DISCUSSION OF FUND POLICY AT FOURTH JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE FUND FOR SOUTH AFRICA

B.J. du Plessis

It is a pleasure to associate myself with fellow Governors in welcoming the Republic of Namibia, the People's Republic of Bulgaria, and the Czech and Slovak Federal Republic to this year's Annual Meetings. Their association with these institutions will no doubt benefit their people. Our best wishes in particular go to our neighbor, Namibia, where, apart from other involvements over many years, we contributed to its economic development, particularly by way of infrastructure.

As elsewhere in the developing world, