.

At this juncture, our government would like to thank countries, international financial institutions, international organizations, and non-governmental organizations for their past financial and technical support, as well as for the investment flows that our country has received. We strongly hope that you will continue to give us your support and assistance in the future to enable people to exit from poverty and enjoy their share of the fruits of globalization in the next millennium. Allow me, on behalf of the Lao delegation, to wish the Chairman a glorious success in presiding over these historical joint Annual Meetings.

STATEMENT BY THE GOVERNOR OF THE BANK FOR  
THE REPUBLIC OF LATVIA

*Roberts Zile*

Let me address the honorable meeting on behalf of the three Baltic countries: Lithuania, Estonia, and Latvia. The year between the two Annual Meetings has once again reminded us that we all are an integral part of the world economy and subject to both regional and global turbulence. This has put extra challenges to the World Bank. This also has induced the Bank to think more in long-term categories about its own financial standing. Therefore, we fully support President's position on the issue of maintaining the financial strength of the Bank. Without this, the Bank will not be able to fulfill its core mission of fighting poverty.

We, the Baltic countries, would like to express our appreciation of the World Bank's flexibility in responding to the developments at the burning spots on the world map. We appreciate its readiness to step in with the most urgently needed and indispensable assistance. Yet, we hope that this will not cause the funds to flow away from the ongoing

projects, or those in the pipeline. We hope this will not become an extra borrowing cost for the rank-and-file borrowers.

We suggest that both the Bank and the Fund develop strict criteria in order to evaluate countries' defaults. Natural disasters, business failures, and mistakes in management should be clearly distinguished from deliberate fraud and corruption. The latter deserves a very different handling and attitude. This is especially important now, when the Bank's long-term financial capacity is on the agenda.

I can say with pride that our three countries have been insistent and dedicated in pursuing the goals set by ourselves. Our own motivation, combined with the highly constructive macroeconomic monitoring and economic analysis carried out by the Bank and the Fund, has delivered good results. The financial sector vulnerability studies have helped us to focus the spotlight on the issues that need a closer analysis and care.

I believe that everybody will agree readily that the three Baltic countries are definitely in the most advanced group of the transition economies. Latvia was the first of the Baltic countries to be admitted to the World Trade Organization. Estonia has already been invited to the EU accession negotiations, to be followed eventually by Latvia and Lithuania. All three countries intend to join the North Atlantic Treaty Organization as well.

Our countries—Latvia, Estonia, and Lithuania—have attained macroeconomic stability. It is a precondition for any government to win the confidence and support of its own nation and of the international community. The investment grade credit ratings, repeatedly assigned to our countries, are evidence of our creditworthiness and reliability.

All the Baltic countries have demonstrated a sustainable growth over the past four to five years. However, one has to admit the impact of the global crisis. It started in Asia and extended to other regions, including the Russian Federation, and has caused certain, although limited, setbacks in the Baltic countries as well. During the past 12 months, growth has slowed down, but all three countries are still expecting a positive GDP in 1999. Long-term growth prospects continue to be optimistic. Our governments have adjusted the budgets for the remainder of 1999 to minimize deficits; the next year's budgets, under discussion right now, will be in compliance with the Fund criteria. The inflation rates are presently in the range of 2 to 4 percent. National currencies have retained stability over time. We can conclude that the external pressures have given a hard test to the durability of our structural reforms, and we are glad we have managed to pass this test.

The Baltic countries congratulate the Comprehensive Development Framework initiative launched by the Bank. We see this as an attempt to recognize the complexity and integrity of the world. An attempt to

address all the factors—economic, financial, structural, and social—to support a balanced development of the countries. This matches perfectly with our intent to enhance social sector reforms and development. We believe that the local expertise on welfare, health, and education projects in the Baltic countries could be helpful to developing countries. We are ready to assist the World Bank in disseminating the lessons learned.

Our governments have always been encouraged that it is themselves, and not the World Bank, who—speaking in CDF metaphor—are sitting in the driver’s seat and holding the wheel. The World Bank is only an instructor. Nor is it teaching the “ABC’s” of driving—it is rather advising how to improve our driving habits and techniques. The decision of the Baltic states was a road leading to market economy and democracy, with the well-being of all people as the ultimate goal. And we have not deviated from this goal on any single occasion.

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

*Georges Corm*

It is my pleasure to address this distinguished audience in my capacity as a member of the new government of the Republic of Lebanon that came to office in December 1998 with a pledge to undertake a full reform of its public finance. This reform is targeting two main goals: establishing transparency and efficient governance in public spending and in the taxation system on the one hand, and addressing effectively the issue of ever-increasing public deficit that has plagued the Lebanese economy and led to an unbearable level of real interest rate, on the other.

As you may know, through its regular constitutional process, Lebanon elected a new president in October 1998. Our government that took office in December, within the framework established by President Emile Lahoud, is dedicated and committed to implementing all the basic elements of good governance and accountability. More specifically, we have pledged to abide by the rule of law, to reinforce the role of institutions, to introduce transparency in public accounts, and to ensure full disclosure of data and statistics. We are also addressing the issue of distributing fairly the tax burden among citizens, and we will attempt to stop the continuing damage to the environment.

It is our feeling that the issues of good governance and accountability, which are receiving more international support and focus, are key issues for the next century. We have to thank the Fund, the World Bank, and other UN institutions for promoting these issues and bringing them into the limelight, but more efforts have still to be made. The development of free market economies, the dismantling of cumbersome regulations, and the opening of markets to international trade and to financial flows have all created a new frontier for development but also with potential negative side effects. What has happened in certain parts of the world, in terms of economic instability, financial disruption, and abuse of public assets, shows that the global markets are indeed needing better governance and accountability to become more beneficial.

In fact, the transition to free market economies and the globalization of the international economy and financial markets constitute a difficult turning point. Neither all countries, nor all social groups inside each country, are taking advantage of global markets and more productive economic freedom. Social inequalities are on the increase in many parts of the world. Too often, globalization is associated with undue and unproductive windfall profits. State institutions are encountering many difficulties in adapting to the new role of impartial regulator of liberalized domestic markets. Low-paid and inadequately trained civil servants are not always able to resist being influenced by large private companies. However, corporate governance rules that are enforced in some countries are not being introduced or implemented in many other countries. Owing to this situation, privatization does not always yield the expected benefits for the consumer and the economy in general. This is why we believe that both the Fund and the World Bank, in their remarkable efforts to induce member states to fight corruption more efficiently, should put the same emphasis on corporate governance in the private sector as is being put on state and public sector governance, transparency, and accountability rules. In many emerging markets, private sector companies are resisting the introduction of corporate governance and business ethics rules. Legal rules and the judicial system are not being adequately modernized and made more efficient to secure the minimum level of corporate governance to the benefit of the economy as a whole.

We in Lebanon consider that putting economic growth on a sound and sustainable basis requires clear priorities to be addressed. This is why our government has devoted its first months to producing a five-year fiscal consolidation plan to address the need to reintroduce financial discipline in public finance. After 15 years of war and 8 years of high annual deficits and a huge pileup of domestic debt, we have developed a package of financial reforms to curb public deficits, reduce the very high and unsustainable level of domestic debt, and allow real interest rates to

fall down from their very high level. This first priority is designed to allow for a comeback of private investment as the main engine of growth. During the reconstruction years, private investment has been oriented toward real estate and contracting, which has come to a stop after a few years. Oversupply in the real estate sector and the piling-up of state arrears to contractors have affected negatively the private sector, in addition to the crowding-out effect of the private sector on the credit market owing to the increasing need for public sector financing. An additional result of this situation has been the high costs of running the economy and a lack of competitiveness of domestic products, and thus an ever-increasing gap in our external current account balance.

This is why our package of financial reform is designed to cure the unhealthy situation prevailing in both the public and private sectors. We need to slim down the inflated role of the public sector in the economy and bring back domestic private investment in the various sectors of the economy at the forefront of economic development. Investment will have to be oriented toward increasing the competitiveness of the economy and diversifying its productive capacity.

Our financial reform package is based on two main components. The first is a comprehensive plan to review and modernize our outdated tax system, which is yielding only 14 percent of GDP as tax receipts, while our level of spending is above 35 percent. Our plan is to increase tax receipts to the level of 19 percent of GDP in five years while, at the same time, trimming down expenses to 25 percent of GDP.

The main components of our tax reform program are the following:

- the introduction of a value-added tax to replace most excise duties and reduce the very high dependence of tax receipts on custom duties that will have to be trimmed down in the future;
- the introduction of a global income tax system to replace the old system of scheduled income taxes that assess separately, and at different rates, the various sources of revenues of the tax payer;
- the modernization of the stamp duty;
- a package of tax incentives that will induce companies to invest and to upgrade their productive capacities, to open their share capital to foreign participation, and to register their capital stock on the local stock exchange; and
- the raising of the ceiling of income tax rates from the present low level of 10 percent for the higher tranches of revenues to 20 percent.

The changes in income tax rates have already been adopted by the Lebanese Parliament in the 1999 budget law. A draft law on the value-added tax will be presented to parliament before the end of the year.

The second main component of our financial reform package is privatization. Although Lebanon has never had a large number of public enterprises, there is a need to modernize public services and secure better-priced and more efficient services for the consumer, mainly in the areas of water, electricity, and telecommunications. However, in our privatization program, we want to avoid the mistakes that have been done elsewhere. It is extremely important for our government that we do not just transfer a public monopoly into the hands of a private monopoly consisting of a few large shareholders from the private sector. The aim of our privatization efforts will be to enhance competition to the benefit of the consumers, thus reducing prices and optimizing the flow of resources accruing to the State Treasury. In addition, we would like to see the largest distribution of shares among the Lebanese public so as to activate the domestic financial market and avoid any monopoly position.

To abide by transparency rules and fair competition principles, we have prepared a draft law that is now being discussed in parliament. The law states clear procedures to be implemented and requires that adequate regulatory authorities be created to supervise privatized sectors.

Our financial reform package has already produced very beneficial results on the domestic financial markets. The previous negative trends have been reverted, and interest rates on domestic treasury bills have declined by almost 2 percent. The budget deficit is being held below 40 percent, against an average of more than 50 percent in previous years, and the balance of payments has returned to a positive trend after last year's huge deficit of more than \$400 million. In addition, our government has also recognized state and public sector unbudgeted arrears piled up by the former government to the private sector. The parliament has approved the government's request to pay these arrears and allowed the ministry of finance to issue three-year treasury bills to be delivered to the beneficiaries of the arrears as payment. But we still have a long way to go to establish proper governance and transparency. Our next steps will be the following:

- determining the exact amount of arrears inside the public sector and clearing them to suppress financial distortions and unfair situations between public entities, or between the state and public entities;
- establishing a fair and acceptable tax framework. In this context the ministry of finance intends to settle old unaudited taxpayers' files in an acceptable and fair way, to induce people unknown to

the tax authorities to register themselves with the concerned tax department, and to review and simplify all tax procedures and suppress sources of corruption;

- setting up an efficient, fair, and transparent system for the management of the public domain in Lebanon. As in many other Arab countries, this is a big issue in Lebanon. Too often, the public domain is being leased at very low rates—when it is not being illegally occupied;
- improving public procurement procedures to secure proper competition; and
- improving expenditure control procedures by shifting the emphasis from ex-ante control to ex-post control, so as to establish a real accountability in spending procedures instead of diluting responsibilities; creating effective cost control criteria; setting a transparent management system for non-privatizable public enterprises; and establishing an adequate social network to tackle enlarging social pain and help the poor to adapt to economic and financial structural adjustment.

In our endeavor, we are very grateful for all the assistance we are receiving from the Fund, the World Bank, and the IFC. We are developing a very fruitful dialogue with all three institutions and are trying to make the best use of their experience and advice. We are very glad that the World Bank is opening an office in Beirut, and we are looking forward to more cooperation with the Bretton Woods institutions.

We do hope that all the efforts that are being developed to reinforce the architecture of the international, financial, and monetary system, as well as efforts for poverty alleviation, will be successful in the near future. We need to enter into the next millennium with a more stable and more transparent world, and a much fairer and more equitable system for the distribution of chances within the new context of global markets.

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

*Mohamed A. Bait Elmal*

It is a great pleasure to me, Mr. Chairman, to congratulate you, personally and on behalf of the delegation of the Great Libyan Arab Jamahiriya, for being chosen to chair the meeting of the Boards of Governors of the International Bank for Reconstruction and Development and the International Monetary Fund in its current session. We wish you all success in conducting these meetings and realizing results that will reflect the hopes that the peoples of the world pin on both of these institutions. I would also like to express gratitude and appreciation to Mr. Wolfensohn, President of the World Bank Group, for his efforts to push forward economic and social development in developing countries and for his skillful management of crises. I would also like to express gratitude and appreciation to Mr. Camdessus, Managing Director of the Fund. Despite the recent modest global economic growth, economic and financial crises still face us and their economic and social impacts still wreak havoc among numerous economies worldwide, albeit on different scales. The lesson learned from the financial crisis experienced by some countries of the world is the need to create a financial and banking system that operates under an effective and transparent oversight framework coupled with a framework of moral responsibility.

We believe that developing countries do not need capital that is intent on realizing quick profits, usually at the expense and for the detriment of the financial and economic stability of the countries involved. Developing countries need capital that is ready to contribute, along with national investments, to increased production and the development of rational productive forces. Consequently, we believe that there is a need for developing and organizing means and instruments for the movement of capital among the various countries of the world. The challenges facing many countries worldwide as we approach the third millennium are reflected by escalating poverty, the spread of disease, mounting indebtedness, the ever-growing gap between developed and developing countries, as well as increased conflicts, civil war, and globalization. Such challenges make it incumbent on us to study and discuss such phenomena and their economic and social impacts on the world community at large, and on developing countries in particular. We need to find appropriate solutions and to mobilize adequate financial resources and proper

technical assistance with a view to achieving development in such countries. Although the IBRD formulated, in recent years, programs aimed at eradicating poverty in developing countries, such programs have not been put under actual implementation so far. This will require that the IBRD take practical and urgent actions to combat such a phenomenon in the context of increasing the effectiveness of its efforts in this respect, thereby strengthening the world community's confidence in such efforts.

The concepts of globalization, partnership, cooperation, and liberal international trade—collective, bilateral, and multilateral—have led to extensive controversy between industrial and developing countries. Moreover, the promotion of globalization as the freedom of movement of goods, services, labor, capital, and information will lead to monopolization by a few countries and corporations of international trade in goods and services. It will also help giant international corporations to control global economy and to weaken the economies of developing nations in the absence of regulatory arrangements and controls. Unless such arrangements and controls materialize, developing countries will pay an exorbitant price, owing to a lack of ability to compete with developed nations. Developing countries will then be transformed into consumer markets for the products of advanced countries. From this forum, we stress the fact that the Fund and the World Bank operate, in their capacity as international institutions, in the framework of the respective Articles establishing each of them, to provide economic stability, and support development and progress opportunities in the various countries of the world. Consequently, their approach must be characterized by absolute professional objectivity removed from any political, racial, religious, or any other influences.

Experience has shown that the methods of using economic might, as exercised by some countries, in a coercive and arbitrary manner to achieve political objectives have failed. Besides being devoid of any moral justification, such methods are not in agreement with the requirements of economic freedom in the world. They have proved to be, in principle, detrimental to the interests of all the parties involved.

Finally, it is true that the economies of many countries—particularly developing countries—experienced crises in the decade. But my country, as you all know, depends entirely on a single and nonrenewable source of income (i.e., oil) whose prices fluctuate sharply from time to time. Yet, we have paid increased attention for a long time to the diversification of our country's income and the identification of alternative non-oil sources of income. In this respect, my country invested its oil revenues in implementing infrastructure projects, establishing numerous agricultural and industrial projects, providing public services, particularly in the education and health care sectors, and creating new job opportunities for residents.

Despite the major challenges that my country had to face over the recent years, we succeeded in maintaining an appropriate standard of living for our citizens and in achieving a remarkable rate of growth in GDP in the various non-oil economic sectors of activity. The achievements that my country accomplished in this respect would not have been realized had it not been for the desire to establish strong economic ties with various countries in the world, based on the principle of mutual and reciprocal respect and the achievement of benefits and interests in common among countries, in addition to continued cooperation with the various regional and international economic and financial institutions. In conclusion, allow me to express gratitude and appreciation to you again for providing this opportunity for me to address this honorable meeting. I wish you all success and good results. Peace be with you.

STATEMENT BY THE GOVERNOR OF THE FUND FOR MADAGASCAR

*Tantely R.G. Andrianarivo*

I have been given the honor and privilege of sharing with you, on behalf of my fellow African Governors, Africa's achievements in establishing macroeconomic stability and an appropriate environment for sustained growth as a necessary condition in its fight against poverty, which continue to be our priorities as we approach the new millennium. Africa is now at a crossroads in its history, and we must move forward resolutely toward its successful integration into the global economic and financial system. This is a joint responsibility that begins with the reform efforts of the African countries, to be complemented by the international community, if Africa is to make its rightful contribution to global prosperity. We are convinced that this approach to international cooperation will open the way to a peaceful, equitable, and stable world economic order.

On our part, our countries have been implementing deep economic and structural reforms with the support of the Fund and the World Bank. We have embarked on political pluralism, which is contributing to greater accountability and transparency, and the private sector has been given a pivotal role as the engine of growth. We are hopeful that the encouraging results achieved in recent years can be sustained and improved, with the

help of the international community. Our economies face tremendous development challenges that will require strengthened cooperation with the international community. These include, inter alia, financing development and poverty reduction in the face of declining resource flows, the high instability of Africa's export earnings, the debt burden, Africa's marginal role in the international financial system, the threat of the HIV/AIDS epidemic, and weak human and institutional capacity.

### *Financing Development*

In order to achieve a significant reduction in poverty, Africa requires an average annual real growth rate of at least 7 percent over a sustained period, which calls for a substantial increase in the investment rate. Given Africa's low level of savings and the reduction in official development assistance and in foreign direct investment, a major effort is needed to mobilize resources necessary to support this ambitious growth objective. Greater public savings can be mobilized through improved tax administration; prudent monetary policy and increased financial intermediation can also help promote private savings. However, much of the needed resources will still have to come from foreign savings.

Given the low level of income in most of our economies, external financing should be on concessional terms. In this context, we welcome the twelfth replenishment of the International Development Association (IDA-12), which has increased the association's capacity to respond to Africa's needs in the areas of poverty reduction, investment in human capital, the environment, and private sector development. Africa's current economic recovery—and its continued commitment to reform—should constitute grounds for increased development assistance. In this context, we urge the donor community to reach a timely agreement on the funding of the ESAF, so that it can focus more on growth and poverty reduction. We also call for adequate provision of international technical and financial assistance to post-conflict countries, including those in arrears to multilateral institutions.

In assuming greater ownership of our economic programs, we have given increased emphasis to transparency, accountability, poverty reduction, and social safety nets, as well as regional integration. We look forward to the continued support of the Bank and the Fund in this endeavor, and encourage them to play a catalytic role in the matter of resource mobilization. In this connection, we urge the Fund and the World Bank to increase their partnership with the donor community and to enhance collaboration in support of these objectives.

The increased uncertainty about emerging markets in general that has resulted from the recent financial crises has had an adverse

effect on the ability of African countries to attract private capital. However, tremendous investment opportunities have been opened up through greater economic integration, continued economic and structural reforms, the establishment of an investment-friendly environment, and the consolidation of the rule of law. We therefore expect to attract greater flows of foreign private capital into Africa in the near future.

### *Export Diversification*

The continuing decline in commodity prices has highlighted the vulnerability of our economies to external shocks, leading to significant losses of real income. So far, African economies have coped with the deterioration of the terms of trade and the international financial crisis by strengthening their adjustment effort. This has not been an easy task. In this connection, we welcome the International Task Force on Commodity Risk Management in Developing Countries, recently established by the Bank, to seek market-based hedging mechanisms that could reduce Africa's vulnerability to commodity price fluctuations and increase the predictability of export revenue flows.

If commodity prices were to remain depressed, domestic adjustment policies would reduce economic activity and dramatically increase poverty. We believe that our adjustment efforts need to be complemented by concessional external financing. However, the long-term solution for commodity-exporting economies lies in the diversification of exports and of export markets. This requires that industrial countries liberalize their markets for African exports in areas where our economies have a comparative advantage.

### *The Debt Problem*

In addition to the development financing problems, the economic expansion of Africa faces a major handicap, namely, its heavy debt burden, which absorbs over 50 percent of government revenues in most countries. Most of the heavily indebted low-income countries are in Africa, which calls for special attention. Creative solutions need also to be found for the debt burden of middle-income countries. There is a danger that, unless debt cancellation or substantial debt relief is granted, any potential for high economic growth expansion in Africa will be further jeopardized.

The launching of the HIPC Initiative in 1996 by the Fund and the World Bank had raised hopes for a comprehensive solution to the debt problem. However, so far, only two African countries (Uganda and

Mozambique) have benefited from it. We reiterate our call for a fundamental change in its structure and for a relaxation of the eligibility criteria so as to include a larger number of countries. Funds released through debt reduction would enable our countries to allocate additional resources to the development of the social sectors and to poverty reduction. We welcome the recent initiatives to reduce further the debt burden of the poorest countries, so as to foster sustainable development. In particular, we welcome the recommendations of the Group of Seven in its recent Cologne Summit and the global consensus for reform. We therefore urge a rapid implementation of the modifications to the HIPC Initiative as approved by the Boards of the Fund and the World Bank. We are well aware that the proposed reforms would entail additional costs, and we support the ongoing efforts by the international community to secure financing in the context of an appropriate burden-sharing arrangement. We would like to emphasize that enhanced debt relief should not be provided at the expense of official development assistance funding or IDA operations.

#### *Africa and the International Financial System*

Since the Asian crisis—the repercussions of which appeared to threaten the stability of capital markets throughout the world—African countries have shared the view that, although the consequences of the crisis have been contained, the financial sector should be extensively reformed. Our efforts are being directed to crisis prevention through strengthened supervision, increased surveillance, improved transparency, and implementation of internationally recognized standards, so as to detect weaknesses in a timely manner and protect our economies against the adverse effects of any similar crises.

In this connection, we welcome the recent creation of the Financial Stability Forum (FSF), which should contribute to the establishment of a sound and stable international financial system. We call for an extension of the FSF's membership to include developing countries and urge the FSF to ensure that African countries and their views are suitably represented during its deliberations. Similarly, African governors insist that the relevant organs of the new international financial system maintain a constituency-based structure that is representative of member countries. This would increase the chances that solutions to crises will be reached through consensus.

We believe that the integration of our economies into the international financial market is a precondition for harmonious integration into the process of globalization. However, the liberalization of capital movements should be done within a sound macroeconomic framework

and should go hand in hand with the development and strengthening of our financial systems.

### *The HIV/AIDS Epidemic*

In Africa, as highlighted in the recent meeting in Lusaka, more than anywhere else in the world, the scourge of HIV/AIDS epidemic has spread with alarming speed. According to United Nations statistics, 22 million Africans are living with HIV/AIDS, and more than 11 million have died of AIDS. Last year alone, 4 million Africans were infected, and in at least four African countries one adult in every five is living with the HIV virus. At this rate, and given the fact that it is the young, and therefore the most productive, who are the most vulnerable, it is sadly obvious that the disease poses a threat to the continent's economic development.

In these circumstances, a concerted effort must be launched, both within and outside Africa, by the entire international development community to eradicate this scourge.

### *Capacity Building and Technical Assistance*

Africa regards its human resources and institutional capacities as the basis for securing sustainable development. In this regard, we urge continued donor support for the recently established Partnership for Capacity Building in Africa (PACT); in particular, we call upon our development partners to contribute to the PACT Trust Fund.

Africa is reforming its policies, its structures, and its institutions. African countries are also willing to implement transparency codes and appropriate standards in the context of the new international financial architecture, and are preparing to deal with the Y2K computer problem. We are concerned that this Y2K problem could disrupt economic activity in a wide range of sectors. To this end, assistance from the Fund, the World Bank, and the international community in human and financial resources is desired. However, we are of the view that these new demands should not be addressed at the expense of traditional technical assistance.

### *Conclusion*

Economic reform efforts of African countries have produced some positive results. However, much remains to be done to achieve sustainable development. We are determined to redouble our adjustment efforts and to strengthen our regional integration process, and, therefore, call for the coordination of economic policies at the international level so as to

revive the global economic activity. We are confident that, as we enter the new millennium, Africa can start reaping the fruits of its economic, structural, and political reform efforts. However, sustained growth will require a steady development of our human resources, effective HIV/AIDS prevention and care programs, increased concessional and private capital flows, debt cancellation or substantial debt relief, and increased access to export markets. We trust that we can count on the continued support of the international community and thus ensure a successful integration of African countries into the global economic system.

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

*Dato' Mustapa Mohamed*

When we gathered here last year, the growth outlook for the crisis-affected East Asian economies was gloomy. Since then, economic conditions in these economies have improved markedly and there is greater optimism that the worst may finally be behind us. Reflecting this, there have been upward revisions in growth projections for East Asian economies. Similarly, prospects for world growth have also been revised upward.

In September of last year, Malaysia imposed selective exchange controls in order to prevent further internationalization of our currency, the ringgit, and restore stability in the financial market. In the past year we have used this window of opportunity to strengthen the fundamentals of the Malaysian economy. The banking and corporate sectors were restructured. We adopted an expansionary monetary and fiscal stance to prevent further contraction of the Malaysian economy.

Despite the severe criticism leveled at us when we first adopted selective exchange controls, the unorthodox measures have yielded positive results as they provided the stability required for recovery measures to be effective. What is perhaps most significant is that the economic recovery was achieved with minimal social costs to the most vulnerable segments of society. Unemployment remained low, and poverty did not increase significantly. Our experience has shown that the standard Fund policy prescriptions introduced during the earlier part of the crisis did not work for Malaysia.

We are encouraged by the progress that we have made so far. Our GDP grew by 4.1 percent in the second quarter after five consecutive quarters of negative growth. Malaysia's economic recovery reflects broad-based strength and is expected to be sustainable. Key monetary aggregates have improved, and the multiplier effects of a more expansionary stance have begun to manifest themselves more strongly. Economic recovery was also stimulated by the strong export growth that we have enjoyed for eight consecutive quarters. This followed the large monthly trade surpluses we have registered for 21 consecutive months since November 1997. At the same time, there has been a significant revival in private consumption. The fiscal stimulus package further reinforced the expansion in domestic activities. Meanwhile, Malaysia's balance of payments continues to be in substantial surplus, and the external reserves position has improved significantly from 3.8 months of retained imports in August 1998 to 6.8 months at end-August, or \$31.3 billion, four times larger than the nation's short-term external debt. The total external debt remained manageable at about 59 percent of GNP. Our debt-servicing ratio remains low at 6 percent.

The return of stability to the financial markets allowed Malaysia to liberalize the exchange controls within six months of its implementation. In February 1999, a graduated exit levy was introduced to allow funds to be repatriated freely. Subsequently on September 21, the two-tier levy system was streamlined. The expiry of the 12-month holding period for portfolio funds on September 1 did not result in a major exodus of foreign funds.

At the onset of the crisis, the Malaysian banking system was at its strongest, with the risk-weighted capital asset ratio at 12 percent, while nonperforming loans (NPLs) were at a low of 3 percent. The financial sector was less affected by the crisis, primarily because a sound and relatively well-developed financial infrastructure was already in place. This reflected the results of earlier comprehensive regulatory changes to restructure the financial system, following the recession in the mid-1980s. Such measures included a new Banking and Financial Institutions Act, with stringent prudential regulations on connected lending. Over the past decade, continuous measures were implemented to keep in line with international banking standards. In addition, Malaysia had in place an adequate bankruptcy legislation and corporate governance structure.

During the crisis, Malaysia adopted a preemptive strategy to address emerging problems in the banking sector, well before they reached serious levels. The institutional framework was established early in the crisis to address the emerging problems of NPLs and recapitalization of affected banking institutions. Because of the preemptive measures,

Malaysia could effectively use the period of stability accorded by the selective exchange controls to accelerate the pace of financial and corporate restructuring, which helped to hasten the economic recovery process.

The asset management corporation, Danaharta, has made significant progress, with its initial acquisition phase completed six months ahead of its target. To date, Danaharta has acquired and managed a total of RM 39 billion worth of NPLs from the financial system. Of these, RM 29 billion were from the banking system, accounting for 35 percent of total nonperforming loans in the banking system. With the carve-out of NPLs by Danaharta, the net nonperforming loans of the banking system had eased to 7.9 percent of total loans (RM 29.7 billion) at end-June 1999, based on the six-month NPL classification period, and (12 percent) on a three-month basis.

With the completion of the purchase of NPLs, Danaharta has embarked on its loan and management process and this is progressing well. To date, Danaharta has met with 1,732 borrowers with NPLs amounting to RM 38 billion. Approximately 2 percent of these accounts have been regularized or fully settled, while 423 borrowers with loans of RM 10.3 billion (representing 27 percent of total loans under management) have submitted their restructuring proposals. These proposals are at various stages of evaluation. In total, Danaharta has initiated recovery with 61 percent of the borrowers.

On asset disposal, Danaharta conducted a restricted open tender on July 5, 1999, to dispose of its foreign loan assets, which comprise non-Ringgit loans and marketable securities extended to or issued by foreign companies amounting to \$142.82 million. The recovery rate on this loan was 55.3 percent.

At the same time, Malaysia has recapitalized 10 banking institutions. With the economic recovery, however, the capital position of some of the recapitalized banking institutions has improved and consequently, total investment by Danamodal, the special purpose vehicle set up to recapitalize financial institutions, had declined from RM 6.2 billion to RM 5.9 billion. This amount is substantially lower than the initial estimate made a year ago of RM 16 billion needed to recapitalize banking institutions. With the capital injection from Danamodal, the risk-weighted capital ratio of these banking institutions had strengthened to 13.3 percent at end-July from 9.9 percent at end-September 1998.

The Corporate Debt Restructuring Committee (CDRC) has made good progress in its debt-restructuring exercise for the larger debts. Currently, CDRC is in the process of working out the restructuring schemes of 39 applications involving debts worth RM 20.9 billion, while the debt-restructuring schemes for 10 applications have been completed and are at

various stages of implementation. In addition, the restructuring of corporations is also being implemented by merchant banks and Danaharta in the process of managing the NPLs.

While we are heartened by the progress that we have achieved thus far, we are mindful that sound domestic policies alone are not enough. Adverse external factors can negate good domestic policies. It is for this reason that reform of the international financial architecture is of great urgency to reduce the impact or avert future crises.

The globalization of financial markets has been the outcome of concerted efforts to free trade in goods and services. The greater liberalization of trade flows has created much wealth to exporting countries. This has resulted in owners of this wealth seeking to maximize returns on their capital. Unfortunately, the absence of prudential rules to guide the profit-maximizing behavior of owners of capital has significantly negated much of the benefits of free capital flows. In the case of trade, the push toward free trade was matched by adequate rules on market-opening measures and procedures for dispute settlement. In contrast, the push to liberalize capital movements has not been matched by a parallel move to develop rules to safeguard economies from the adverse consequences of market excesses.

In the absence of rules to manage capital flows, small emerging market economies have become extremely vulnerable to volatility. The global financial system clearly does not provide a level playing field, as large players can effectively corner and manipulate small markets with impunity. In our view, reforms are needed to safeguard the interests of small emerging markets so that they will not be subjected to the predatory tendencies of large market players.

It should also be noted that in spite of the best institutional framework, small countries can be completely overwhelmed by a liberalized capital account framework. Without a parallel institution at the international level, countries may be forced to resort to more inward-looking policies in order to protect incomes and employment.

The recent Group of Seven initiatives, particularly the establishment of the Financial Stability Forum and its working groups, represent an important step forward. However, given the restrictive nature of this forum, the concerns and interests of small emerging market economies have not been adequately addressed. This is further aggravated by the exclusion of smaller economies in the Group of Twenty (G-20) that was set up over the weekend. None of the ASEAN countries has been included, although their economies are open and well integrated into the global financial system and have been the major victims of the crisis. We urge for an expanded membership in the Financial Stability Forum and

the G-20 to ensure greater acceptance and ownership of the recommendations of both these fora.

Current efforts on the new architecture need to consider options for some form of indirect and direct regulation of highly leveraged institutions, in addition to measures to enhance the transparency of their operations. Given the increasingly important role of the private sector in the global economy, a more balanced approach to the issue of transparency and disclosure by both the public and private sectors is essential. Ongoing efforts to promote greater transparency of government operations must be complemented by a mechanism to strengthen the surveillance and transparency of private sector market participants that are of systemic importance to guard against market failure. Consideration of the issues associated with managing volatile capital flows should include both debt as well as non-debt-related flows. Lest we forget, let me remind you that the Asian crisis was largely due to the non-debt-creating capital flows by the private sector.

In addition to extending disclosure requirements to the private sector, we also need a global mechanism to supervise international financial markets. Such a global regulator would ensure the orderly functioning of the international capital markets and compliance with measures to inhibit cross-border manipulative activities in financial markets and design rules against the cornering of financial markets, circuit breakers, and appropriate international standards for financial institutions.

The experience in the past two years indicates that small countries are most vulnerable to liberalization. It is our view that they should not be coerced into accepting capital account liberalization at any cost. Instead, they should be allowed to liberalize at a pace commensurate with their stage of development. Liberalization of the capital account should not be part of Fund conditionality. Malaysia believes that a more productive approach is to create a conducive environment, which would serve as an incentive for countries to liberalize their capital accounts. This requires stable financial markets that would make it "safe" for countries to open their capital accounts.

In our view, any expansion of the Fund's jurisdiction over the capital account should await the outcome of discussions in various international fora on reform of the international financial architecture. The issue of Fund jurisdiction over capital movements can be revisited at a future date. At this juncture, the priority should be ensuring a sustainable recovery in the crisis-affected countries and on reforming the architecture of the international financial system to restore stability and order in global financial transactions.

While prospects for recovery have improved, indicators show that global poverty continues to worsen. Extreme poverty, as measured by the

proportion of the population living on less than \$1 a day, has been increasing over the years, and progress in meeting the goals set for poverty reduction and elimination has been limited. Against this background, Malaysia believes that the international community, including the Bank and the Fund, need to reexamine current strategies and policies on poverty redressal.

In this regard, we welcome the ongoing efforts to modify the ESAF and HIPC initiatives through the simplification of its conditionalities as well as enhancing its accessibility to more heavily indebted poor countries. While Malaysia believes that countries should settle their debt obligations, this new ESAF-HIPC Initiative would provide breathing space for them to use their limited resources to undertake social spending to reduce poverty levels.

In concluding, let me reiterate the importance of addressing issues of liberalization and globalization and their impact on small open economies. Given the vulnerability of these economies to the risks arising from globalization, we need to move forward aggressively to achieve better progress in reforming the international financial architecture. In this, the voice of developing countries that are most vulnerable to destabilizing capital flows is important. In pushing for liberalization and globalization, let us not forget the adverse implications of such a policy on small economies. We do not want globalization and liberalization to further aggravate the sufferings of smaller developing economies. We urge the international community to be mindful of the adverse consequences that globalization and liberalization may have on these economies whose success in providing a better life for their citizens has fallen far short of expectations. Let us redirect our efforts to eliminate poverty and humanize globalization.

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

*John Dalli*

It is a pleasure and an honor for me to address once again the Annual Meetings of the Fund and the World Bank.

We are pleased to note that the outlook for the world economy has improved considerably over the last year. Most of the economies that were seriously affected by the international financial crises are showing

strong signs of recovery, while those that emerged relatively unscathed from the crises have managed to maintain a steady rhythm. It is encouraging to observe that forecasts for world economic growth in 1999 have been revised upward, and prospects for the year 2000 are definitely brighter than they were a year ago. The developments over the past year have also demonstrated that governments in major economies were able to respond to the international financial crises in a rapid, concerted, and determined manner. This ensured that a potentially prolonged and severe economic crisis, which could have had serious repercussions on developing countries, was generally averted.

The financial crises in Asia, the Russian Federation, and recently, Brazil have also highlighted the important role that the Fund and the World Bank are playing in strengthening the architecture of the international financial system. We are convinced that the outcome would have been very different today had it not been for the effectiveness of both the Fund and the Bank in tackling the crises. In this regard, we are glad to note that the collaboration between the two institutions has been enhanced, especially where this is related to the monitoring of member countries' financial systems. The Fund has continued to stress the importance of surveillance and transparency in economic policymaking. It is essential that policy processes are as transparent as possible, as greater transparency helps to improve both the quality and the timeliness of decision making by both international institutions and member countries. The development by the Fund of a Code of Good Practices on Transparency in Monetary and Financial Policies is certainly a major step forward, as it promotes more transparent institutional arrangements. We believe that transparency and accountability are the key factors that need to be in place before structural reforms are undertaken. Otherwise any institutional arrangements would tend to lack credibility and, hence, the authority to carry out the necessary changes. My country has adopted a number of measures in recent years to strengthen accountability and transparency in the financial sector. Apart from putting in place various pieces of legislation to ensure high ethical standards as far as financial operators are concerned, we have also strengthened the powers of the government auditor to carry out investigations and the powers of parliament to examine in detail the activities of various public financial agencies.

Malta fully supports the Fund in its efforts to further enhance the standards of economic and financial data published by members. We are monitoring closely developments of both standards for data dissemination established by the Fund. While at present we have decided to participate in the General Data Dissemination System, it is very much our intention to subscribe to the Special Data Dissemination Standard as soon as possible. We are in the process of upgrading our statistical

agencies to improve the quality and integrity of our data. In recent months we have set up a number of task forces to enhance the method of statistical compilation where government finance statistics and the balance of payments are concerned. In this regard we are grateful to the Fund's Statistical Department for providing us with technical assistance in both these fields.

We have observed also that the Fund has taken new initiatives to strengthen the transparency of the surveillance process. Members are being encouraged to release more information on the discussions that take place at Executive Board level after Article IV consultations have been conducted by the Fund with member countries. Malta recently agreed to participate in the Fund's pilot project under which member countries voluntarily release the Fund staff report prepared by the Fund at the conclusion of Article IV consultations. As a result, Malta was among the first group of countries to release the staff report to the media in Malta early this summer.

Our policy of openness and transparency is consistent with our overall strategy, which is to modernize and upgrade our economic structures ahead of accession to the European Union. We are taking action on all fronts, particularly in the financial sector, which has been liberalized almost totally. Interest rates now move in line with market forces and the central bank is free to formulate and implement monetary policy. Our banking sector has recently been enhanced by the participation of a large international bank that has purchased one of the largest commercial banks in the country after this was privatized by the government. All financial institutions in Malta are supervised actively by the competent authorities, and it is my government's intention in the near future to consolidate all supervisory functions under a single financial services regulator. An important step over the next three years will be to complete the process of capital control liberalization. This will enable the Maltese financial markets to integrate closely with the large and deep European financial markets, particularly in the light of the rapid developments of these markets following the introduction of the single currency, the euro.

Malta is fully aware of the benefits of having a liberalized capital account and is conscious that such a condition is essential for membership in the European Union. However, having observed the experiences of a number of countries with capital account liberalization, we feel that we should proceed cautiously and not get carried away by the attraction of unlimited capital inflows. The implementation of sound and consistent macroeconomic policies, together with the attainment of a sustainable position on the current account of the balance of payments, are necessary preconditions for full capital convertibility. Thus before capital controls are completely relaxed, we will aim at achieving much more stability in

our economy by first addressing the structural imbalances, particularly in the fiscal sector.

Following the revival of its application to join the European Union, Malta is currently undergoing a screening process prior to the commencement of negotiations for membership, which will probably start early next year. Our aim still remains to join the EU as part of its next enlargement process. In this regard, Malta is rigorously pursuing policies aimed at restructuring the economy in line with EU requirements. This includes the reduction of the fiscal deficit, maintaining public debt at a sustainable level, and keeping inflation in line with that of our major European trading partners. As part of an overall strategy, the Maltese government has reformed its tax collection strategies and reintroduced the value-added tax. It has also embarked on a program for the removal of government subsidies, the abrogation of protective levies, and the gradual abolition of monopolies, as well as the privatization of public sector enterprises. Privatization is expected to contribute positively to efficiency in the economy, and so it is the intention of the government to embark on a long-term program of privatization. A strategy document on the privatization process has recently been prepared with the assistance of World Bank experts, and this is expected to be presented for discussion in parliament in the next month.

The small size and vulnerability of our economy necessitates constant vigilance and an effective economic strategy to counter external shocks. We recognize clearly the need to upgrade continuously and strengthen our economic structures in order to compete effectively in the international environment. However, while the main focus of our attention is our own internal development, we are concerned about the plight of the highly indebted developing countries and are willing to support all measures that contribute toward their developments particularly if this takes the form of debt relief or concessional finance.

In this regard we are pleased to observe that the Interim and Development Committees of the Fund endorsed a strengthening of the current framework of the Initiative for Heavily Indebted Poor Countries to provide deeper debt relief in a way that strengthens the incentives to adopt and implement economic and social reform programs, and provides a clear exit from unsustainable debt burdens.

We also noted with satisfaction that this item stood high on the agenda of the Cologne Summit of heads of governments of the Group of Seven countries in June 1999, which pledged their full support to this initiative. On its part, Malta despite its limited resources has agreed to contribute to the HIPC Initiative by contributing the balance held in the second Special Contingent Account, after having made these funds available as an interest-free loan for the past two years.

Malta has always sought to contribute to such Fund assistance programs and, in the past, has granted credit at low interest rates to the ESAF subsidy account. We are also satisfied that the Fund has agreed to provide contingent credit lines as a new instrument of crisis prevention for member countries with strong economic policies, when faced with potential balance of payments problems from international financial contagion.

In conclusion, I would like to thank the managements and staffs of the Fund and Bank for their continued support and wish them all success in their operations. Finally, I would like to express my country's appreciation for the assistance and advice that is provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.

STATEMENT BY THE GOVERNOR OF THE FUND FOR MAURITANIA

*Mahfoudh Ould Mohamed Ali*

I am honored to speak today on behalf of the Governors representing the Arab members of the World Bank Group and the International Monetary Fund, and I would like to begin by extending my congratulations on your selection as this year's Chairman of the Boards of Governors.

At our Annual Meetings this year, we are pleased to note the success that the international community has achieved in containing the adverse effects of the series of financial crises that caused great damage to the economies of Southeast Asia, then spread to Russia and a number of Latin American countries, in particular Brazil. The people of these countries witnessed a large reduction in the growth rates of their economies, a significant increase in unemployment, and a sharp decline in their standards of living. Yet despite all these difficulties, the Asian countries affected by the crisis diligently implemented ambitious reform programs aimed at restructuring their economies, and within a relatively short period of time, succeeded in restoring confidence in world financial markets and achieving positive real growth rates. Brazil also implemented a difficult structural reform program, which helped restore stability to its financial markets. As for Russia, we hope that the authorities will proceed quickly to implement the comprehensive reforms

necessary to revive the economy. The situation has also improved in other parts of the world, such as Japan, whose economy shows signs of recovering after a long period of stagnation, and Europe, where economic growth rates are expected to increase. In the United States, the economy continues its exceptional performance, accompanied by general price stability.

Yet despite the recent marked improvement in the world economic environment, a number of latent dangers remain that could hinder continued increases in world economic growth in the foreseeable future. These dangers are largely related to an expected slowdown in the American economy. The international community hopes that other regions of the world, particularly Europe and Japan, can achieve sufficient increases in the growth rates of their economies to compensate for the slowdown in growth in the United States and ensure continuation of the current revival of the world economy. At the same time, we are aware that this reform process could also result in great fluctuations in the prices of the principal currencies, which could pose a threat to the soundness and stability of world financial markets. This danger will increase if the expected slowdown in the U.S. economy occurs suddenly, as a result of overly strict monetary policies enforced by the authorities or a sudden correction in the stock market, among numerous other factors that affect the U.S. economy.

It goes without saying that the international community places great importance on the economic policies adopted by the major industrial countries, given their tremendous effect on the degree of stability that will accompany the expected reform of the world economic system. We therefore call upon these nations to adopt appropriate policies to protect the world from the latent dangers currently facing the world economy. We call upon the U.S. monetary authorities to follow closely developments in the stock market and take them into consideration in determining monetary policies. We hope that the European authorities will hasten to intensify structural reforms, especially in their labor markets, to stimulate growth in their economies. In Japan, it is hoped that the authorities will continue their expansionary policies to stimulate growth of the country's economy while continuing to implement important structural reforms in the banking sector, which have recently begun to produce positive results.

I would now like to turn to a discussion of the initiatives proposed to strengthen the international monetary and financial system, in order to control outbreaks of future economic crises and the adverse effects that they produce. We wish to assert first of all that, while we acknowledge the advantages of the globalization of financial markets and its effect on developing countries through the transfer of private capital and support

of their development efforts, we must also acknowledge that the recent financial crises warned the international community of the dangers of premature capital account liberalization in developing countries, as well as the importance of strengthening the financial and banking sectors to ensure that they are well established, before proceeding to liberalize the capital account.

We support the efforts of the Fund to assist member countries in controlling short-term capital flows, which we believe played an important role in the outbreaks of recent financial crises. We also support the Fund's efforts to create mechanisms to help reduce dependence on these flows as a source of financing, and to stimulate long-term capital flows, especially those related to foreign direct investment.

We call on the Fund to expand and complete its study concerning systematic capital account liberalization in order to help developing countries determine the appropriate pace for liberalizing their accounts, and to take appropriate measures to maximize the benefits obtained from capital inflows and reduce the possible adverse effects upon their economies. It is important to take the particular circumstances of each country into consideration in determining the appropriate pace and phases for liberalizing their capital accounts.

We welcome the efforts of the Fund and the World Bank to help developing countries strengthen their financial and banking sectors, and we call on them to give greater importance to technical assistance in this area, focusing on the establishment of adequate precautionary measures to help the economies of these countries absorb the shocks that may result from fluctuations in capital flows.

We also welcome the Fund's increased interest in developing and publishing internationally accepted economic regulations and standards, while we stress the importance of taking into consideration the particular circumstances of each member country and how they affect its ability to comply with these standards. Technical assistance from the Fund is necessary to help member nations publish and comply with the standards that are applicable to them, although we have some reservations concerning attempts to make the Fund responsible for monitoring the application of standards not directly related to its area of specialization. We would also like to mention the strong interest of the Arab countries in improving the management methods of their public and private institutions, and in taking the required measures to comply with the principles of transparency and accountability.

We applaud the efforts of the Fund to get the private sector involved in reducing the likelihood of future financial crises and sharing the burden of handling such crises when they occur. It is also important to improve surveillance of the international activities of private financial institutions in

the advanced countries, and to require these institutions to publish accurate data on their activities, in particular their high-risk activities.

The Arab countries support international efforts to reduce poverty and improve living standards among the world's poorest. The assistance provided to the poorest countries by the countries and institutions of our region testifies to the importance we attach to this goal.

We support in particular the international initiative to reduce the debt burden of low-income countries, and we welcome the recently proposed measures to increase the amounts of assistance provided and to accelerate the delivery dates, while strengthening the link between debt forgiveness and the requirement that countries take the necessary steps to reduce poverty within their borders. We also support the recommendation of the Group of 24 concerning the future expansion of this initiative to include highly indebted countries with mid-level incomes. We believe that the World Bank should take the leading role in implementing this initiative, as it is the institution with considerable experience in developing and implementing social policies aimed at reducing poverty. Close cooperation between the World Bank and the Fund is essential in order to distribute the tasks appropriately on the basis of each institution's area of specialization, to ensure that the objectives of this initiative are achieved in the optimal manner.

The success of this noble initiative naturally depends on its receiving adequate funding. We support the international financing plan that includes selling a portion of the Fund's gold reserves and investing the proceeds of the sale. A large number of Arab countries, both oil producers and non-oil-producing countries, are willing to help finance this initiative to the extent they are able, while maintaining the financial soundness of the Arab funds and other institutions concerned.

As was the case in other regions of the world, the Arab countries did not escape the adverse effects of the financial crises of 1997 and 1998. The decline in world demand for oil and the sharp fall in prices led to a marked reduction in resources available to the governments of the oil-exporting Arab countries and a corresponding reduction in their economic growth rates, especially in 1999, despite the fact that oil prices began to rise again last March. Although oil prices have risen lately, their actual levels still remain below the average rate over the past 10 years.

The oil-producing Arab countries have confronted this significant decrease in revenues by intensifying their efforts at economic reforms aimed at reducing the deficits in government budgets and the balance of trade, by reducing expenditures, diversifying the sources of government revenue, and privatizing public projects. They have also increased their efforts to diversify the base of economic activities to reduce the effect on their economies of fluctuations in world oil prices. These efforts have included additional

structural reforms aimed at encouraging private sector participation in various economic activities, including such infrastructure components as communications, electricity generation projects, water systems, and construction and management of airports and seaports, in addition to attracting foreign investments. At the same time, a number of oil-producing Arab countries are making concentrated efforts to develop financial market systems in order to increase participation by foreign investors.

The adverse effects of the successive world financial crises have not spared the non-oil-producing Arab countries, which have witnessed a general reduction in capital inflows and demand for their exports, along with a significant increase in the size of their imports, owing to the fall in prices of imports from the countries hit by the crisis. These developments have had an adverse effect on the balance of payments in many countries of the region, although the economic reform policies and structural reform programs being implemented in these countries since the beginning of the decade have helped to reduce the severity of the effects of the world financial crisis upon them. These policies and programs, which are currently being intensified, have produced a marked improvement in the investment climate in these countries, which has in turn helped to increase private sector participation in economic activities. Important progress has also been made in privatizing public enterprises in many Arab countries, and private sector participation in various infrastructure projects has increased in a number of sectors. The banking sector in many Arab countries has been developed by strengthening bank supervision systems and updating regulations for trading in the stock market, to achieve the required transparency.

Regional cooperation among the Arab countries was enhanced last year, as a reduction of customs tariffs was implemented within the framework of the Greater Arab Free Trade Zone agreement, starting in January 1998, to stimulate development in the Arab countries. Partnership agreements were also signed between a number of Arab countries and the European Union, which we hope will help attract investments to the region and increase exports from Arab countries to foreign markets.

I would now like to discuss a number of topics that concern the World Bank Group. The past fiscal year was characterized by a continued improvement, both quantitative and qualitative, in the Bank's activities. Loans and credits increased compared to the past year, and a larger percentage of projects achieved their development targets. Agreement was reached last year concerning the twelfth increase in the resources of the International Development Association, and the Bank's net income also increased.

Last year the World Bank Group participated in confronting the current challenges on a number of levels. Loans and credits increased

considerably compared to amounts granted during the past two years, and assistance has been focused on promoting policies of reform and open markets, supporting the private sector, and providing relief to the poorest sectors of society. Borrowing countries in our region obtained loans and credits for projects in critical areas including human resource development, management systems, the agricultural sector, social services, and water resources. The Bank also provided technical services and sponsored research aimed at developing various aspects of economic and financial policy and benefiting from the exchange of experiences. The International Finance Corporation and the Multilateral Investment Guarantee Agency also continued their activities focused on supporting the private sector.

We applaud these efforts and call for a continued focus on assistance in priority areas for the borrowing countries, as well as expansion of the World Bank Group's activities to include countries that have not received assistance from the Bank for many years. We also call for continued assistance to the Palestinian Authority to develop its infrastructure and improve the living standard of the Palestinian people, as well as technical assistance to the non-borrowing Arab countries. We hope that the International Finance Corporation and the Multilateral Investment Guarantee Agency will likewise expand their activities to include a wider range of beneficiaries.

With respect to the policies of the World Bank Group in the foreseeable future, we call for increased efforts to reduce poverty, given the limited success that has been achieved to date, and a focus on long-term projects, along with continued efforts to achieve tangible results through development activities and projects. We call for efforts to reduce the debt burden of the largest number possible of low-income countries and assistance to developing countries—including Arab countries—to help improve their position in the upcoming trade negotiations in Seattle. With respect to the Comprehensive Development Framework project, we would like to see a verification of its feasibility at the trial stage, with due consideration given to the particular circumstances and degree of readiness of each country. As for the Bank's financial situation, we commend the negotiations currently being conducted by the Executive Board and the Development Committee, and we look forward to the recommendations they may produce for strengthening the Bank and its financial position.

We applaud all these positive developments and the efforts of the World Bank Group in a period of difficult and complicated world circumstances. At the same time, we wish to emphasize that the principal objective of the Group—the reduction of poverty—remains a distant goal, especially in light of the recent financial crises that have increased the number of the world's poor and greatly reduced economic growth rates in the developing countries, in addition to the destruction caused by

armed conflicts and natural disasters. These challenges will require greater efforts and additional resources, directed in particular at the low-income developing countries.

The Arab countries look forward to playing an effective role in helping the international community to confront the many challenges that face it. The Arab countries—like all the developing regions—have met with great difficulties as a result of the financial crises that recently shook the world economy. We are still suffering from weak economic activity, the slow improvement of social conditions, and continually increasing unemployment rates, in addition to the most severe water crisis of any region in the world. Furthermore, the peace process continues to constitute one of the principle obstacles to achieving greater economic development and creating a suitable environment for investment.

In conclusion, I would like to express my appreciation to the Executive Directors of the Fund and the World Bank for deciding to hold the Annual Meetings for 2003 in Dubai, in the United Arab Emirates. These meetings, the first ever to be held in an Arab country, will enhance the position of the Fund and the World Bank in the Arab world, which over the years has demonstrated its commitment to international cooperation in all forms and all fields.

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

*Yansanjav Ochirsukh*

It is a great privilege and pleasure for me to represent the government of Mongolia at the fifty-fourth Annual Meetings of the Boards of Governors of the World Bank Group and the Fund, here in Washington D.C.

Economic recovery in the transition economies has been mixed during 1999. Most of the countries of the Commonwealth of Independent States and those in southeast Europe have been experiencing a lower economic recovery in relation to the central European and Baltic countries, which clearly demonstrates that growth is achieved when there is progress on structural reforms. Rapid disinflation has been achieved by many of the transition economies, which has been possible because of the timely strong stabilization support package of the international communities. Growth has been generally fastest in the areas where

reforms were most far reaching and bolder. The countries in transition had the benefit of a relatively large agricultural sector and rural labor surpluses. There has been a mixed approach on the methods of privatization, but all agree that there is no alternative to privatization. Regarding banking sector reform, transition economies have set a priority for improving corporate governance, prudential regulation, and supervision. Countries have now begun to realize the potential of the underground economy, which in some countries amounts to more than 20 percent of GDP. Excessive regulatory discretion, weak rule of law, and corruption are perhaps common to the transition economies. All the growth witnessed by these countries has been accompanied by an increase in income inequality and social instability. The vital steps needed for the creation and strengthening of legal, fiscal, and regulatory infrastructures are needed for the operation of a market-led economy. Let me now discuss my point on how Mongolia is performing within this framework.

### *The Economy*

For three consecutive years, Mongolia has been experiencing an annual growth of 3–4 percent. The year 1998 was hard on Mongolia because of a steep decline in key export commodity prices and the deepening of the regional financial crisis. Copper prices plunged 42 percent in 1998 and 17 percent in the first quarter of 1999. In addition, the international prices of gold and cashmere dropped, resulting in a terms-of-trade shock of about 9 percent of GDP. This has resulted in a chain of deterioration in other sectors of the economy. External shocks led to a large cut in fiscal revenue and resulted in the widening of the fiscal deficit to over 11 percent of GDP. The adverse external conditions and resulting fiscal stress strained Mongolia's financial system. The increased deficit plus reduced foreign financing sharply increased the domestic bank financing of the budget and put upward pressure on interest rates. The bank loan portfolio performance deteriorated as a result.

Despite all the adversities at the end of 1998 and the beginning of 1999, Mongolia managed to achieve a growth of 3.5 percent and a sharp decline in inflation from over 53 percent in 1995 to single digits in 1998. With little prospect for significant improvements in the terms of trade over the medium term, the government has embarked on a strong adjustment program: to maintain inflation at a low level of below 10 percent, to promote sustained growth of about 4–5 percent, and to strengthen Mongolia's external position with the assistance of the second Fund-supported program under the ESAF. The parliament of Mongolia has approved a fiscal policy package designed to progressively reduce

the government deficit through a reduction in the net bank credit to government, a consolidation of price stability, and the freeing of additional resources through the privatization of remaining public assets; the government will thus be better positioned to promote the fragile private sector. The government has also moved to address financial system distress by placing three insolvent banks under conservatorship and taking a whole set of measures aimed at bank restructuring.

### *Social Issues and Structural Adjustment*

Consolidating price stability and achieving economic growth closer to Mongolia's potential will be essential to improving living standards and reducing poverty. For the purposes of improving the social safety net, the government enacted the law on social safety nets early this year. A Mongolian proverb called the plentiful life states, "a country prospers when its citizens prosper." The government recognizes the need for health care reform in order to improve the efficiency of public health services. The introduction of the health insurance system is easing considerably the budgetary burden of health care. Reforms in the pension system are being undertaken as well. It is the aim of the government to improve the financial position in these sectors, first by the introduction of cost recovery measures, and later by putting them on a sounder financial footing.

### *Governance Reform*

A new Public Sector Management and Financial Act awaits parliament decision. The act would introduce a new framework to rationalize government functions and improve the delivery of public services, and is aimed at enhancing the accountability of all budgetary entities while increasing their flexibility. The public sector reform will help significantly in the reengineering of the Mongolian public sector. Over a 10-year period, it is expected that the pilot administrative reforms and the public financial reforms will undoubtedly lead to significant economic and social benefits for the whole country.

### *Environmental Issues for Sustainable Development*

Extensive livestock production supports at least half the population, and since 1990 it has become the social safety net of last resort. Pasture land is now under severe pressure because of overconcentration of herds around urban centers. Effective policy interventions are needed to alleviate rural poverty, tackle pressure on grazing land, and ensure natural resource conservation and sustainable development. It is necessary to develop land management practices, clarify the land law, promote alternative income-generating activity, and rehabilitate the local infrastructure.

*Potential for Future Growth*

Mongolia has a tremendous growth potential, despite its obvious disadvantages. In many ways, Mongolia has only scratched the bottom of the mountain. Regional integration is in the interest of the whole economy. Beyond better exploiting its comparative advantages, Mongolia needs to invest more resources in its people, as the education of its people is essential in today's high-tech age of globalization.

The years 1999–2002 are crucial to enhancing Mongolia's economic stabilization and establishing a strong foundation for future development. The major economic objectives of the Mongolian government over the medium term are to enhance further macroeconomic stabilization, intensify structural reforms in the economic and social sectors, institute the private sector-led economic structure, and on this basis, rapidly develop export-oriented production and increase domestic savings. With all these challenges ahead, we are approaching the new millennium. Over the past few years, we have learned that a good deal of judgment is involved in preparing monetary and fiscal programs under the ESAF. In rapidly changing economies such as ours, and where the global environment is also rapidly changing, it is impossible to derive truly scientific and precise performance criteria, the lack of which will lead to substantially worse outcomes in terms of inflation, interest rates, exchange rates, and international reserves. Therefore, on the behalf of the government of Mongolia, I would like to ask the senior management of both the Bank and the Fund to be lenient and flexible with Mongolia and not to impose conditions that will be too tough or unnatural to meet. We have noted that the Fund has demonstrated these qualities in the past with Mongolia as well as other countries, and therefore request that the Fund continue to be flexible over the course of the ESAF-supported program, the second year of which commenced in June 1999. Transitional economies, including that of Mongolia, are receiving handsome assistance from the donor countries and multilateral financial institutions. However, the utilization of these funds remains a sensitive issue in these countries. In order to avoid the duplication of funds in the sectors of the economy, we would be encouraged by continuing support from the Bank. In June, Mongolia successfully organized the seventh donor's conference, held for the first time in Ulaanbaatar, the capital of Mongolia. In fact, the successful outcome of the conference, the donors' willingness to assist, and their commitment are based, in part, on the tremendous efforts of the Bank staff. In conclusion, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the willingness of the Bank and the Fund to support Mongolia in its critical period of transition.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR MYANMAR

*U Khin Maung Thein*

On behalf of the Myanmar delegation, I wish to join my fellow Governors in expressing our sincere thanks to the management and all concerned in the Fund and the Bank for their excellent arrangements in convening the Annual Meetings. May I also congratulate you, Mr. Chairman, on your election as Chairman of these important meetings.

First of all, may I touch upon Myanmar initiatives for economic development. As you are aware, since late 1988, after introducing the market-oriented economy, concerted efforts have been made for the development of Myanmar's economy, and achievements have been made in implementing short-term and long-term plans. Necessary fundamental reform measures were instituted in line with the political, economic, and social objectives laid down by the state, and in line with these objectives, with national perspectives, administrative and international relations are embodied in it. Our ultimate goal is to build up a new modern developed nation in accordance with the new State Constitution. While adopting a market-oriented economic system and by undertaking measures systematically for national reconciliation for the emergence of a peaceful and stable nation with disciplined democracy, Myanmar is determined to build a democratic system in accordance with our culture, traditions, and historical background, as well as the desires and aspirations of the entire people. Necessary policy guidelines have been put in place to ensure adequate basic human needs, such as food, clothing, shelter, and to improve the living standards of its entire people. As agriculture is the base in building the national economy, entrepreneurs are encouraged to engage in cultivating vacant, virgin fallow lands and wetlands to increase agricultural production on a commercial scale with the use of their capital, management skills, and technical know-how. They are urged to increase sown acreage, boost per acre yield, upgrade the quality of crops, and double or triple cropping with that momentum. On the other hand, conventional cultivation methods have been substituted with modern scientific techniques, and the state has also been providing the necessary farm implements and machinery. Moreover, dams and reservoirs are being built all over the country with our own financial resources for sufficient water supply in the dry zone area.

Myanmar is striving to develop its national economy not only in the agricultural sector, but also in promoting industrial development by establishing industrial zones throughout the country. Entrepreneurs are

encouraged by the government to increase output and improve the quality of products, aiming toward import substitution. We have recognized that the forces of agriculture and industrial sectors should be combined for national development. To meet this harmonious effort for combination of these two sectors, the state has laid down the following objectives for the industrial sector:

- to develop agro-based industries;
- to raise the quality and quantity of industrial products;
- to produce new machinery items;
- to produce machines, parts, and tools for industries; and
- to obtain good foundations for turning the country into an industrialized nation.

Myanmar has been endeavoring to develop her economy in conformity with the market system to meet the basic needs of the people and maintain environmental norms all over the country. A Bank mission visited Myanmar in June, and during its stay, fruitful discussions were made between the Bank mission and responsible officials from respective ministries, and some mission members visited areas related to their assigned duties in the fields of health, education, and infrastructure development in relation to poverty alleviation.

I would like to reiterate that, as you are quite aware, in the past year, I have presented our intention to cooperate with the Bank as before. However, one year has elapsed, and we do not have significant progress toward a normal relationship between us. Myanmar has been a legitimate member of the Bank and the Fund since 1952. As a legitimate member, Myanmar is fully eligible for the Bank's development assistance. However, the Bank has neglected Myanmar's development efforts, and it has failed to assist Myanmar for the past 12 years—even though we have cooperated with the Bank and the Fund and have been servicing our outstanding payments to the Bank regularly, up to the end of 1997. We are still looking forward to having close cooperation and coordination for our mutual benefit. As they are multilateral institutions, we expect them to have a full understanding of our endeavors and achievements, with constructive views and an optimistic outlook for a brighter and better future.

In conclusion, I wish to express our deep appreciation and best wishes to the Boards of Directors, the managements, and the staffs for their valuable contribution to the Annual Meetings. Let us move forward to shape a better future of peace and prosperity in the next millennium.

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

*Ram Binod Bhattarai*

It is indeed a great pleasure and privilege for me to address these Joint Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund. On behalf of the Nepalese delegation and on my own, I express sincere appreciation to the people and the government of the United States for their hospitality and to the Bank and the Fund for the excellent arrangement made for these meetings. Let me also take this opportunity to congratulate the management and staff of the Bank and the Fund for their able and close partnership in managing the financial turbulence in East Asia and other parts of the world. As a member of these institutions, it is a matter of great satisfaction to note that these institutions have served their members well at the times of greatest need.

The slower growth witnessed in recent years in the world output in general and that in the developing world in particular has become the serious concern of the developing countries, the affected economies and the international community as a whole. However, the growth outlook for 1999 has improved moderately. These outcomes have a direct bearing on the growth and development prospects of developing countries. The hopes that we had while the Uruguay Round Agreements were signed are still to be felt by many of us. Many countries are yet outside the realm of the World Trade Organization. Some industrial countries need to fulfill their global commitments toward easing the constraints of international trade and development. The progress in poverty reduction is not satisfactory to all of us. A lot more needs to be done in safeguarding the acute needs of small and least developing countries like ours. There are, however, some indications of a positive nature. Recent recovery in international commodity prices and of East Asian economies as well as positive growth outlook in industrial countries present some hope for the revival of the global economy and, in turn, increase in development assistance.

We are now at the verge of next millennium, whereby globalization of markets has provided both opportunities and challenges to all of us, for promoting growth, equity, and development. Many small and poor countries have not been able to reap the benefit of globalization. Therefore, greater attention is needed, particularly by industrial countries and international institutions to create an enabling environment that can take care of the interests of the poor and least developed countries.

Our experience has shown that, unlike the developed countries, developing countries need a relatively long transition period to fully realize the benefits of economic liberalization. Developing countries, including Nepal, have a hard time making the process of liberalization a widely beneficial phenomenon to the society as a whole, at a time when we are faced with a huge agenda of institutionalization of the democratic process and heavy burden of external debt servicing.

The transfer of official development assistance to developing countries has not shown any serious move toward the tune of international call and our appeal for many years. The relevance of foreign grants and highly concessional assistance for the growth of developing countries is still very important and appears to remain so for a number of years to come as many of these countries have to develop key sectors of the economy, where the private sector is still shy in making investments.

Having said that let me turn to the Bank- and Fund-related matters. It is very much encouraging to learn about the progress made by the Bank and the Fund in strengthening the international financial structure. We welcome the initiative taken by the Bank and the Fund in reducing the unsustainable debt of heavily indebted poor countries. We note the Bank and the Fund are currently working for an enhanced framework for faster, deeper, and broader debt relief of the poor countries. We support additional financial assistance from the donors toward this framework. Similarly, further considerations should be given to include the poorest countries, which are being presently excluded from these arrangements.

The Bank and IDA deputies deserve our special thanks for the successful conclusion of the twelfth replenishment of IDA. We stress that the Bank Group should focus IDA lending to those countries where the need is greatest to meet the needs of the poor and least developed countries. It should also focus on the environment-related issues, which the private sector is least capable of addressing.

We are encouraged by the Bank's activities focused on flexibility, change, and partnership to serve its clients better in the days to come. In this regard, we believe that the Comprehensive Development Framework would prove to be a vehicle for sustainable growth. We understand that this process is based on a holistic approach to development and recognizes the importance of institutional, structural and social aspects of the development along with macroeconomic fundamentals.

We appreciate the strategy of making ESAF arrangements a central point of the poverty reduction program and the Fund's efforts to help member countries in handling structural and institutional reforms. The role of IMF in strengthening the financial sector and the establishment of the Contingent Credit Line would help attain the objective of a more sustainable growth in member countries.

Now let me turn to my own country, Nepal. Nepal is a landlocked country in South Asia, which has not so far been a party to either any miracle or debacle. The country's per capita income is one of the lowest in the world and more than two-fifths of its population are living in a state of absolute poverty. The average growth rate of GDP during the past two years was estimated at slightly above 3 percent against the target of 6 percent average growth as set forth by the Ninth Plan (1997–2001). The ratio of gross domestic saving and investment of GDP is still very low. The rate of inflation crossed single digit and reached almost 12 percent toward the end of the last fiscal year. The deteriorating performance of the agricultural sector despite the highest priority assigned to it has been the major factor for the grave situation of poverty in Nepal. The unfavorable climate, uncertainties in economic reforms, slowdown in resource utilization, and increased fiscal imbalances are considered as responsible factors for slowing economic activities. The balance of payments situation, however, has improved, basically due to better performance of the export sector and the decline in imports. As a result, the foreign exchange reserve, at present, is at comfortable position.

After the restoration of democracy in 1990, people's expectations rose to a new height. The impressive economic progress made in the first half of the 1990s could not be sustained during the past four and half years due to the political instability that transpired from the nature of the composition of the last Parliament. As a result, considerable slackness surfaced in the economy, and the utilization of resources including external resources slowed down. In the aftermath of general elections held in May 1999, the present government has come to power by holding a comfortable majority in the Parliament. Taking into account the overall performance needs in various fronts of the economy, the new government is committed to creating a strong macroeconomic situation. In this regard, the balance of payments position continues to be strong, inflation appears to be moderate, and economic growth picked up slightly from the last years' depressed level. The actions of the government have been well sequenced to alleviate widespread poverty and unemployment. On the fiscal side, revenue growth has increased in the past few months and the fiscal deficit has been kept within the affordable limit. The government is also fully committed to resume the process of liberalization as was initiated in the beginning of this decade.

Nepal has put a poverty reduction agenda always at the forefront. For this, we have focused on achieving a high economic growth rate, expanding social and safety programs, encouraging participatory development, and ensuring good governance. In order to achieve these, we have adopted strategies of the modernization of agriculture, rural development, community participation, and creation of employment

opportunities. Likewise, other strategies have been developed for the development of social and economic infrastructure, better mobilization and use of economic resources including external resources, and promotion of private sector development. This will be achieved through continued persuasion of economic reform programs and the transformation of the development administration into a service- and result-oriented one. Various measures are adopted to strengthen the institutional capacity of project implementation. The civil service reform process is on the way. The government has also adopted various measures to make its affairs more transparent.

Implementation of the 20-year Agriculture Perspective Plan (1997–2016) has been our priority in order to increase economic growth and alleviate poverty. We have emphasized the development of the social sector and increasingly allocated financial resources for education, health, drinking water, and human resource development. The empowerment of women is one of the prominent agenda of our development. The process of privatization of public corporations has been reactivated.

We consider financial resources as the most effective and critical means of development and a major instrument of the success of policy implementation. We are committed to manage public expenditure more efficiently. Prioritization of the development expenditure is being further improved and projects are selected based on cost/benefit analysis, availability of sustainable resources, and implementation capacity. The new financial rules formulated with a view to reduce discretionary power in awarding contracts and ensure transparency of statements and records as well as develop a time-bound decision-making system are already in operation. In order to enhance the effectiveness of overall resources, Aid Receiving Strategy is being formulated and enforced within this fiscal year.

The need for internal resources mobilization is enormous in Nepal. The structure of the tax administration is being reviewed to raise its quality of performance. The value-added tax system has been fully implemented as the main instrument of revenue mobilization. Tax and customs administrations are being made more transparent and supportive. A system of regular and continuous dialogue with the private sector is being developed in order to generate mutual confidence and enhance tax collection. Customs administration are being made more efficient in line with the requirements for membership in the World Trade Organization, the South Asia Preferential Trade Arrangement, and the South Asia Free Trade Arrangement.

Currently, we are actively engaged in the devolution of power to local government bodies. The process of decentralization has achieved its

milestone as the Act relating to it has come into effect. The Act provides extensive economic, administrative, and political power to local authorities. The new arrangement would also address issues of governance throughout the country. Similarly, the government has launched several programs for urban sector development. In this regard, our capital city, Katmandu, has been facing an acute shortage of drinking water supply for over a decade. In order to solve this problem, we have proposed the Melamchi Water Supply Project for donors' assistance. I, therefore, take this opportunity to thank the donors for their support and commitment to this project and would appreciate any additional assistance to meet the financial gap and for the speedy implementation of the project.

It is important for us to build on the achievements made in the past and also continue to address necessary issues that stand as hurdles along the path of poverty alleviation and sustainable development. The current year's budget and the Ninth Plan have placed clear directions for reforming policy course. We believe that greater efforts are essential to enhancing domestic resource mobilization and improving public resource management. Another equally important task is to build technical and institutional capability in order to prepare and implement complex and sweeping reforms over a broad front and prevent potential crisis.

It is a matter of common experience of developing countries like Nepal that no matter how important the reform process may be, it invariably encounters a great resistance and the process itself is long and painful. In order to overcome these difficulties while we, as a member of developing countries, have to put all our resources in achieving the development goals, the continued support of bilateral and multilateral agencies would be required more than ever before. I would also like to emphasize the importance of sequencing reforms as a critical factor in making the reform program a success.

The role of the Bank and the Fund in the twenty-first century will be even more challenging. We are confident that the Bretton Woods institutions are better prepared to surmount such challenges and will continue to remain as reliable, flexible, and dynamic development partners for their member countries in the new millennium. We are thankful to the international donor community for its consistent and strong support of Nepal's economic development programs. I would like to mention here that Nepal Aid Group Meeting would be held in March, next year in Paris. As in the past, we are confident of receiving the strong support of the members of the Nepal Aid Group to implement our development programs. Let me express our sincere appreciation to the Bank and the Fund for providing valuable technical and financial cooperation to our development efforts. I look forward to rewarding partnerships with these institutions in the future.

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

*Gerrit Zalm*

The recent international financial crisis clearly demonstrated that improvements must be made to enhance the effectiveness and the fairness of the international monetary and financial system. Already, the system has been made more open and transparent. The Fund deserves praise for the role it has played in the development of international transparency standards and the promotion of the implementation of these standards. However, I think we should be more ambitious. I have three particular areas in mind in which work remains to be done: the involvement of the private sector in financial crisis prevention and resolution; the strengthening of the Bretton Woods institutions; and the HIPC Initiative and its financing.

*Private Sector Involvement*

On private sector involvement, in the absence of a set of clear internationally accepted rules on how to promote private sector involvement, the Fund has proceeded on an ad hoc basis. Although this approach succeeded in securing private contributions to the funding of members' financing gaps, the approach carries a number of risks. First, this is not very transparent, making the pricing of debt difficult. Furthermore, considering every case on an ad hoc basis might also lead to unequal treatment of countries as well as of creditors. While recognizing that every crisis situation has its own specific characteristics, I see a clear need for establishing some general principles and instruments for the involvement of the private sector in international financial crises. A key principle is that of equal treatment. Therefore, the following instruments should remain on our agenda: collective action clauses, creditor committees, and the use of rollover options in debt contracts.

*The Fora: International Monetary Fund and Interim Committee*

I now turn to our institutions. Recent experiences have clearly shown us how important it is to have strong Bretton Woods institutions. The Fund should remain at the heart of the international monetary and financial system. By combining wide membership with well-defined procedures for representation through constituencies, the Fund and its fora are better suited than any informal or ad hoc grouping to discuss and decide on matters relating to the monetary and financial system. The

participatory nature of the decision-making process in the Fund guarantees ownership of and accountability for Fund policies with all IMF members. I welcome the fact that the role of the Interim Committee as the preparatory body for the Board of Governors has been reconfirmed. Improving the preparation of the Interim Committee by Interim Committee deputies on an as-needed basis can contribute to this. Further strengthening could take place through the creation of working groups of flexible composition under the Interim Committee, with the appropriate participants being selected on the basis of the topic under consideration.

#### *Capital Adequacy and the World Bank Group*

Let me now turn to the World Bank. Unfortunately, progress with respect to strengthening the financial position of the World Bank Group has been limited since the spring meetings. Naturally, the need for an increase in its risk-bearing capacity and its size are directly related to the IBRD's strategy. We are not in favor of a strategy that takes the excessive liquidity support of the past years as a starting point. I would sympathetically consider proposals for additional capital for the World Bank Group, including the IFC, if this is needed for a strategy aimed at long-term structural development and poverty alleviation.

#### *ESAF and HIPC*

It is of central importance to develop a concept of economic growth that is centered around durable poverty reduction. In that respect, I warmly welcome the enhanced link between debt relief and poverty reduction as exemplified in the new HIPC Initiative. It should therefore come as no surprise that the Netherlands supports the proposed modifications of the HIPC Initiative with the purpose of providing wider and deeper debt relief while encouraging recipient countries to conduct good policies. We support the idea of using floating completion points, and stress the importance of including key social and economic reforms as conditions for completion. It is of the greatest importance that we maintain the focus on good policies in the modified HIPC Initiative and secure full and equitable financing for debt relief quickly, so that the road to sustained growth and poverty reduction in highly indebted poor nations is cleared. In this respect, I hope that improved cooperation between the Bank and the Fund takes off. Better quality and depth of the Bank's poverty analysis should help the Fund to adequately sequence and fine-tune macroeconomic stabilization policies. In addition, the financing of the self-sustained ESAF deserves the full attention of the international community.

*Southeastern Europe*

In addition to their tasks in promoting international financial stability and sustainable growth, the Bretton Woods institutions have an important responsibility to help members whose economies have been severely damaged by a war or natural disaster to get back on their feet. I welcome the efforts that have been made by World Bank and the Fund, in good cooperation with the EU, to help southeastern Europe overcome the hardship caused by the crisis in Kosovo. A combination of well-targeted international assistance and sound domestic policies should facilitate a speedy recovery.

*Conclusion*

The world economy is in far better shape than we could envisage last year. The Fund and the World Bank have played a key role in this improvement. I trust that under the leadership of the President and the Managing Director, the Bank and the Fund will continue their further work on the various issues that I have outlined. Rest assured of the continued support of the Netherlands in doing so.

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

*Sir William F. Birch, M.P.*

I am pleased to be speaking at these Annual Meetings of the World Bank and the Fund in very different circumstances to those of last year. Twelve months ago, this felt like a crisis meeting. It was crucial that we endorsed open market fundamentals and that we resisted the urge to return to protectionism. The international institutions held their nerve, member nations held their focus, and we are better off for it. Last October, consensus forecasts were for New Zealand's top 10 trading partners to grow by only 1.4 percent in 1999. Now, those forecasts are more than double at 3.2 percent. Given that our top four trading partners are the United States, Australia, the European Union, and Japan, that is a good sign that the world economy is improving, and it is definitely good for New Zealand.

The Article IV staff report on New Zealand publicly released on September 16 projects growth of 3.3 percent in our economy for the next two years. We are confident those forecasts can be bettered. New

Zealand is one of a growing number of countries participating in the pilot program where the Fund staff report is made public. The release of staff reports will increase the need to have confidence in, and justification of advice by, the Fund. Similarly, if a country is not following advice recommended by the Fund, the authorities of that country will have to justify their reasoning to the public. The advantages of open disclosure are equally true with respect to World Bank advice. There is the potential for publication to reduce the frankness of discussions and the candor of the staff reports. However, New Zealand's experience with giving policy advice that is subject to the freedom of information laws is that transparency does not substantively alter advice—rather it increases incentives for advice to be of the highest quality. And the sound policies that transparency encourages have real payoffs for people.

Without reform, the impact of the Asian crisis on New Zealand would inevitably have been high interest rates, serious bankruptcy, and massive unemployment. A policy framework of five principles—an open and competitive economy, low inflation, quality fiscal policy, flexible labor markets, and low taxes—has allowed the economy to cope with shocks and to keep making progress. Our own bounce back from the Asian crisis has been rapid and sustainable. Economic reform has made New Zealand the master of its own destiny. Our future is no longer tied to any one market or to surviving any particular shock. Our future is with the world. As a small economy, our domestic market is limited to 3.8 million people. But no matter the size of any economy, the global market is the real prize for us all.

That is why I was so pleased with the outcome of the recent meeting of APEC leaders in Auckland. In New Zealand, APEC leaders reconfirmed their commitment to achieve their goals of free and open trade and investment for the developed APEC economies by 2010 and the developing ones by 2020. Many of those economies, including our own, are already making substantial steps to remove all tariffs. APEC wants to conclude an agreement in the WTO this year on the Accelerated Tariff Liberalization Initiative, which includes fish and forest products, and launch at the Seattle WTO ministerial a new round of multilateral trade negotiations for comprehensive market access, including the abolition of export subsidies. That is to be concluded in three years.

In conclusion, I would like to make the following observations. First, despite the severity and depth of the recent economic crisis, few if any economies resorted to protectionism to try to stave off its impacts. On the contrary, many responded by maintaining, if not advancing, their efforts to reduce barriers to trade and investment flows. Second, it showed the need for greater transparency and openness of markets, of policy settings, of rules and regulations, of standards, and of performance

against them—including improved reliability and timeliness of information. Accountability is fundamental. If banks can make bad lending decisions with relative impunity from financial consequences, there will be no end to bad loans they make. The Fund has to be more than a financial bank. It should also be a knowledge bank—a provider and facilitator of surveillance, expert advice, and, even more important, an assurance of transparency. Third, countries faced with economic challenges can accomplish much on their own, but much more in cooperation with their colleagues. The crisis mobilized the international community like never before, and the fruits of that cooperation are already evident in the improved economic performance of many of the most affected countries. But the events of last year and the challenges we face today serve to remind all of us there are no easy answers to sustained economic performance and there will always be risks. Fourth, and finally, for the poorest and most vulnerable in our societies the continuing challenge is to work to ensure that they too benefit from sustained economic growth—in terms of their living standards, health, education, and overall quality of life. Building stronger economies through open and efficient markets is ultimately directed at that goal.

STATEMENT BY THE GOVERNOR OF THE FUND FOR NORWAY

*Svein Ingvar Gjedrem*

It is my pleasure to address the 1999 joint Annual Meetings on behalf of the Nordic-Baltic constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, and Sweden, as well as my own country: Norway. The present meeting takes place in a more sanguine atmosphere than last year's. During the year, international financial markets have come closer to a state of normality and the economic outlook appears brighter in several regions. However, these encouraging developments do not leave room for complacency.

The financial crises in Asia, Russia, and Brazil have caused great hardship in the affected countries. Furthermore, a large number of smaller countries have experienced significant economic and financial stress during the last couple of years. Last autumn, the Russian crisis caused serious disruptions to international financial markets, which yet again demonstrated how national financial crises can have far-reaching and even global repercussions.

The Fund has played an important and positive part in the resolution of the recent crises. The fruits of this work can now be seen. The developments in Asia and Latin America are encouraging, although significant problems remain. Developments in Russia have been mixed. We should use the current “breathing space” to learn from the recent crises. We must take steps to reduce the likelihood of new crises, as well as to improve our handling of them. These topics will occupy the main part of my speech.

### *Crisis Prevention*

The Fund’s main role is to be the guardian of a stable international monetary and financial system. To this end, the natural starting point is to seek to prevent financial crises from happening or spreading.

The Nordic and Baltic countries fully support the work on a strengthened international financial architecture. We note with satisfaction that the recent crises have not, in general, led to the adoption of exchange restrictions or other steps that prevent efficient resource allocation. Instead, the focus has been on adopting positive rules to enhance the functioning of markets.

Improved statistics and more transparency should have a stabilizing effect on capital markets. Standards for economic policy will draw attention to necessary action for domestic policymakers, and make it easier for international investors to make informed decisions.

We favor a central role for the Fund in helping countries to open up their capital accounts in an orderly and properly sequenced way. The Fund should be given appropriate jurisdiction over the liberalization process. An opening of countries’ capital accounts must be preceded by a strengthening of the domestic financial system, for example, through more information and improved regulation and supervision. Furthermore, liberalization must be accompanied by adequate macroeconomic and structural policies. However, liberalization of the capital account should, as far as possible, be synchronized with the liberalization of trade in goods and services. One-sided integration into the world markets may be destabilizing and increase exchange rate volatility. The new multilateral trade round to be launched in December, coupled with a strengthened international financial architecture, is important for the overall stability of the world economy.

International interbank loans with very short maturities played a major role in some of the problems in Asia. On the debtor side, the crises have revealed serious cases of deficient debt management, and we encourage the Fund to work with national authorities to improve debt management policies. The ongoing work on changing the Basle rules on

capital ratios is also essential and should encourage more prudence on behalf of creditors.

The recent crises have yet again taught us the importance of solid macroeconomic “fundamentals.” Large government deficits and a rapid debt buildup make a country vulnerable to changes in investor sentiments. When seeking to strengthen the budget, it is important to work on the expenditure side as well as the revenue side. With respect to the latter, we support the Fund’s work aimed at making countries improve their tax systems.

The most appropriate exchange rate regime depends on the economic circumstances facing the individual country. However, experience reveals the risk of upholding a rigid exchange rate policy when there are underlying pressures in the economy and financial markets are characterized by rapid capital movements. Exchange rate pegs require a high degree of prudence in macroeconomic as well as financial sector policies.

The newly released report on the external evaluation of Fund surveillance is interesting reading. We would like to draw attention to the recommendation that the Fund put more emphasis on identifying macroeconomic vulnerabilities. An important part of the prevention policy is to identify which shocks are likely to arise and analyze how member countries can most effectively absorb these shocks. Moreover, as recommended in the report, it is important that the Fund strengthen its cooperation with other international financial institutions.

The lesson with respect to crisis prevention can be summed up in one sentence: Financial stability requires solid macroeconomic fundamentals and resilient financial markets. This message is not new. On the contrary! What is new is that liberalized capital markets and new information technology have increased the urgency of the message. The financial markets have become less forgiving.

### *The Fund’s Lending Policy*

Irrespective of the positive efforts aimed at prevention, the world will experience new financial crises in the future. The Fund is, and will continue to be, the major institution appropriate to address them. Therefore, we find it useful to raise a few key points about the Fund’s lending policy.

The catalytic effects of the Fund’s programs are of paramount importance. This requires that the credibility of IMF lending must not be undermined. Loans should only be extended to countries undertaking genuine and strong steps to solve their economic problems. The conditionality must not be weakened, even if the consequence, in some cases,

may be that loans cannot be extended to countries experiencing serious difficulties.

In general, the Fund should put more emphasis on adjustment requirements. In particular, the Fund should not bail out governments running unsustainable deficits for extended periods of time. Support should be given only when the crisis country undertakes significant adjustment efforts and it is clear that the country has assumed “ownership” of the program. Increased attention should also be given to the use of “prior actions.”

As part of a strengthened financial architecture, the Contingent Credit Line initiative should contribute to reducing the spreading of future crises. However, to achieve this, the facility must not create new moral hazard problems. It is important that the eligibility requirements be interpreted very strictly, that the countries involved conduct a firm and credible policy, and that serious steps be taken to involve the private sector. We note that this facility has, so far, not been used.

Moral hazard problems would be reduced if the private sector were involved to a larger extent in crisis resolution. The overriding principle should be that the private sector must be involved primarily on a voluntary basis. However, we believe there is a need to establish a framework that clarifies the roles of the various actors in international financial crises. It is important that transparent *ex ante* rules are instituted, leading to a strengthening of the pricing mechanism. The Fund has an important role to play in such a framework.

A number of countries have taken steps to stimulate long-term private sector involvement; for example, by establishing private contingency credit lines. The Fund should encourage countries to undertake such initiatives. The ongoing work to promote the establishment of creditor committees and the introduction of collective action clauses in bond contracts should be intensified. We support that the Fund follows a restrictive lending practice with the aim of involving private sector lenders. It is an often-raised concern that such steps would increase the cost of borrowing for emerging markets. We are not entirely convinced by this argument. First, the main aim must be to achieve a better pricing of international loans, reflecting the underlying productivity of capital. Second, if the steps lead to increased financial stability, the risk premium could actually fall. In sum, moral hazard problems and a tendency toward a reduction of the catalytic effects of IMF programs suggest that some adjustment of the Fund’s lending policy is warranted. We should seek to tip the balance toward more adjustment and local “ownership” of the programs. Furthermore, we strongly support active steps to involve the private sector in the resolution of crises.

*The HIPC Initiative*

The Nordic-Baltic constituency supports the enhanced HIPC Initiative, as well as the proposal to put more focus on social reforms in ESAF programs. The ESAF/HIPC arrangement is an important tool for supporting macroeconomic reforms in the poorest member countries. We very much welcome the agreement in the Fund on the financing of the ESAF/HIPC arrangement. We appreciate that the gold sales are envisaged to be a one-time operation of a highly exceptional nature.

*Final Comments*

In the same way as “ownership” is important in individual programs, it is important that the global community assume “ownership” of the ongoing process in order to strengthen the international financial architecture. The participation of all countries in the work must be assured. The constituency structure of the Fund and the World Bank safeguards this. We consider it vital that work on the architecture, to the greatest extent possible, be within the established framework of the Bretton Woods institutions. Furthermore, while preserving the principle of genuine participation of the whole membership, there is a strong need to consider how to strengthen the policymaking bodies of the Fund and improve their working methods. Progress in this area is crucial to ensure the continued leadership of the Fund in international monetary and financial matters.

The increased globalization has brought about a number of benefits but also a range of challenges. Recent years have seen an unprecedented number of countries experiencing economic and financial problems. The relative calm experienced during the past few months should not let us defer the difficult task of devising new and better rules for strengthening the international financial system and stabilizing the world economy. The Fund will play a key role in this endeavor.

It must be underscored, however, that the complexity and composition of the economic problems facing the world are such that increased cooperation is called for. The Fund must work closely with the World Bank, regional development banks, the Bank for International Settlements, and other institutions. The rapid changes in the world around us underscore the need to continue to adopt and reform the Fund. New challenges await us in the next century.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR NORWAY

*Hilde Frafjord Johnson*

It is a pleasure for me to address this forum on behalf of the Nordic countries. Last year I attended my first Annual Meetings as Governor. It was in the midst of the Asian financial crisis, and the meeting was overshadowed by the fear of international contagion. Even though a worldwide recession is no longer imminent, we must not relax our efforts to strengthen the international financial architecture to prevent similar crises in the future.

The international financial crisis opened our eyes. Not only did it illustrate the interdependence between developing and developed countries, it was also clear evidence that development is a multifaceted process, where economic, financial, structural, and social factors form a single, seamless web.

The World Bank President, Mr. Wolfensohn, expressed this eloquently in his address to the Annual Meetings last year, and he reverted to it in more practical terms when launching the CDF early this year. The CDF sums up the experience gained through decades of development efforts. Many have said that the messages of the CDF are not new. This is true. But the momentum, the concept, and acting on them would be. We should note that the CDF initiative came from an institution that for years had the reputation for being concerned primarily with economic issues, for paying too little attention to the social issues related to successful development, and for having a tendency to override local ownership. Now the tide is turning. The Nordic countries welcome the CDF. This initiative puts the country in charge of its own development and presupposes cooperation and coordination with the UN system and other development actors.

I want to give the Bank credit for refocusing its business and for its crucial role in initiatives such as the CDF and the HIPC debt relief mechanism. At the same time, I would urge the Bank management to make sure that new values and priorities are internalized by each and every staff member. It is important to remember that to the various stakeholders in the borrowing countries, it is the individual country director or task manager who *is* the World Bank. Furthermore, the skills mix of the Bank staff and the budget structure must be such that it is possible to deliver quality work on social aspects of development.

Changing an institution like the World Bank takes time. Changing the world is an even greater challenge. But that is really what we are try-

ing to do. The responsibility for making change happen obviously does not rest with the Bank alone—nor with the Fund, or other parts of the multilateral system. These institutions have an important role in facilitating change, and constitute important fora where developing and developed countries can meet. But the prime responsibility lies with us, with the individual members of these institutions.

I dare say there is now fairly broad consensus—at least on a theoretical level—on what it takes to foster development. But what does it take to translate this into real change? This question deserves our full attention. We must get beyond the rhetoric and the good intentions. We must act.

And the climate for concerted action is promising. The international community is now discussing some fundamental issues that continue to hamper change. For a long time some of these issues were taboo, not to be mentioned aloud in international debates on economic development. And some of them are still controversial.

I am talking about issues such as governance, democratization, and respect for universal human rights. I am talking about moral obligations and solidarity between human beings—both at the national and at the international level.

The inequalities between rich and poor countries are paralleled by the inequalities between rich and poor people within a country. I would like to spend the rest of my address talking about the responsibility of the political and economic leadership in the poor countries—and the responsibility of the rich countries—to make the necessary changes happen.

Increased weight has been put on the individual country's own responsibility for its development. And this is crucial. It is basic psychology. We all need to be in charge of our own development. And countries are increasingly ready to take this responsibility. This was evident at a recent workshop in Stockholm a few weeks ago, where participants from Tanzania, Uganda, Vietnam, the Nordic countries, the World Bank, and the UN came together to discuss how to make partnerships work on the ground. However, focus on country responsibility does not mean that the rich countries can mind their own business from now on, and leave the whole process to the poor countries alone.

At the country level, it must be clear that ownership and responsibility do not only mean government ownership and responsibility. The leaders must have the people behind them. Democracy and development are inseparable. Economic reforms are necessary but not sufficient. Unless the political leadership is committed to fighting corruption and putting in place good governance, and unless people feel that their leaders represent them, sustainable development is

not going to happen. Developing countries must continue their efforts to promote good governance and ensure respect for human rights.

I think we have made progress in improving our policies and actions when it comes to development assistance. We are concerned with local ownership and donor coordination. We have taken steps toward untying aid. We have come a little further down the road, but we still have a long way to go before what we say matches what we do.

I am referring in particular to the need to see aid policies and trade policies as a coherent whole. A globalized world offers many benefits, but there are also many countries, particularly the poorest ones, that have not yet been able to profit from this process. Unless we cease to treat development and international trade as two separate issues, we will never be able to integrate all the developing countries into the global economic system, and do so in a more just manner.

The marginalization of the poorest countries warrants exceptional treatment. I would like to quote from IMF Managing Director Camdessus' United Nations Economic and Social Council (ECOSOC) address in Geneva on July 5 this year: "The international community can (also) make a major contribution. The industrial countries could open their economies to all exports of the poorest countries, not only encouraging existing primary commodity exports, but—more important for long-term growth—creating the potential for new, more diversified, export production."

This leads us to one of the most difficult and challenging dilemmas of international development. How can we avoid a situation where ministers responsible for development cooperation, like myself, advocate more reasonable distribution of resources in fora like this, while other ministers restrict the import of agricultural products as well as textiles and clothing from developing countries? I am not pointing a finger at anyone in particular. I am afraid almost all of us are faced with dilemmas like this in our respective countries.

We, who are concerned with development assistance, must convince the rest of our constituencies that it is our common responsibility to do away with the injustice and suffering that poverty represents. Closing the gap between the "haves" and the "have-nots" *within* developing countries as well as *between* countries is a question of mindsets, morals, and ethics. It is very much a question of solidarity.

In an ideal world, each and every one of us would be eager to do something about poverty. Our motivation would be that we could no longer endure seeing another human being suffer. But even with a pragmatic and less altruistic view of the world, it is in our own interest to close the gap. The truth is that developing countries represent future growth for us all. And equitable growth means peace and stability for our planet as a whole.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

*M. Ishaq Dar*

It is a matter of privilege and pleasure for me to attend the Annual Meetings of the Fund and World Bank Group. This happens to be the last meeting of the present millennium. An eventful century is coming to a close and, in another 14 weeks' time, a new millennium with multiple challenges and immense promise will be ushered in. This meeting provides us with a unique opportunity to reflect back as well as look forward.

Looking back, one notes that despite the Great Depression, two World Wars, natural calamities, and ideological and territorial conflicts, the twentieth century has witnessed tremendous technological and economic advancement. Even the developing countries have experienced substantial economic progress. Notwithstanding these remarkable advances, the fact remains that one-third of the developing world's population is still caught in the web of abject poverty. As a matter of fact, poverty has started rising again in the wake of the East Asian crisis and the outbreak of conflict in many countries. Further, the economic achievements have not been without heavy cost. The pressure on global resources has intensified, reflecting the fourfold increase in the world population and the indiscriminate exploitation of resources, which has endangered the environment. Given these grim realities, there should be no doubt that the task ahead for the world community will be a challenging one, and we have to persist with rapid economic and social advancement while ensuring that the gains are widely and equitably shared and poverty is reduced in a lasting fashion.

We are entering the next millennium with an increasing emphasis on globalism and liberalism. It is no coincidence that the present century also began with similar circumstances: with freer movement of goods and services across national frontiers and economic thought dominated by market-based solutions. The current situation is, however, more complex, as it goes beyond the traditional areas of trade and commerce to new areas of finance, technology, information, communications, and similar fields whose global flows are expanding rapidly.

Most developing countries are responding to the challenges posed by globalization by liberalizing their markets and disengaging their governments from many economic activities. However, the unevenness of the starting point and the backlog of deprivation and inequity of the past decades are significantly constraining the developing world in benefiting

from the gains of globalization. In fact, rapid globalization and integration is tending to enlarge the economic and social gap between rich and poor nations and make many economies fragile and susceptible to external shocks. Mr. Camdessus, the Managing Director of the Fund, in his address yesterday had urged that globalization be given a human face and its cost be shared equitably. To translate his hope into reality, the developed countries need to increase the concessional resource transfers to the developing countries, reduce their debt burden, and facilitate their access to the developed markets.

The turmoil in East Asia has taught us important lessons. We are now more aware of the various elements that are needed to reduce the severity of potential risks in the process toward liberalization: consistent macroeconomic policies, a sound and well-regulated domestic financial sector, and an appropriate contingency mechanism to deal with potential threats to sustainability of open regimes. On the latter point, as noted in the communiqué of the the G-24, the limited applicability of the Contingent Credit Line calls for a reexamination of all possible options, including consideration of a global lender-of-last-resort. We would also urge further analysis of the efficacy of specific capital controls and look forward to an early agreement on a comprehensive and structured framework for involving the private sector in crisis resolution. We hope that this will be done in a manner that does not cause widespread disruption, nor raise the cost of capital flows to developing countries. The Fund can play a crucial role in this endeavor as a facilitator of good relations of sovereign debtors with their creditors.

We welcome the new initiatives for strengthening the international financial architecture, especially as it relates to the intensification of work on social sector issues. In this regard, the recently developed proposals by the Bank and the Fund to strengthen the link between debt relief under the HIPC Initiative and poverty reduction, to judiciously blend policies of poverty alleviation with structural adjustment and other reform, and to transform the ESAF so as to give greater emphasis to poverty reduction, are especially noteworthy. We hope that the necessary financing for the enhanced HIPC Initiative will be forthcoming and that the funding embodies genuine additionality and does not come at the expense of non-HIPC developing countries. In this context, we are concerned about using IDA resources in any form to fund the initiative. While these developments are praiseworthy, we should not lose sight of the debt problems of low-income non-HIPC countries.

I also welcome the proposal of Mr. Wolfensohn, the President of the World Bank, for a CDF. This is a timely and useful concept that promises to ensure integrated and coordinated economic and social development policies in developing countries. We are watching with great

interest CDF pilot countries and hope that it will be possible to apply the concept widely in the light of experience gained in those countries. It should be ensured that the adoption of this approach does not lead to burdensome conditionalities in program design. I may add that a similar approach has already been taken in Pakistan, where a comprehensive and integrated medium-term development strategy is being followed. The government of Pakistan has recently launched a long-term "Vision 2010" project, which, in addition to sustaining high levels of economic growth and financial stability, emphasizes social and human development, poverty alleviation, and good governance within an integrated and mutually reinforcing framework, with the active involvement of the community and stakeholders.

Let me now briefly comment on the economic situation in Pakistan. The comprehensive program of macroeconomic adjustment and structural reforms that was initiated by our government in February 1997 with the support of the international financial community had started to yield positive results. Economic growth accelerated, and inflation was brought down from double-digit to single-digit levels, against a backdrop of tight macroeconomic policies and the implementation of a number of efficiency-enhancing structural reforms. Unfortunately, the momentum of our efforts was derailed by the unavoidable events of May 1998 and its aftermath. However, I am pleased to note that, since those extraordinarily difficult times, we have been able to consolidate and build on our earlier gains and have succeeded in placing the Pakistan economy on a more sustainable growth path. Financial support from the international financial institutions has been reactivated, and we have reached agreement with the Paris Club and the London Club on rescheduling our external debt-service obligations. Indeed, in the current fiscal year, we have broadened and deepened our adjustment effort and strengthened our focus on poverty alleviation. Concurrently, we have taken steps to improve governance and ensure accountability and transparency. We firmly believe that the challenges of globalization, as well as those arising out of the low stage of economic and social development of the country, can only be met by significant improvements in governance.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

*John R. Kaputin*

The core mandates of the World Bank and IMF remain fully relevant and consistent with the objectives and requirements of the Papua New Guinea government. Papua New Guinea's immediate concern is with her macroeconomic stability objectives. Although many of our problems originated from sources beyond our control (the Asian financial crisis and several natural disasters), Papua New Guinea has not been assisted by external donor financing since 1997.

Consistent with the Fund's advocated policy prescriptions—but, I emphasize, prior to any Fund program—Papua New Guinea has set itself firmly back within a prudent macroeconomic policy framework. Fiscal tightening, fiscal expenditure control and monitoring, and the independent conduct of monetary policy have been reestablished since July 1999. In fact, our macroeconomic objectives in 1999 are probably more stringent than those that would have been set by the Fund had it been able to respond to our policy stance with greater speed.

Consistent with both institutions' mandates, we are also embarking on a rejuvenation of the structural reform agenda. For some years, structural adjustment has been progressing at a less than satisfactory pace. The implications of procrastinating with structural reform are evident in so many case studies today. Papua New Guinea does not intend to become one of these case studies.

Transparency of the reform process is a feature of paramount importance. Striving to achieve the control of corruption will allow fuller benefits to be enjoyed. In this regard the Corporate Governance initiatives of the World Bank are very welcome. I point out that the public sector, and in particular its interaction with the private sector, must become an important target area of Corporate Governance reform. Furthermore, while Corporate Governance comprises internal and external architectures, the external aspect has appeared within the practiced policy mandate of the Bank to date.

Capacity building within institutions is crucially important and a vital complement to the reform process if reform is to remain an ongoing string of events. As well, capacity of institutions will impact on the effectiveness of poverty-reduction efforts made by donors and sovereigns alike. Papua New Guinea must ensure that, in reestablishing macroeconomic stability and the process of effective reform, her institutions are

less vulnerable to crises and more able to deal with Papua New Guinea's long-term development demands.

Papua New Guinea has a need for capacity strengthening in key institutions and has been lucky enough to receive expressions of interest from more than one donor in some areas. In other areas, such as road maintenance and rural development, Papua New Guinea is fortunate to enjoy the presence of more than one donor's interests. While it may seem desirable to receive such attention, a multiple of donors in one area puts a much greater demand on the capacity of institutions to coordinate and reconcile development effort. The Comprehensive Development Framework instrument would appear to be useful in this regard, and its development and use may hold benefits for many countries. I would like to encourage the ongoing work in refining this development tool.

Papua New Guinea has, relative to many less developed countries, a relatively diverse export product base. Our export range is almost entirely made up of mineral production (oil, gold, and copper) and agricultural commodities (coffee, oil palm, copra, cocoa, and timber). In 1998, agricultural commodities accounted for 28 percent of our export revenues, while 66 percent was accounted for by mineral exports, and the balance by marine products. It is clear then that commodity risk management is of great importance to Papua New Guineans. Much of our rural population relies on the production and sale of these commodities for its livelihood. As such, I am pleased that the President of the World Bank, in his address to the Development Committee, has committed the Bank to developing a framework for the development of a market-based approach to risk management.

Papua New Guinea strongly supports the Fund and Bank's objectives in addressing the debt burdens of heavily indebted poor countries. There are very real human consequences that need to be addressed. However, we do have very strong reservations regarding the possible sale of gold to finance the initiatives. Gold exports made up 33 percent of Papua New Guinea's export revenues in 1998 and were responsible for a significant portion of our fiscal receipts.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR PARAGUAY

*Federico Antonio Zayas Chirife*

It gives me great pleasure to address you on behalf of the Republic of Paraguay at this fifty-fourth Joint Annual Meetings of the World Bank Group and the International Monetary Fund. This is a particularly significant occasion for my country, as we wish to reaffirm here today that the Paraguayan people are committed to defending our republic's democracy and its institutions and are willing to undertake a successful structural transformation of our society and national economy. This will only be possible, however, if we can count on the full cooperation of multilateral organizations and friendly nations around the world. Viable reforms of economic systems require a climate of social, political, economic, and financial stability. Paraguay managed to overcome a difficult challenge to its institutions as recently as six months ago, and must now face another major challenge: the reconstruction of our country, a task that our government of National Unity has been focusing on since it took office. As the President of the Republic of Paraguay said at the recent United Nations General Assembly, "The government of National Unity today faces the dramatic challenge of rescuing Paraguay from its state of chronic economic stagnation and grave social inequality."

To gain a sense of my country's critical economic situation, consider that Paraguay's economy grew by 2.9 percent a year on average between 1990 and 1994, but by only 2.0 percent a year between 1995 and 1998. This clearly illustrates the slowdown in the Paraguayan economy, which is made worse by the natural population growth rate of over 2.5 percent a year on average recorded during the 1990s. We are aware that Paraguay's economy must attain higher growth rates in the years ahead, if it is to meet its social needs while maintaining political, economic, and financial stability.

Empirical evidence shows that those countries that have achieved economic success have done so in the context of free market systems, and, by generating sustained economic growth, have enabled large segments of the population to escape from poverty. We therefore wish to express our support for the poverty reduction and sustained growth initiative. We believe, moreover, that options for reducing or offsetting the effects of barriers to free trade need to be explored, and we wish to voice our disapproval of the use of agricultural subsidies.

Our challenge in this process is to overcome the manifold constraints that are seriously complicating our efforts to improve the welfare

of our people. The government of National Unity has taken a historic step by forming a Cabinet representing different political groups and by recently forging a consensus on a medium- and long-term economic program designed with the participation of representatives of the various political parties, thereby ensuring that the members of the National Congress are committed to its implementation. Our government is striving to bring about a consensus on the pathways to reform and has reached agreement with the various political parties and the National Congress on a government program containing a substantial package of structural reform measures, which is in the process of being implemented.

My country's government has launched a frontal attack on corruption, as witnessed by the signing of a cooperation agreement with the World Bank and by tangible measures to combat smuggling and brand piracy, coordinated among the nation's various institutions with the support of the country's grassroots organizations.

A draft government banking reform law has been prepared, with a view to rationalizing the financial public sector and converting it into a unified, streamlined, and efficient entity.

As regards government expenditure administration, and with a view to improving and making efficient use of treasury resources, a draft financial administration law has been prepared, which seeks to modernize the current management of government expenditure and thereby establish more effective quality control over fiscal outlays. Moreover, the financial crises that recently shook world markets have undoubtedly left their mark on our small, open economy. This makes it imperative for us to join in the efforts of the Bretton Woods institutions to design a new international financial architecture that will help developing countries strengthen their financial markets and ensure their proper integration into the globalized world.

Now that 54 years have elapsed since the creation of the Bretton Woods institutions, and as a representative of one of their founding countries, I wish to state my conviction that these institutions must endeavor to maintain their effectiveness and their relevance as they pursue their objectives. We believe it essential that equity be included among the aims of the programs implemented and that the anticipated effects of international cooperation and partnership should materialize in a more favorable climate, so that our people can—in the not-too-distant future—begin reaping the benefits of their efforts. Adjustment programs must show their human face and must contain remedial social policies that mitigate societal differences.

We call for support and cooperation from multilateral organizations, in order to ensure the success of our economic revitalization and

antipoverty programs, as such measures will be essential to strengthening our government's effort to sustain democracy.

In this context, we are heartened by the 1998 review of the Concordat, the purpose of which was to reconsider the principles of Bank-Fund cooperation and collaboration with a view to increasing the effectiveness of both institutions. The World Bank should be able to present us with various options for enabling it to maintain its financial capacity, in terms of the specific challenges facing its member countries, while safeguarding its net income.

Paraguay's present government has shouldered an immense historical responsibility, imposed by the heavy costs of the events in our country in March 1999 (*Marzo Paraguayo*). Furthermore, our government is committed to focusing its actions on implementing the structural reforms necessary to achieve sustained and sustainable economic growth through the development of a production framework based on competitiveness, with a view to fostering social progress for the Paraguayan people. The role of the state will be to promote the rationalization and redirection of government expenditure toward social sectors, investment in infrastructure, and the strengthening of the production sector. Also, our government's responsibilities include achieving qualitative improvements in poverty analyses, making it possible to direct government expenditure toward the specific objective of improving the welfare of our people.

In closing, I urge you to appreciate our government's desire to have an open and structurally coherent economy—an economy in which our leadership is committed to facilitating the attainment of economic growth in an environment of freedom and democracy, while advocating the balanced and reciprocal liberalization of trade and finance, so that we can usher in the new millennium with zero-inflation growth, fiscal equilibrium, and a dynamic and competitive private sector that responds innovatively to the challenges of competitiveness, technology, and efficiency, for the sake of all those who inhabit our land and who yearn to live in peace and happiness.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR PERU

*Victor Joy Way*

It is a great honor and privilege for me to address this assembly as the representative of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Peru, on the occasion of the fifty-fourth Annual Meetings of the Governors of the World Bank and the International Monetary Fund.

*Global and Latin American Economic Development*

The countries of the region regard the slow but steady recovery of the global economy with hope and a certain measure of optimism. On the one hand, the United States continues to lead the world in economic growth, at the same time maintaining low inflation and a high level of employment. The European countries are showing signs of increased economic activity, Japan is emerging from recession, and the other Asian countries have succeeded in stabilizing their economies and resuming growth. The resurgence of these economies will contribute to renewed demand for our region's major exports and normalization of their international market prices.

Throughout 1999, the Latin American economies continued to be affected by deteriorating terms of trade and the reduction in capital flows that had begun in 1998. However, thanks to their sustained prudent policies and greater dynamism in the global economy, conditions have been created that can be expected to result in 3.9 percent GDP growth in the region in the year 2000. This achievement goes hand in hand with a continuing decline in the inflation rate. There can be no doubt that these improved prospects are ascribable to some extent to the positive developments in the economy of Brazil, which has managed, after a major effort, to reverse the conditions of uncertainty that prevailed a year ago and achieve a higher level of economic growth than initially projected.

On the other hand, elections are to be held in several countries in the region in 1999 and 2000. However, given the consolidation of our democratic systems and the fact that a consensus has emerged in favor of economic stability, we do not expect this heavy electoral calendar to be a cause of economic disruption. At the same time, we are aware that we are still at risk should there be adverse developments in the global economy—such as an economic slowdown in the United States. On this score,

we take a positive view of U.S. preventive monetary policy measures, which will contribute to the stability of international financial markets.

The unforeseen, major shocks that many of our economies have had to contend with since mid-1997, not to mention the rapidity and extent of their contagion, have proved a sharp reminder that the individual countries, as well as the international financial system as a whole, need to strengthen existing preventive mechanisms. The Contingent Credit Line introduced by the Fund in April this year is a valuable tool in this regard, although we believe its design could be improved in certain respects.

This initiative, designed to prevent the contagion effects of international financial crises in countries that are following sound economic policies, is a major element in the new international financial architecture. Nevertheless, there is still no clear view in the markets as to whether a country's access to the Contingent Credit Line should be interpreted as insurance against risk, or, on the contrary, as a factor that increases the perception of risk and so adds to the country's cost of access to capital.

I would now like to review some of the key proposals for strengthening the international financial system and expanding the scope and coverage of the initiative to reduce the debt burden of the heavily indebted poor countries. Strengthening of the links between debt relief and poverty reduction, in the context of the programs the Fund and the World Bank provide for their poorest and most indebted member countries, is of particular importance to several of our countries.

### *Strengthening the International Financial System*

Given the globalization of international capital markets, it is difficult to imagine a system in which private operators would not play an important role not only in the prevention but also in the resolution of financial crises. Our countries support the initiative calling for voluntary participation by the private sector in the resolution of international financial crises, and in doing so wish to reiterate that it is necessary to exercise caution in designing and implementing the arrangements through which such participation would materialize. In our opinion, creditors should participate on a voluntary basis and in their own best interests; steps should be taken to minimize possible adverse effects on the risk premium applied to the developing countries; and the mechanism should be sufficiently flexible to accommodate the varying circumstances surrounding the issue of debt instruments by private entities.

In this process, the Fund must help seek solutions that will be viable for both sides and not impose any one specific solution on private creditors. The proposal by the industrial countries to incorporate provisions in

bonds that would facilitate their restructuring is a positive initiative that should first be adopted in the developed countries, in both the public and private sectors, so as to establish a new standard. Nevertheless, until conditions such as these prevail in the market, it is likely that this clause would adversely affect the access of developing countries to the international capital market.

The countries in our region approve of the efforts to strengthen the international financial system by going beyond the Basle standards. Nevertheless, the role to be assigned to risk assessment agencies must be approached with extreme caution, and care should be taken in general to ensure that the measures do not affect our countries' access to international markets or the costs they incur in the process.

On the subject of choice of a particular exchange rate arrangement, our position is that countries are entitled to opt for whatever exchange system they consider best suited to their needs. The experience of our countries has demonstrated that the most important factor is the fit between the country's economic policies and the exchange system that it has chosen.

There is general consensus that the process of capital account liberalization should follow an ordered sequence so as to minimize risks like those stemming from the contagion effect of crises originating outside the particular country. Our countries stand to benefit from the opening up of the capital account, as long as they follow sound macroeconomic policies and move ahead with essential structural reforms, including stronger financial system regulation and supervision. The Bretton Woods institutions should continue assisting those countries that require it to strengthen their public administration and the institutional framework through which such policies and reforms are implemented.

#### *Linking the HIPC Initiative to Poverty Reduction*

The countries in the region have consistently supported proposals for providing substantial debt relief for the heavily indebted poor countries. Consequently, we regard as very important the proposal submitted at the G-7 meeting in Cologne, calling for an increase in the scope and coverage of debt reduction for the HIPC countries; it is also essential, therefore, that the necessary financing be provided.

The countries in our region are making considerable efforts to contribute to this financing, not only through the multilateral institutions, but also in some cases by reducing the official debt of countries that have qualified for HIPC assistance—as Brazil has done. Some of the non-HIPC countries in the region should join in a plan to share the cost of such financing equitably.

In this connection, we wish to express our concern regarding the financial stability of the regional multilateral institutions, whose commitment to the HIPC Initiative could jeopardize their continuing role in financing development projects in the countries of the region. There is also some concern regarding the financial position of the World Bank and IDB, which are facing serious problems in financing their participation in the enhanced debt relief framework. In our view, the main source of additional financing should be the bilateral contributions from the countries with the largest economic capacity, particularly those that took the lead in enhancing the HIPC Initiative.

The countries in our region applaud the Fund's efforts to find a creative solution to the problem of selling 14 million ounces of its gold reserves by employing a procedure that takes account of both the legitimate interests of gold-producing developing countries, and also the need to secure adequate resources to enable it to contribute to the enhanced HIPC Initiative. The region welcomes the joint efforts of the Fund and the World Bank to strengthen the links between debt relief and poverty reduction, in the context of the economic programs introduced under the HIPC Initiative. But we wish to emphasize that this is an instance of cooperation between two institutions with different mandates. The Fund should continue to concentrate its experience and expertise on issues relating to the macroeconomic stability of its member countries, while the World Bank should focus on development, including poverty reduction. The countries in our region agree that it would be very difficult in practice to include specific social indicators in the quantitative and structural targets in Fund programs in general, although we acknowledge that, in HIPC countries, substantial progress on social issues and poverty reduction should form part of the final objectives of the Initiative.

### *The Peruvian Economy*

I would now like to refer to the economic situation in Peru. Fiscal stability and monetary prudence, combined with the ambitious program of structural reform that has been implemented over the present decade, have enabled Peru to reduce its inflation rate from 7,600 percent to the level of about 4 percent projected for this year. The stability thus achieved has created favorable conditions for sustained economic growth, spurred by private investment and exports. Over the past five years, annual GDP growth has averaged 6 percent.

This year, despite a continuing deterioration in the terms of trade and reduced capital inflows, we expect increases in output to reach 3 percent, with 5 percent in the year 2000. From 1993 to 1999, exports doubled, thanks to a sound macroeconomic base and maintenance of a

floating exchange rate. The current account deficit has been narrowed, and this year it should be reduced by approximately 4 percent of GDP. It has been financed by the long-term private capital associated with investment projects resulting from the government's commitment to macroeconomic stabilization and the adoption of measures to strengthen the existing legal framework, which is clearly favorable to domestic and foreign investment.

We have been able to deal with the adverse external events that have affected our economy since 1998, including El Niño, because of the soundness of the economy and maintenance of both a prudent level of international reserves and a strict framework of regulations and prudential supervision. It must be emphasized that the level of international reserves is more than enough to cover short-term debt and future external debt maturities. However, the shocks we have had to face have resulted in a slowdown in domestic demand and in tax collection. As part of the process of approving the budget for the year 2000, the government has announced austerity measures to improve its fiscal position and foster the necessary conditions for the recovery of private sector activity.

Peru's economic progress has brought about substantial advances in poverty reduction and improvements in the living standards of its people. I must emphasize how important it has been to win a victory over terrorism and finally establish peace with Ecuador. These events have been especially significant in improving the prospects for investors and, above all, in enhancing the welfare of our citizens.

Over the past decade, Peru's achievements have been substantial, consisting of economic stability, domestic and international peace, and integration into the global economy. We have established the basic conditions necessary for Peru's sustained growth over the coming years, providing opportunities for all its citizens within a market economy based on private investment, this being the foundation we are endeavoring to consolidate.

The great challenge of our time, and our principal national objective—the aim upon which a consensus must be reached by all social and productive sectors and all political groups, regardless of any ideological considerations or circumstantial disagreements—is poverty reduction, or, in other words, an increase in wealth through the creation of productive employment throughout the country. All our efforts are directed toward this basic goal and should continue to be directed toward it, with increasing determination.

The challenges facing Peru are to achieve growth, which is first and foremost equitable; to develop a market-based economy; to strengthen democracy and institutions; and to guarantee access to health care and education for all. In Peru, we have taken up these challenges with the

same earnestness and conviction that have characterized the country's performance over the past decade.

I wish to express the appreciation of the Peruvian government for the efforts of the Fund, and particularly the work of Michel Camdessus and the President of the World Bank, James Wolfensohn, and for the support that both institutions have provided for the economic and financial policies that the country has pursued since 1991. This year, Peru has signed a new three-year Extended Arrangement with the Fund, a fact that confirms the country's commitment to macroeconomic stabilization, reaching beyond the approaching elections.

The approach of the new millennium, and these Annual Meetings of the Fund and the World Bank, provide an appropriate time for us to renew our faith in a higher destiny for all the men and women on this planet. The twenty-first century will find Peruvians working and helping build a more humane and just world.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE  
REPUBLIC OF POLAND

*Hanna Gronkiewicz-Waltz*

I am honored to participate in the Annual Meetings of the International Monetary Fund and the World Bank taking place on the eve of the new millennium. The turn of the century is an excellent opportunity to sum up our recent accomplishments and to set clear objectives for the future. After the latest financial crises that so strongly affected many countries of Asia, Latin America, and Europe, the global situation is gradually stabilizing, although its far-reaching effects will persist for a long time. However, that does not mean that the most serious problems faced by an ever-increasing number of the poor of our planet are vanishing. We welcome the fact that international financial institutions attach growing importance to the problem of poverty.

The discussions on the necessity of reforming the international financial system and creating a basis for new international financial architecture are already bringing noticeable effects. Our viewpoint is that capital flow liberalization, in combination with the implementation of adequate and rational fiscal and monetary policies, can contribute to foreign capital inflows—to an increasing extent from private sources—which

are essential to achieving fast, sustainable economic growth. However, because of a huge volume of daily capital flows, the question of liberalization needs to be considered with due care, as free capital can be a source of potential turmoil in international financial markets. Poland actively takes part in all discussions on these subjects, taking the view that the most important question is the actual implementation of internationally accepted standards of conduct that may be instrumental in alleviating problems related to the flows. A decision to join the Fund's operational budget on September 1, 1999, was our practical contribution to increasing the Fund's lending capacity.

Within the process of strengthening financial systems, we attach great importance to the analyses and assessments made by the Financial Stability Forum. Its works on capital flows, risk related to excessive short-term debt, and the role played by international financial organizations able to exert political and economic influence will significantly contribute to the implementation of a reasonable policy in all areas relating to a stable financial system. We believe that the forum should take into consideration the opinions of as many countries and international institutions as possible. The first-hand experience of the emerging markets affected by the recent crisis and, to an even greater extent, of the ones that have managed to withstand it can undoubtedly heighten the effects of the actions undertaken by this body.

One of the key elements in the process of strengthening the international financial system and successful carrying out economic reforms is transparency of actions taken by governments and central banks. Disclosure of information related to fiscal and monetary policies enables the public to understand and evaluate financial policy as a whole, thus facilitating the authorities' undertaking actions leading to financial and systemic stabilization. It is obvious to us that only a credible information system can guarantee an effective execution of the economic policy. Since the beginning of the transformation process, Poland has conducted an open information policy, which has contributed to a successful implementation of the economic policy in our country.

For many years, preventing financial crises and alleviating their adverse effects have been the focus of attention of the international financial community and governments, as serious financial difficulties can turn at a fast rate into devastating economic crises. Investors very often include all emerging markets in the same investment risk group. A crisis arising in one country brings about deleterious consequences for others in the region, and owing to the contagion effect, an immediate foreign capital flight follows. We are glad to notice that at present much consideration is given to this question, but we believe that it should remain the center of attention.

We should also aim at increasing the involvement of the private sector in the process of preventing and overcoming a crisis. Cost sharing should be determined on a voluntary rather than obligatory basis. Emerging markets' governments should attach more importance to regular cooperation with the private sector on creating advantageous conditions for long-term foreign investment as well as to maintaining current contacts. The international community—especially international financial institutions and governments of the most developed countries—has a crucial role to play in the fight against poverty and in assisting the countries suffering from the effects of crises. We are satisfied with the fact that the terms of alleviating the poorest countries' debts under the HIPC and ESAF programs have been agreed. It is definitely a desirable step toward improving their situation and beginning the process of an economic revival. To support this valuable initiative, Poland has declared a 20-year interest-free deposit with the Fund and additionally declared 5 million SDRs.

However, it ought to be emphasized that the debt reduction itself, without a tailor-made assistance program for each country, will not yield expected results. Debt reductions should supplement and not replace assistance offered to help achieve economic development. We also need to be aware of a crucial task of determining the size of the necessary assistance and a period of time during which it is supplied. We should consider ways of providing political consulting on the steps that have to be taken by the local authorities toward opening the economy, administering public and assistance funds, and pursuing sound economic policy. Taking into account situations specific to individual beneficiaries, we can learn from the useful experience of the countries that have already gone through this difficult stage of their history. The Comprehensive Development Framework, presented by Mr. Wolfensohn, President of the World Bank, can be instrumental in pursuing this objective.

Another priority we must not fail to recognize is taking up a determined fight against a phenomenon of widespread corruption, which is one of major factors hampering economic and social development. Corruption diminishes the effectiveness of international assistance to the poorest countries, which, in extreme cases, can even be discontinued. However, applying only legal means in this fight is not sufficient. Such actions need to have strong political and social support. Eliminating the adverse effects of corruption on international financial and commercial transactions requires the close cooperation of developed and developing countries. In the ever-changing international situation, defining new forms of corruption as well as increasing pressure on applying effective means, which have already been used in numerous developed countries, of counteracting corruption at any level, should also be taken into consideration.

Poland is ready to combine her efforts with those of all the countries that are represented here today, and with the Fund and the Bank, to find the way out of the difficulties that still lie ahead of us to enter the new millennium with a more stable global situation.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PORTUGAL

*Antonio de Sousa Franco*

Since our last meeting, global economic prospects and financial markets have improved significantly, mainly in the past few months, largely eliminating earlier concerns of a worldwide economic recession. We are especially happy with the right policies and international solidarity, which made possible the containment of the Brazilian crisis and the quick beginning of recovery in Brazil. However, all over the world, the recovery is uneven across regions and remains unbalanced among industrial countries, while developing countries are growing at a rate that is still insufficient to make a difference in the poverty situation.

You will understand, my fellow Governors, that for my country, the most important event in the past months is the referendum in East Timor and the following massive destructive actions. Let me pay homage to the brave people of East Timor, who in spite of risking their lives, gave to all of us a lesson of their firm commitment to take their future into their hands and pursue an independent democratic state. This was a first step in creating the necessary conditions for peaceful development within the country. Before initiating that process, however, peace, law, and order have yet to be restored and emergency assistance is extremely urgent, with the help of all friendly countries, all East Timor's neighbors, and the international community as a whole.

Looking toward the future, let me stress that, as the sources of financial instability subside and world recovery expands and takes root, it is our obligation to address urgently the needs of the poorest countries. Fighting against poverty is a long-term and complex process, and we can not afford setbacks and further marginalization of countries or groups of people within countries. We warmly support the proposals to enhance the HIPC Initiative and call for its effective implementation. Debt relief is just an instrument for achieving sustainable poverty reduction and development in a broader sense. What is needed is not just growth, but growth that creates jobs; eliminates inequalities of income and gives access to

education, health, water, sanitation, and other basic services—in other words, growth that provides opportunity to all people. We have the political commitment, we have closer cooperation between the Bank and the Fund, and we need the means to translate our commitment to debt relief into results on the ground, under the leadership of recipient countries. Portugal has long been granting debt relief; it has already contributed to the HIPC Trust Fund, and my country stands ready to further contribute at a higher level of commitment toward this joint effort.

Development is a long-term, multifaceted, and interrelated process. It will require strong multilateral financial institutions, capable of—along with recipient countries and other partners—assisting countries in this process. The World Bank Group's financial situation has been put under some stress, and we have a responsibility to undertake measures to strengthen its financial capacity. We strongly support having an institution that is able to fulfill its development mandate and serve its members.

Globalization is a fact of life, but not all countries are taking part equally in this irreversible process, and inequality is an undesirable consequence of that. One way to help countries to become more integrated with the world economy is through participation in international trade. We concur with the proposed approach by the Bank to help developing countries to participate in the upcoming round of World Trade Organization negotiations.

It is time to rethink globally, on the other hand, a new financial architecture. Both the Bank and the Fund are moving in the right direction, but we urge all countries—especially the Group of Seven members—to quickly and globally rethink the current situation. Otherwise, new crises will certainly emerge out of the slow pace of reform. Deep and quick reform is not only needed by each one of our countries, it is also needed urgently by international institutions.

Before ending, I would like to return to my first topic: East Timor. We call for the international community to take firm action to restore peace, provide emergency aid, and contribute to the reconstruction needs of this devastated territory and people. We have to focus on immediate humanitarian needs—protecting and feeding displaced people, helping them return safely to what is left of their homes, preventing any recurrence of violence, reconstructing families and communities, and providing basic infrastructures. At the same time, we have the obligation—an obligation of solidarity—to begin the urgent and demanding process of reconstruction, and to help East Timor in building schools, health facilities, starting up economic activities, and setting up institutions and training people for a democratic and self-governed nation. Otherwise, words like democracy, human rights, law and order, social and economic development would

become quite empty. As our institutions have shown in the past, and will show again in the future, cooperation for democracy and development shall be the right and urgent medicine for this situation.

STATEMENT BY THE GOVERNOR OF THE BANK FOR  
THE RUSSIAN FEDERATION

*Viktor Khristenko*

*World Economic Outlook*

Since our previous meeting last year, the global economic situation has improved substantially. Economic recovery in the countries hardest hit by the crisis came about faster than previously expected. Projections for growth in the Asian economies in 1999–2000 have been substantially upgraded, the economic downturn in Brazil turned out to be less serious than previously expected, and in Russia a return to economic growth that was interrupted in 1998 is now expected in 1999.

I would also like to mention the signs of economic recovery in Japan, which has been in recession for a long time. The stabilization of world commodity prices, together with increases in world prices for oil, have helped to improve the financial position of commodity exporting countries. The increase in capital flows to emerging market economies creates a background for stable economic growth in these countries over the medium term.

Despite the general improvement, however, the latest edition of the *World Economic Outlook* notes the remaining uncertainties and risks. In an environment where a slowdown in the U.S. economy seems unavoidable and the recovery in Europe and Japan remains problematic, it is not clear who will act as the “engine” for the global economy. Moreover, the long-standing divergence in growth rates among the leading industrial economies has already resulted in serious current account imbalances.

*Crisis Resolution in Emerging Market Countries*

In the Asian region we see a gradual improvement in the economic situation, which manifests itself in renewed growth and inflow of foreign private capital. This is particularly true of Korea and Thailand, which pursued the most steadfast and consistent policies in the period following

the financial crisis. At the same time, these countries have not yet completed the complex structural reforms, especially in the banking and corporate sectors.

Economic contraction in a number of countries of Latin America this year is explained largely by the impact of the financial crisis in Brazil. On the other hand, the decline in output in Brazil itself was not as severe as had been previously expected. This was primarily the result of responsible macroeconomic policy and vigorous structural reforms carried out in the country, which made it possible to restore investor confidence quite rapidly. It is expected that in many Latin American countries there will be a resumption of growth as early as next year.

As far as the Russian Federation is concerned, we can already say today that the worst fears expressed after the severe financial crisis in August 1998 have not materialized. The policies of the government and the central bank largely stabilized the situation. Moreover, the devaluation of the ruble had a positive impact on the real sector. For example, in the first half of this year industrial output grew by 3 percent compared to the same period last year.

A reasonably tight monetary policy helped reduce inflation to 1.2 percent in August 1999, in comparison with double-digit monthly inflation last year. It is expected that this year, as a result of the devaluation of the ruble and higher oil prices, there will be a substantial improvement in Russia's current account (which is expected to reach a surplus of up to 14 percent of GDP). This, in turn, is stabilizing the central bank's foreign exchange reserves and the exchange rate of the ruble.

Noticeable progress has been achieved in the fiscal sector, which has been the weakest point in Russia's economic policy over the recent years. Tax and tariff collection improved significantly; in the first half of this year federal budget revenues exceeded 13 percent of GDP as compared to 11 percent last year. Moreover, all federal budget revenues are being collected in cash, since the practice of mutual offsets has been terminated. It is already clear that the federal budget primary surplus of 2 percent of GDP stipulated for this year will be successfully achieved. The draft federal budget for 2000 calls for an increase in the primary surplus to 3.2 percent of GDP.

Of course, many problems remain, especially on the structural front. We must complete the restructuring of the banking system, which was hard hit by the crisis. Strengthening payment discipline and reducing the degree of "barterization" of the economy continue to be among the most important objectives. The government and the central bank intend to address all these issues in close cooperation with the Fund and the World Bank. Currently, Russia is successfully implementing a Stand-By Arrangement agreed with the Fund.

*Strengthening the International Financial Architecture*

Increasing globalization of international capital markets is bringing new challenges to exchange rate regimes in emerging market economies. As the recent experience of many countries shows, defending the exchange rate with interventions counter to the market sentiment merely leads to rapid exhaustion of foreign exchange reserves. Many believe nowadays that the only choice for emerging market countries should be either a freely floating system or a currency board arrangement.

It is true that during the recent financial crisis, countries with currency board arrangements successfully defended their national currencies. They paid for this, however, with a loss of competitiveness, and an economic downturn. Meanwhile, some countries that were pursuing a more discretionary exchange rate policy managed to avoid both an economic downturn and a sharp depreciation of the national currency. These countries are known for their healthy macroeconomic situation and stable financial system, and also for a high level of foreign reserves, which significantly exceed their monetary base. It seems that precisely these factors also determine the stability of the currency.

Clearly, exchange rate stability is of great importance for robust development of the economy, since it reduces the degree of uncertainty for all agents. Successful management of the exchange rate, however, requires a whole range of conditions, such as a healthy macroeconomic situation, a strong financial system, and a high level of foreign exchange reserves. For emerging market countries where these conditions do not hold, it is better to adhere to a floating exchange rate policy. This is especially true for countries that are heavily dependent on world commodity prices, since a floating exchange rate makes it easier to absorb terms of trade shocks.

Liberalization of capital flows is useful and beneficial. At the same time, it does entail considerable risks and requires careful preparation. The main condition for success, in addition to general macroeconomic stability, is the need to have strong financial and banking systems backed by independent regulatory bodies. Prudential control of capital flows (especially short-term ones) are permissible, and in certain cases even desirable. The very term “orderly liberalization of capital movements” assumes the sensible use of restrictions and their gradual relaxation in line with the pace of economic reforms. The advisability of employing such restrictions is determined by a whole set of circumstances, such as the overall level of a country’s economic development, depth of financial markets, state of the banking system, and so on. As noted in Fund reports, many countries view such restrictions as a useful instrument and their own experience in using these restrictions as an obvious success.

Moreover, interest in the experience of these countries has been growing lately. Therefore, we believe that there is a need to continue the studies of experience with using capital control measures. We are not opposed to amending the Fund Articles of Agreement to add the capital account liberalization to the Fund's objectives. At the same time, capital account liberalization should not become a condition for access to Fund resources.

The question of involving the private sector in forestalling and resolving financial crises is very important for strengthening the global financial architecture. We have no doubt about the need for the private sector to participate in the resolution of financial crises. At the same time, we believe that this is a very complicated task requiring a cautious approach. On the one hand, we understand the desire to work out a set of rules on this issue, which would both help reduce uncertainties on financial markets and provide for a more equitable burden sharing among various groups of creditors. On the other hand, any hasty and unwise steps in this area could lead to a drastic deterioration in borrowing conditions for emerging market countries. We would also note that some useful experience is being gained in this area now.

We also need to maintain an ongoing dialogue with representatives of the private sector. We need to explain that the Fund does not seek to impose specific parameters for restructuring private sector claims, and that the Fund simply evaluates the status of a country's balance of payments, while all decisions should properly be based on the outcome of negotiations between creditors and debtors. It is also important that the private sector not get the wrong idea that some specific decision taken with regard to one country or another will henceforth necessarily become a rule.

We support the transparency and international standards initiatives undertaken by the Fund to increase the degree of openness of its activities, as well as its relations with member countries. Substantial progress has been achieved in the development and implementation of international standards in the areas directly related to the Fund's mandate. We support the strengthening of the SDDS with respect to international reserves and external debt. We also believe that the codes of good practice for fiscal, monetary, and financial policies developed at the Fund will be very useful to countries working to strengthen their budgetary and financial systems. At the same time, we believe that the use of standards in the Fund's activities should be restricted to the analysis of progress achieved by the countries, and recommendations about further improvements; in no way should they be used to categorize countries for whatever purpose.

*Cooperation Between the Fund and the World Bank*

Successful cooperation between the Bretton Woods institutions is a crucial element of the international financial architecture. This cooperation becomes even more important during major financial crises. The Fund and the Bank are currently faced with a dual task: dealing with the aftermath of the crises and preventing contagion and recurrence. We are pleased to note significant progress achieved in this area. The Interim and Development Committees devoted much attention to the specific aspects of cooperation between the two institutions. This cooperation should be based on two fundamental principles—complementarity and avoiding duplication. On the one hand, each institution should focus on its own area of expertise; on the other, the knowledge and experience should be shared between the two and integrated into respective policies and documents. Contacts should be established at all levels of the hierarchy. In our view, the activities of the Financial Sector Liaison Committee of the Fund and the Bank may be viewed as a model for such cooperation. However, the mandates of the two institutions remain different. Specifically, national fiscal and monetary policies tend to affect the situation in other countries and regions. The Fund is thus charged with a special surveillance mandate. This function is not a part of the World Bank mandate, which is therefore not a standard-setting body. The Bank's role is to provide resources for development and poverty alleviation in developing and transition economies. The Bank's valuable role as a knowledge institution should remain client-driven and advisory only.

*Initiative for Heavily Indebted Poor Countries*

We support the HIPC Initiative and the reallocation of resources currently going to service external debt toward funding poverty reduction programs. The countries pursuing sound macroeconomic, structural, and social policies should be able to escape from the "debt trap" in the nearest future. The Russian Federation will continue to fully participate in operations to assist individual countries on the basis of the agreed principles of burden sharing. We particularly welcome the new emphasis on poverty reduction in the initiative design, which fits so well the Comprehensive Development Framework. However, our support for the expansion of the initiative is conditioned on its adequate financing. At the same time, we would welcome a compromise solution that takes into account budgetary and domestic political problems of individual donors and creditors. Firm donors' commitments can be combined with a more flexible schedule of actual payments.

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

*G.L. Peiris*

It is a privilege for me to address the fifty-fourth Joint Annual Meetings of the Fund and the Bank on behalf of the government of Sri Lanka. Let me join my fellow Governors in congratulating you on your assumption of the chairmanship of the 1999 Annual Meetings.

*World Economy and Policy Challenges*

Global economic and financial market conditions have improved since the last Annual Meetings, allaying our earlier fears of a worldwide economic recession. Despite further prospects reflected by some factors, risks, and uncertainties remain high, posing challenges to policymakers. A major concern in this regard arises from the imbalanced growth pattern among major industrial countries, leading to persistence of macroeconomic imbalances and aggravating systemic risks for potential sharp corrections in response to reassessment of market confidence and monetary policy changes. Furthermore, net capital flows into developing countries and transition countries remain low and costly. The continuation of depressed nonfuel commodity prices creates terms-of-trade difficulties for commodity-exporting countries. Furthermore, potential reactions to actual or perceived Y2K compliance in the run-up to the year 2000 may create an additional risk factor.

These concerns underscore the necessity of strengthening macroeconomic policy coordination among the major industrial countries. Such policy coordination is also crucial to minimize sharp exchange rate fluctuations among major international currencies. Meanwhile, strengthening of noninflationary demand in industrial countries and further opening of their markets for developing country exports are necessary to create a conducive external environment for developing countries.

Let me turn now to my own country. Despite the adverse impact of international financial crises, Sri Lanka achieved 4.7 percent economic growth in 1998, reflecting improved resilience in the economy and the benefits of continuing prudent macroeconomic management. The policies in place and new policy responses could not eliminate the completely adverse impact of external shocks, but they mitigated the contagion effect to a large extent. The inflation rate further declined owing to improved supply conditions, lower import prices, and successful monetary management. The rate of unemployment continued its

downward trend for the sixth consecutive year, reflecting expansion of job opportunities, mainly in the private sector. Investment has expanded, reflecting improved investor confidence. Domestic savings increased at a faster rate, reducing the investment savings gap. Even though export revenue has been affected during the first half of 1999 on account of depressed commodity prices in the international markets, economic prospects are now improving in the second half as expected.

The government has been actively pursuing its primary objectives, moving toward sustainable high economic growth, and ensuring the fair distribution of benefits of such growth. Improving macroeconomic stability, promoting private investment, strengthening international competitiveness, and addressing directly the problems of poverty and unemployment are the main elements of our strategy. Within this strategy, special emphasis has been placed on structural reforms in order to address deep-rooted growth-hindrance issues. In the political sphere, considerable progress has been made in building consensus among all parties on major issues addressed by the proposed constitutional reform package in order to find a political solution to the ongoing conflict. I greatly appreciate the increasing support of the international community for this difficult but necessary endeavor.

#### *Bretton Woods Institutions*

Turning to the Bretton Woods institutions, we commend their efforts to facilitate world economic recovery and to develop crisis-preventive and resolving measures. We appreciate the progress made by the Fund in improving the existing instruments and introducing new instruments, in order to provide faster and adequately necessary resources to crisis-affected countries. We also welcome the introduction of a facility to help members to meet their balance of payments need, related to Y2K compliance problems. My country strongly supports efforts for improving the effectiveness of the ESAF and enhancing the HIPC Initiative to provide deeper, broader, and faster debt relief. I am happy to state that my country has decided to make available its balance in the second Special Contingent Account as an interest-free deposit for the HIPC financing.

While noting recent improvements in the Fund's liquidity position following the quota increase under the Eleventh General Review, we underscore the necessity of early completion of the amendment to Article II for a one-time "selective" SDR allocation. We welcome the appointment of the Quota Formula Review Committee, necessary as it is to improving the quota allocation of the Fund by taking into account developments in the world economy. Given the increasing demand for the Fund's resources, an early resumption of new "general" SDR allocation under the current Articles of Agreement, giving due recognition to increasing the

share of developing countries in the world economy, is also an essential step.

We welcome the Fund's efforts in expanding external evaluations to improve its surveillance and research activities. I am confident that implementation of constructive proposals in these evaluations will strengthen the Fund's surveillance activities and its role as policy adviser. While commending the successful accomplishment of IDA-12, I wish to emphasize the necessity of ensuring proper burden sharing in the mobilization of the required resources.

We appreciate the World Bank's efforts in poverty alleviation activities. However, we underscore the necessity of mobilizing a more bilateral contribution for financing the enhanced HIPC Initiative in order to ensure resource availability for the World Bank's normal development credit facilities. Given the increasing demand for World Bank resources, it is essential to explore all equitable options, including a general capital increase. I welcome the World Bank Group's innovative approach to facilitating and encouraging private sector investment in developing countries. We welcome the progress made so far on a number of fronts by the Fund and the World Bank in collaboration with other institutions in their efforts to strengthen the international financial system. However, I wish to reiterate the necessity of adequate and effective involvement of developing countries in this process in order to develop measures acceptable to all of us. We welcome the World Bank's increasing efforts, together with other international organizations, to provide the necessary assistance to strengthen institutional capabilities in developing countries to handle trade-related issues. Developing countries look forward to the outcome of the ongoing work of the task force led by the World Bank to formulate a new initiative for stabilizing and hedging commodity prices.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR  
SWITZERLAND

*Kaspar Villiger*

A remarkable change has taken place in the global economic situation since our meeting last year. The risk of serious slowdown has receded, and financial markets have calmed down significantly. In my statement last year, I cautioned that we should not overdramatize existing

problems, but tackle them. Positive developments over the last year underscore that we have been quite successful. Overall, skillful economic management, implementation of ambitious structural reforms in many crisis-hit countries, as well as some progress in strengthening the international financial system are the main reasons for the improvement of the global situation.

This being said, we have no reason to be complacent. It would be a fundamental mistake to relent on our efforts to tackle the still remaining challenges based on improved circumstances. Developments in recent months have shown that financial markets can become volatile very quickly, given the remaining uncertainties. Abrupt corrections in exchange rates of major currencies cannot be excluded, given existing imbalances between major economies. Furthermore, the uncompleted agendas of structural reform in the banking and corporate sectors in many countries could become a serious source of concern in the event of a deterioration of the global economic picture.

To reduce further the risks of future financial crisis, we must continue with our endeavor to strengthen the international financial system. I am convinced that our efforts to date are beginning to bear fruit.

Significant progress has been achieved in the area of promoting greater transparency of members' policies and IMF advice. Article IV reports are being published by a large number of countries, and most members with IMF-supported programs are publishing their policy documents. Better-informed populations and market participants translate into less uncertainty and strengthened ownership of economic policies. I also commend the Fund for its efforts in establishing international standards and best practices in the areas of its core activities. The next step is to ensure the implementation of these standards and practices and monitor the progress. The Fund plays a key role in this area, given its universal membership and its surveillance mandate. In the context of standards, I also welcome progress made by the World Bank in the areas of corporate governance and social policies. Our experiences in recent crises have demonstrated how macroeconomic difficulties can be exacerbated by weaknesses in corporate governance. Furthermore, we have all witnessed the social hardships associated with economic crises. Therefore, defining and implementing standards and good practices also in these areas is important. A strong cooperation between the Fund and the World Bank will be crucial in this respect. We should continue our endeavor to make full use of the complementary nature of the two institutions and reduce work duplication.

We must continue our efforts to involve the private sector in forestalling and resolving financial crises. Progress has been relatively slow in this area because of the complexity of the issues involved. However,

in my view, market participants have received the most important message, namely that private creditors should no longer be bailed out by official resources. Future policies will have to be based on the ongoing experience with specific cases of private sector involvement. This will allow us to develop consistent approaches over time. The private sector is only able to assess the risks of its lending correctly if the rules of the game are clear.

Let me now turn to the HIPC Initiative. Switzerland has strongly supported this joint IMF-World Bank initiative and has contributed generously to its financing. I welcome the proposals to enhance the current HIPC framework. Providing deeper and faster debt relief and strengthening the link to poverty reduction should help ensure that the stated goals of the initiative can effectively be reached. However, increasing the amount of debt relief and providing it faster will not be sufficient to do the job. Debt relief has to be accompanied by sound economic policies and a solid institutional framework that will allow the financial resources to be used effectively. This means an efficient tax system, a transparent budgetary process, and good debt management capacities. The enhancement of the HIPC Initiative has entailed a significant rise in financing costs. I am pleased that after a long period of uncertainty, a satisfactory solution could be found to secure the necessary financing. However, I would have preferred to see a greater share of the costs financed through bilateral contributions. This, particularly, given the forcefulness with which several major donors have pushed for enhancing the HIPC framework. I urge all members to ensure that their current pledges will result in effective payments. The HIPC Initiative is only one element in our endeavor to reduce poverty. I note with satisfaction that poverty reduction has moved to the top of our agenda more generally. I fully support the view that poverty reduction has to be the objective for all of our assistance and of our policy dialogue. I welcome the strengthened cooperation between the Fund and the World Bank to ensure that poverty alleviation is a priority for all the activities of both institutions with regard to developing countries. The proposed new Poverty Reduction Strategy Papers will be a useful instrument to concentrate the minds of the governments, the Fund, and the World Bank on this central challenge and to outline concrete action plans. It will be impossible to reduce poverty in a sustainable way without improving the quality of public governance. Strengthening public institutions and their partnership with civil society has to become an integral part of all World Bank projects and programs. All lending instruments should be analyzed as to their impact on strengthening institutions and as to their contribution to strengthening governance.

We must also continue with our efforts to reduce the scope of corruption. Such behavior has a negative impact on poor people's access to

public services and results in an inequitable redistribution of resources. Specific anticorruption programs designed by governments should be fully supported by the Bretton Woods institutions in addition to improving the functioning of the public administration, increasing fiscal transparency, and improving the regulatory framework in general.

Another key element to fight poverty is the strengthening of the private sector in developing countries. It is urgent for the World Bank Group to create synergies in private sector development. A close look must be taken at the respective functions of the Bank, the IFC, and MIGA. The World Bank Group has to become more effective in supporting privatization; small, medium, and microenterprises; private investment in utilities; and linking the productive and the financial sectors. These are all essential elements for the future World Bank Group. They should be implemented urgently.

Let me conclude by thanking the staff and management of both the Fund and the World Bank for their commitment to the work of our institutions. I remain fully convinced that the Bretton Woods institutions with their well-established structures provide the best framework for finding solutions for the multiple challenges we are facing. Therefore, we must be careful not to undermine it by creating parallel structures. I can assure you that the Fund and the World Bank will continue to have Switzerland's full support.

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

*Chatu Mongol Sonakul*

It is an honor for me to address the Bank-Fund Annual Meetings, which will be the last in this century. Looking back over the past years, there are many accomplishments that the two Bretton Woods institutions can be proud of. We have gained virtually universal membership. Economic development has kept a strong momentum, although disparity continues to widen between the developed and developing worlds. While we are witnessing many positive trends, large challenges remain for developing and transition economies as they enter the next millennium.

*Global Economy*

It is worth noting that the global economy is yielding surprises, recovering more rapidly than previously expected from the severe effects of the currency and financial crisis. The net effect of interest rate cuts in the industrial countries, fiscal stimulus in Japan, stabilization and modest growth of Asian imports, and improved financial conditions in emerging markets have been stronger than expected, leading to increased global growth forecasts. These events and trends have been bolstered by a number of positive developments, including the unexpected speed with which some larger developing countries are adjusting to adverse shocks, the stronger-than-expected Asian recovery, the continued strong performance of the U.S. economy despite some signs of slowing, and the strong first-quarter advance in Japan. With the rapid recovery in Asia, world trade has rebounded strongly, stimulating activity around the world. And in Asia itself, strong interregional trade is accelerating the recovery in domestic activity.

Though these are all positive developments, 1999 remains a year of weak growth for developing countries, particularly relative to pre-crisis levels. The overhang of bad debt and troubled banks and other financial institutions will limit our prospects for a rapid growth rate. Not surprisingly, capital flows to developing countries remain disappointing. Spreads remain high, and banks continue to reduce their exposure to emerging markets. Nevertheless, liquidity conditions in emerging markets have loosened considerably this year, with lower domestic interest rates; rising equity prices; and, in some cases, upward pressure on currencies.

The overall outlook remains positive. A stronger and positively reinforcing Asian recovery and a sharper rebound in Europe are both upside possibilities. A stock market correction and hard landing in the United States and a relapse into recession in Japan are the principal downside risks. Nevertheless, the considerable reform efforts undertaken in many developing countries make it unlikely that another currency crisis will trigger the contagion effects of 1997/98. As in Thailand, I hope the global economy continues to surprise on the upside as we put the recent crisis behind us and move into the new millennium.

*Thai Economy*

I am pleased and encouraged that Thailand, along with many other countries, has turned the corner on the recent crisis. Having bottomed out in the second half of 1998, we expect positive growth of 3–4 percent this year, driven by export growth, increased government expenditure, and private consumption. A stable macroeconomy with inflation of less than 1 percent, a current account surplus of \$11.5 billion and reserves of

\$33.5 billion, intensified efforts to resolve financial sector difficulties, and broad-based structural reform will all help to ensure that the recovery is sustainable.

Of course, obstacles remain. Unemployment remains significant. Bank lending remains sluggish in light of remaining problems with risk and nonperforming loans. The latter remain unacceptably high at 47.7 percent and reflect the difficulties many businesses still face in restructuring.

I am confident, however, that Thailand is laying the groundwork for a sustained recovery. Demand, both domestic and export, has picked up. And, on a more fundamental level, we have also seen a positive supply-side adjustment, with a sustainable portion of businesses shifting toward the tradable sector. Foreign direct investment and foreign strategic partnership have strongly supported the adjustment.

Efforts have been intensified to resolve financial sector difficulties. A voluntary market-based approach to corporate debt restructuring has been facilitated. Overall recapitalization has advanced at an impressive rate, with over B 725 billion raised by banks and finance companies since the beginning of 1998. With new strategic partners, banks are acquiring better technology, management, and professional skills—leading to increased strength, transparency, and competitiveness. Recognizing the importance of legal and regulatory reforms as the foundation for sustained recovery, we have intensified the momentum for reform. We are now in the final stages of drafting a new Financial Institution Law and a new Bank of Thailand Law. The Code of Civil and Commercial Procedure Bill on Default Judgment is well on its way to timely passage. The new bankruptcy court is now in session, with more than 100 cases currently under consideration.

To preserve and enhance human resources so as to strengthen the adjustment and consolidate the recovery over the medium term through increased productivity and competitiveness, Thailand is embarking upon broad restructuring in social and public sectors, as well as implementing social and welfare programs, emphasizing training, health care, and job creation. The international community has supported these efforts through structural adjustment lending and social safety net programs.

Macroeconomic policy will continue to support recovery. The latest fiscal package announced in August aims at ensuring a sustained recovery, facilitating the restructuring of the manufacturing sector, and strengthening private sector competitiveness. The package focuses on the small and medium-sized enterprises as a cornerstone for recovery. The government continues to maintain the expansionary fiscal stance to stimulate the economy and alleviate social ills. On the monetary side, policy will continue to accommodate the recovery while remaining vigi-

lant against the buildup of inflationary pressures and excessive exchange rate volatility. In addition, Thailand is moving to adopt flexible inflation targeting as a monetary objective in the medium term, helping to preserve our remarkable record of low inflation, even with the removal of the nominal anchor of the fixed exchange rate.

Thailand's outlook has improved dramatically since last year's meetings and, with continued progress and reform together with favorable external conditions, we fully expect further improvement by next year this time. With macroeconomic stability firmly established and financial and corporate sector adjustments steadily advancing, we will increasingly turn our attention to implementing supply-side policies.

#### *Bank and Fund Matters*

Let me now turn to Fund matters; we would like to compliment the Fund on its role in and contribution toward the reform of the international financial architecture. In this area, there are a number of issues on transparency, international standards, and the strengthening of the Interim Committee. The voluntary preparation and publication of transparency reports—focusing on a description of a member country's practice and progress on meeting the standard—is an important step toward strengthening the overall financial system. Many crucial issues, however, still require further work. We urge that concrete mechanisms be established for securing private sector involvement in resolving and forestalling the financial crisis. In this regard, careful consideration should be given to allow the international community to sanction a temporary stay on creditor litigation in extreme circumstances. Regarding the Fund's role in the liberalization of capital movements, we would like to reiterate that the sequence and pace of liberalization should be closely linked to stage of economic development and to a country's individual circumstances, given the complexity of the issues.

On the HIPC Initiative, we welcome the Bank and Fund's efforts in providing faster, deeper, and broader debt relief for the poorest countries, which demonstrate a commitment to reform debt and poverty reduction. We therefore support the off-market gold sale and other initiatives to secure the ESAF and HIPC financing. We, however, share the concerns of other developing countries regarding the financial burden that the enhanced HIPC framework will have on the multilateral development banks. We urge that major industrialized economies take a strong leadership in this important endeavor through bilateral contributions based on a fair burden-sharing principle.

Regarding Bank matters, I believe that the World Bank and the Asian Development Bank have been helpful partners throughout the cri-

sis, supporting our initiatives and complementing the efforts of the Fund. I am gratified by the way the Bank has helped to put together assistance for financial and corporate restructuring and for its role in supporting our social agenda to cushion the impact of the crisis on the poor and vulnerable. The role it plays also reflects very much the approach embodied in the Comprehensive Development Framework, which we fully support. However, strong partnership and ownership of the government must be central to the CDF initiative, and we urge that the Bank must be flexible and mindful of the government's view. The Bank also has a crucial role to play in the new international financial architecture and must go beyond its current role as coordinator and collaborator, and influence the consensus at the international level with the perspective of the developing countries. It also has a key role in the international trade agenda, promoting issues of interest to developing countries. With the resources and knowledge that it has, the Bank can help developing countries to prepare and develop the trade agenda as well as to support their institutional capacity for trade negotiation.

STATEMENT BY THE GOVERNOR OF THE BANK FOR TURKEY

*Selcuk Demiralp*

It is a great pleasure and honor for me to address the joint Annual Meetings of the Fund and the Bank. I will begin with a few remarks on the current state of the world economy, and then will describe recent economic developments in Turkey following the recent earthquake, which was the worst disaster in the history of the Turkish Republic.

Developments and prospects in the world economy during the past year have generally been satisfactory and encouraging. This is certainly a relief after witnessing the two consecutive crises of 1997 and 1998. The world economy has steadily improved since last year's Annual Meetings. There are signs of a real recovery and revival of activity in many parts of the world, and a general mood of optimism concerning the immediate global outlook.

However, these favorable signs are accompanied by serious challenges that leave no room for complacency. There are risks that must be met with precautionary policy actions. Careful fine-tuning of U.S. policies will be needed to control potential inflationary pressures.

Structural reforms must be completed before Japan's recovery can be considered durable. In Europe, serious efforts must be made to remove the obstacles blocking the reduction of structural unemployment. For the emerging market economies, the picture is mixed. For some Asian countries, the recovery from the crisis has been much faster and stronger than expected, but Latin American growth has never really recovered from the debt crisis of the 1980s. Here, too, further progress with structural reforms is badly needed.

At the present juncture, there is general recognition of the risks in the global financial markets and an international consensus that the time has come to restore the stability of the international financial system. We must now translate that consensus into action. The Fund and the Bank, each preserving its specialized function and nature, must improve the coordination of their responses to countries' financial problems. Enhancing the effectiveness of Fund surveillance will enable it to help its members adjust before market discipline forces adjustment upon them.

In this connection, we join the emerging consensus that private financial institutions must play a more active contribution to the stability of the international financial system by accepting orderly debt workouts based on equitable burden sharing. This appears to be one of the thorniest issues facing the international community today.

Having summarized our thoughts on these agenda items, I would now like to touch on some very serious matters affecting the Turkish economy, particularly the effects of the recent earthquake.

Although extremely serious, and likely to result in missing macroeconomic targets, we do not believe that the economic losses caused by this natural disaster will derail Turkey's structural adjustment process. The solid but resilient structure of the Turkish economy will enable it to limit the effects of the shock to the short term. With support from the international community, the government will be able to fulfill its commitment to finish its program of structural adjustment. In fact, we were in the midst of calibrating our macroeconomic targets for the next stage of our anti-inflationary program when the earthquake struck.

In addition, implementation of the stabilization program monitored by the Fund in the framework of Turkey's "staff-monitored program" has gone fairly smoothly: the program stance has been maintained, and the fiscal targets, in particular, have been met. Progress so far is fairly in line with last July's agreement with the Fund.

Other steps taken in line with this understanding with the Fund include significant progress in the structural area, including increasing the financial system's efficiency and strengthening banking supervision; a constitutional amendment permitting international arbitration for the

telecommunications and energy sectors; and reformation of the social security law. All this legislation has been approved by parliament.

These accomplishments will be complemented by the government's firm determination to reduce the budget deficit and impose fiscal discipline on the public sector. These goals will shape Turkey's budgetary and fiscal plans for the year 2000, and Turkey will continue pursuing its anti-inflationary program, working in cooperation with the Fund and Bank to achieve lasting results. We count on the continued support of the international community as we make progress with our program.

Here, on behalf of my country and its people, I wish to pay due tribute to the international community, and particularly the Fund and the Bank, for the immediate and splendid aid and cooperation provided to help us cope with the effects of the earthquake. Now I would like to discuss, briefly, what we have been able to learn so far about the economic effects, immediate and more remote, of this catastrophe. This natural disaster is one of the most serious to occur during the century just ending. Over 15,000 lives have been lost, and there is extensive damage to Turkey's industrial heartland. An estimated half-million people are homeless. As the nation digs out of the rubble, it is clear that a major reconstruction and restoration plan is needed. World Bank studies indicate that direct costs, including material damage and wealth loss, will amount to 1.5 to 3.0 percent of GNP. A detailed survey of capital and inventory losses in the housing and enterprise sectors is not yet complete, but a more or less precise estimate will eventually be available. Preliminary estimates indicate that the earthquake will reduce GNP for 1999 by about 1.0 percent. Employment losses in the affected areas are expected to exceed 20 percent. The disruption of Turkey's economic recovery creates challenges that are enormous, but not insurmountable.

Let me thank the Fund, the Bank, other multilateral institutions, and bilateral donors for their early support in the design of streamlined emergency arrangements for the massive rescue operations. We are confident that this essential cooperation will continue during reconstruction efforts to restore essential facilities and services and reestablish basic economic activities in the disaster zone, so that long-term economic and social disruption can be avoided. We are also grateful to the Fund, the Bank, and other donors for their coordinated assistance within the comprehensive plan toward the effective restoration of normal economic and social conditions.

Let me end by restating our appreciation to the Bank and the Fund for their help with our development efforts. I hope that the 1999 Annual Meeting will lead to a fruitful exchange of views on international economic and financial matters, and I look forward to a closer development partnership in the new millennium.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKMENISTAN

*Khudaiberdy Orazov*

It is a great pleasure and honor for me to address the Annual Meetings of the World Bank Group and the Fund. The continuing efforts of both organizations to implement reforms of the international financial system in order to avoid future global financial crises are well appreciated. Significant financial and technical assistance from these organizations enables developing member countries to implement the reform process and to create a basis for strengthening their economies. However, the global crisis is undermining the efforts of developing countries to achieve economic growth. This is particularly true for Central Asian countries and countries of the former Commonwealth of Independent States that have much work to do to complete the transition process.

The economic development process depends more on factors of regional character, than on existing global problems. Countries whose economies are largely dependent on external trade deserve special attention. Turkmenistan has been particularly affected by the economic crisis in our region with a combination of falling commodity prices, slower growth in trading partner countries, and chronic nonpayment of debts by debtor countries.

I will not try to discuss all the problems of our economy at this time, many of which are within our own capacity to control, but would like to draw the attention of my fellow Governors and the Fund staff to the need to make urgent progress in improving the external payment arrangements in the countries of the former Soviet Union.

A smooth working payment system is vital to the future development of this region. While the region as a whole is likely to run a considerable current account deficit with the rest of the world in the coming future, this should not blind us to the fact that some countries—such as Turkmenistan—are inherently creditor countries within the region and need to be paid in cash on time for their exports if they, in turn, are to meet their trade and debt obligations to the rest of the world.

Resolution of this issue would also assist the Fund's goal to stamp out inefficient and inequitable barter trade. Turkmenistan agrees with this objective and has made considerable strides in reducing barter trade within its own borders. However, in attempting to apply that same principle to trade and payment relations with our neighbors, we find that the system does not work. Therefore, with no basis for enforcing payment for

exports, we must often fall back on barter payments as a second-best alternative.

I would like to highlight three areas where urgent action is needed to improve the payments system. First, attention needs to be given to the rules of conduct of intergovernmental trade transactions. In our early period of independence, exports of gas and other commodities within our region were always regarded as being an intergovernmental transaction between sovereign states. Such transactions were given a special status that provided some protection to the exporter, since collection of payments for such exports could be enforced under Fund programs. In a sense, it acted as a substitute for the export insurance facilities available to western countries. While countries in this region may eventually also move in the insurance direction, the stability of intergovernmental arrangements provides important glue for existing trade arrangements.

Unfortunately, we saw a disturbing abrogation of this long-standing principle, when Ukraine declared that its obligations under the agreement on gas supplies signed by the governments of two countries were not the state's obligations, referring to the status of the organizations responsible for the execution of this agreement. In fact, these organizations are operated and managed within the state management system. This has led to the strange outcome whereby the Fund is formally unable to assist the Turkmenistan authorities in collecting vital export payments because of a mere technicality.

Indeed, we now see the hugely inequitable outcome from the fact that high-interest debt owed to international banks—on the assumption that the Fund would always bail them out through its program—is required to be paid back by the Fund, whereas debt owed to an impoverished nation like Turkmenistan is not subject to the same condition.

The need for early action to correct this anomaly should be evident to all, as other countries throughout the region are trying to follow such an example. Already we have been informed by Tajikistan and Kazakhstan that debts formerly conceded as being of an intergovernmental nature were in fact “private sector” transactions even where the entities involved were owned and controlled by the nation concerned.

The second principle relates to the need to provide a mechanism to enforce previously agreed debt payment schedules. In 1996 Turkmenistan bilaterally agreed to reschedule about \$400 million of debt owed from Georgia. However, this agreement was not honored. At present, the amount of outstanding arrears has risen to \$120 million. This situation does not allow us to address our social and economic development issues and complicates the servicing of our external debt. While larger creditors can afford to adopt a benevolent approach to this issue, Turkmenistan's

financial position—worsened by nonpayment for our exports—does not permit such an approach.

In that context, we have welcomed efforts by the Fund to establish an orderly and certain approach to settlement, but are concerned that the Fund will not pay adequate regard to the economic situation of individual creditors. Clearly, it is one thing for the United States, the European Union, or Japan to offer debt relief and restructuring to countries such as Georgia for well-intentioned reasons. However, in the case of Georgia, it is more difficult for us to take such decisions because, being the largest creditor, Turkmenistan has been in fact receiving fewer payments than other creditors. If debt relief is to be provided in such circumstances, we see it as essential that the burden be borne equitably and that the larger nations be asked to make a more than proportionate contribution to the relief provided.

Third, the Fund needs to assist a quick resolution of the correspondent account debts among countries of the former Soviet Union—most of which were incurred before the introduction of independent central banks and currencies in our countries.

The existence of debts is a running sore in country relationships, often impeding more fundamental agreements on what trade and investment arrangements should be in place in the future. In fact, irresponsible approaches to the solution of correspondent account debts, incurred in the early stages of independence, have led to more complex issues of increasing amounts of external debt and outstanding arrears on bilateral and multilateral credits. It would be most useful, therefore, if the Fund could require resolution of these debts in the normal course of program design and implementation.

The Annual Meetings and regular discussions with two major development organizations provide us with an appreciation of the need for unity in the international community and the genuine desire by that community for outcomes that benefit all countries of the world and further strengthen the international financial system. My purpose here today has been to highlight the need to ensure that the financial architecture being put in place takes into account the needs of countries such as Turkmenistan.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE  
UNITED ARAB EMIRATES

*Mohammed Khalfan bin Khirbash*

I am honored to convey the thanks and appreciation of the government of the United Arab Emirates for the Boards of Governors' decision to select the city of Dubai to host the 2003 Annual Meetings. I am also honored to express my thanks to the Boards of Governors for their decision, which embodies the principle of maintaining a geographic balance in selecting the sites for these meetings. Holding the meetings for the first time in an Arab country has great significance in light of recent developments in the international arena, as well as the economic and political stability enjoyed by the United Arab Emirates, along with its particular geographical location and its forward-looking position with respect to the challenges of the new millennium.

The choice of the United Arab Emirates is an affirmation from the international community of the tremendous development and great successes in all areas that have been achieved by our country under the skillful leadership of Shaikh Zayed bin Sultan Al-Nahayan, our President. These successes have allowed the United Arab Emirates to play an effective role in both the international and regional arenas, on the basis of its strong belief in international cooperation and its continued support of the development efforts and economic reforms being carried out by developing countries.

I would like to take this opportunity to commend the efforts of the Fund and the World Bank to confront the challenges resulting from the fundamental changes taking place in the world economy, as well as their valuable contributions to helping member countries meet these challenges by monitoring economic developments and providing financial assistance, including their efforts to reduce the debt burden of the poorest countries and the historical IMF–World Bank initiative to develop a joint strategy for reducing poverty, encompassing the financial, structural, social, and humanitarian aspects of the problem. I would also like to commend the Fund's recent initiative to determine the means for preventing future crises, to improve the performance of world markets, and to encourage private sector participation in this undertaking. In conclusion, I reiterate my thanks and appreciation for your efforts, and look forward to seeing you in Dubai in 2003.

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

*Gordon Brown*

Global financial stability depends on individual national governments pursuing strong domestic policies. There are two supremely important tasks that national governments must undertake in order to succeed in the global marketplace: first, building a platform of stability based on openness and transparency in policymaking; and, second, pursuing structural economic reform to promote productivity and employment.

In today's global economy, there is little place for the fine-tuning of the past that tried to exploit a supposed long-term trade-off between inflation and unemployment, which proved elusive. But equally in today's deregulated liberalized financial markets, governments can no longer try to deliver stability through the application of rigid monetary targets.

The answer to the uncertainty and unpredictability of ever more rapid financial flows is, first, clear long-term policy objectives; second, the certainty and predictability of well-understood procedural rules for monetary and fiscal policy; and, third, an openness that keeps markets properly informed and ensures that objectives and institutions are seen to be credible.

On the continent of Europe, where the search for macroeconomic stability is being pursued through monetary union, the same lessons are being learned with a commitment to monetary stability through the creation of an independent European Central bank; a commitment to fiscal sustainability through the stability and growth pact of the European Union; and a system of multilateral surveillance within Europe involving commitment to fiscal targets and rigorous peer review.

As I said in my October 1997 statement to the British Parliament, we are committed to making an economic assessment of the case for British membership. The decisive test as to whether and when we will enter will be based on five economic tests we have set out.

*Stability in Britain*

- In Britain we have set out clear long-term policy objectives:
- The monetary framework promotes price stability through a pre-announced inflation target of 2.5 percent—a symmetrical target.

Inflation outcomes below target are viewed just as seriously as outcomes above target.

- In fiscal policy, we have set two strict fiscal rules to ensure sustainable public finances: the golden rule requires that over the cycle we balance the current budget, and the sustainable investment rule requires that, as we borrow for investment, debt is set at a prudent and stable level.
- And we have established well-understood procedural rules: setting the inflation target, a clear remit for the Monetary Policy Committee of the Bank of England to meet this target and the open-letter system; and an equivalent and equally important set of fiscal procedures legally enshrined in the Code for Fiscal Stability.

Openness and transparency keep markets properly informed and ensure that objectives and institutions are seen to be credible. We have enhanced the transparency and openness of monetary policy in Britain. And the Code for Fiscal Stability requires the government to conduct fiscal policy in a transparent and responsible way, with key fiscal assumptions independently audited.

Following our own monetary and fiscal reforms I believe that we have now a sound and credible platform for stability for the British economy. Over the past 10 months, inflation has remained within 0.5 percentage points of the government's target. Headline inflation is down to 1.1 percent, and underlying inflation at 2.1 percent—around its lowest level for almost five years, and inflation is expected to remain close to target.

Short-term interest rates peaked at half their early 1990s level and have fallen to 5.25 percent now from 7.5 percent in October. Long-term interest rates and mortgage rates are their lowest levels for over 30 years. The 10-year bond differential with Germany has fallen to about 0.7 percentage points now from 1.7 percentage points in April 1997.

Public borrowing has been reduced by £31 billion over the past two years—a cumulative fiscal tightening of 3¼ percent of GDP, the largest fiscal tightening since 1981—and we will continue to lock in that fiscal tightening by keeping the public finances under control, while allowing fiscal policy to continue to support monetary policy in the next stage of the cycle. As a result of our cautious and prudent approach to managing the public finances, we remain on track to meet the fiscal rules while guaranteeing an extra £40 billion for schools and hospitals over the next three years and more than doubling public investment, including in transport and infrastructure.

So, against a difficult world economic background, through early and decisive action on monetary and fiscal policy, both financial markets and the British public see that Britain is delivering—for the first time in this generation—economic stability.

We have brought inflation to its target and the fiscal deficit under control. And, at the same time, the economy has continued to grow and create jobs throughout this year, with the consensus of outside forecasts now predicting growth in 1999 of 1.4 percent—within the government's own budget forecast range of 1 to 1.5 percent. We will publish new economic forecasts next month in our Prebudget Report.

### *Britain's National Economic Potential*

Our task now is to raise our national economic potential. This year's Prebudget Report will focus on the next stage of reforms to labor, capital, and product markets needed to exploit the growth potential of Britain. I believe that the British economy has the potential to reach the upper end of our growth ranges and in a way consistent with meeting our inflation target. But we can only do so if we combine prudence with long-term economic reform and modernization of our economy.

The four conditions for our economy achieving high and stable levels of growth and employment opportunity for all—the modern definition of full employment for the twenty-first century—are therefore:

- first, a proactive monetary policy and prudent fiscal policy;
- second, strengthening the program to move the unemployed from welfare to work;
- third, responsibility and an avoidance of “short-termism” in pay and wage bargaining across the private and public sectors; and
- fourth, a commitment to what matters for higher productivity—namely, high-quality long-term investment in science and innovation, new technology, and skills.

All of these conditions must be met. And if we can achieve these, then I believe Britain can not only continue to steer a course for stability and steady growth, but secure higher prosperity for all.

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

*Sela Molisa*

It gives me great pleasure to address the fifty-fourth Annual Meetings of the Fund and the World Bank Group on behalf of the Pacific Constituency comprising Kiribati, the Marshall Islands, the Federated States of Micronesia, the Republic of Palau, Samoa, the Solomon Islands, and Vanuatu. This year's meeting is unique in that it ends the Annual Meetings of this century as we approach the new millennium. On the threshold of the new century, let us not forget to look back and reflect on the achievements and failures, the lessons from which we may be better equipped to face the challenges ahead.

Our struggle to achieve economic advancement has not always been easy going. The task is even harder for most of the small island nations, some of which I stand here before you to represent. Given the small size of the Pacific Island states and the pursuit to open up our economies, we are becoming more exposed, thus, vulnerable to external shocks. The financial turbulence in Asia, the crisis in the Russian Federation, and the turbulence in Brazil have sent out waves of shocks globally in varying magnitude, impinging upon our economies directly and indirectly, making the years 1998 and 1999 particularly difficult for the Pacific Islands. The deceleration in growth in 1998 affected the Pacific Islands. The economies witnessed lower export earnings and an acceleration of commodity prices' downward trend, compounded by a sharp decline in demand. The situation was aggravated by an increased supply from the emerging countries facing economic difficulties over the period.

The Pacific Islands, although beautiful, are susceptible to natural calamities. We are hit by cyclones every year. We also have droughts and tidal waves, as was the trauma in Papua New Guinea last year, when part of Papua New Guinea was struck by severe tidal waves causing extensive damage and a loss of lives. The future prospects are bleak for the low-lying atolls of the Pacific, particularly those whose quality of life is threatened by the rise in sea level associated with global warming. Much too often, the negative externalities of our economic pursuits are ignored.

We note the signs of recovery in several Asian countries, which would seem to indicate that the worst of the financial crisis is over. Risks remain, however. There is a crucial need, therefore, for industrial countries to implement prudent policies. The improvement in the world economy is expected to have positive effects on the economies of the Pacific

Islands. Nevertheless, the lesson learned is that “globalization” and liberalization have the potential to be disruptive, owing to their close financial and economic ties with other countries.

Some of the problems of the island states are very unique and require special attention. We have come to realize the need to maintain strong economic fundamentals through the pursuit of economic reforms and adjustments. Indeed many of our countries have used this opportunity to push through demanding reform agendas. Some degree of reform to that effect has begun in the region. These reform programs were implemented with assistance from other external sources and supported by the World Bank and the Fund.

Our island economies are small, and one-sidedly structured, and resources are too limited to insulate the economies from the spillover effects of external crises. In spite of these problems, the damage can be minimized by means of appropriate reforms, as are already under way in some countries. It is appreciated that in view of the need to revitalize the global economy, the Fund and the World Bank took the initiative to find ways to finance the ESAF and HIPC Initiatives. Indeed, we are proud to see members of our constituency already indicating their willingness to join the international effort by passing their SCA-2 balances to the HIPC Trust. We understand that the initiative would take into consideration the concerns of the gold-producing countries, some of which pertain to my constituency, especially the idea that the involvement of the Fund’s gold be limited to off-market measures.

We are grateful for the services extended to the Pacific by the Bank and the Fund in running seminars as well as providing technical assistance. With regard to technical assistance, we note the review made by the Fund. It is hoped that future Fund technical assistance will be sensitive to the unique needs of small island economies and will be available in appropriate forms. The Pacific Technical Assistance Center based in Suva, Fiji, plays a crucial role in the region and continues to serve its members well. In the monetary field, sustained technical support and advice have been productive, particularly with central banking operations.

We welcome the Fund’s intention to establish a new Fund facility for Y2K-related balance of payments difficulties associated with the millennium computer problem. We believe that this facility is an appropriate response by the Fund in the likely event of Y2K-related capital outflows.

We note with appreciation the increasing presence of the World Bank and the potential to increase its services to the region. We believe this to be undoubtedly a worthy endeavor. We welcome the Bank’s initiative for small states envisaged under the Comprehensive Development Strategy. We also note the importance of the IFC and, in particular, the

presence of the South Pacific Project Facility, both of which have helped sector development in the region.

We are thankful for the IDA resources that have been provided to us on concessional terms. It is hoped that this will continue. We commend the Bank and Fund activities in the region, as they well complement the reforms under way. We understand that special consideration will be given to our environment, given that it so much determines the quality of our lives. Let me conclude by thanking the managements, staffs, and Boards of both the Fund and the Bank for all your assistance, particularly some very constructive advice and assistance.

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

*Le Duc Thuy*

From the outset, on behalf of the Vietnamese delegation I would like to express our high appreciation to the management of the International Monetary Fund and the World Bank Group, the Joint Secretariat, and the host country for their efforts and assistance in making conditions favorable for delegates from around the world to attend the Annual Meetings, a significant yearly event of the international financial community.

These Annual Meetings take place amid good signals showing that international financial markets have gradually stabilized, economic activity has bottomed out in the developing market economies of Asia, and the impact of this financial crisis on other parts of the world has been effectively checked. We are pleased to note that, according to recent forecasts, the economic growth rate in East Asian economies in 1999 will be higher than expected. However, there remain potential challenges to be overcome with bigger efforts to ensure a vigorous recovery and sustainable growth in the years to come.

Since the last Annual Meetings, these two international financial institutions have done their best to adjust and amend several policies, aimed at strengthening the international financial system and expanding assistance and support to the developing member countries, especially the poor ones and those that have been experiencing the financial crisis. At this forum, I would like to touch upon a number of issues of our deep interest.

Since the late 1980s, the Fund and the Bank have extended many highly concessional loans, in the form of ESAF arrangements and SAC, to more than 50 low-income member countries in support of their medium-term structural adjustment programs. We call upon these two institutions to make greater efforts to ensure adequate financing for this assistance. If one desires to efficiently implement the SAC/ESAF-supported programs, it is necessary to promote the ownership of the program countries. The conditionalities contained in the agreement between the Fund and Bank missions and the authorities should take into full account all the realities and peculiarities of the host countries, since they vary from country to country. In establishing these highly concessional programs, closer coordination between the Fund and the Bank is warranted.

We warmly welcome the Fund and Bank's jointly launched HIPC Initiative to help poor countries toward external exit from the debt burden. However, many analysts have expressed deep concerns about the depth of debt relief and the pace of its implementation, especially the financing of the HIPC funds, and the limited coverage of beneficiary countries. Against this background, we highly value the joint statement of the Bank's President and the Fund's Managing Director, which contains the principles for modifying the original HIPC Initiative. In addition, it is necessary to stress that debt relief should be closely linked to poverty reduction. We would like to take this occasion to call for expedited multilateral and bilateral contributions to the HIPC funds so that this initiative can be delivered more quickly and more extensively.

We would like to warmly welcome the World Bank President's proposal for a Comprehensive Development Framework, in which Vietnam has been chosen as one of a dozen pilot cases. This proposal has been considered a potentially powerful management tool with the capacity of catalyzing a longer term development vision, strengthening country ownership, and providing a vehicle for enhancing partnerships and donor coordination.

Availing myself of this opportunity, allow me on behalf of the government and the people of Vietnam to convey our sincere gratitude to the managements and the staffs of the Fund and the Bank for their cooperation and assistance in the form of financial programs, project loans, and technical assistance programs to our country over the past few years. I sincerely hope for increasingly better relations between Vietnam and the Fund and the Bank.

Given the fact that the economies of many countries in our region have been in the process of recovery and have started to achieve higher than expected growth, the consequences of the financial crisis and economic recession and the complicated situation in the region and

elsewhere are causing disadvantages in various sectors of our economy, especially export activity and foreign investment.

At a meeting to review the economic performance of the first half of this year, the Vietnamese government adopted an action plan comprising seven groups of measures that focus on such essential undertakings as promotion of investment and consumer demand to make full use of the internal strength and encouragement of production and business; stimulation of export activity; consolidation of the financial sector; stabilization of the production and investment environment; continued restructuring of the state-owned enterprises; poverty alleviation; and so on and so forth. With these measures, our government hopes to create the necessary pre-conditions to overcome the temporary difficulties and become prepared to enter into the year 2000, our first successful year of the next millennium.

In conclusion, I would like to express our firm confidence that, thanks to the enormous efforts of the state and people of Vietnam, making the best use of their existing internal strength—and to the important assistance of the international community—our country has been and will be surmounting innumerable difficulties; minimizing the adverse impact of the regional economic crisis; ensuring political, economic, and social stability; and moving forward in many areas.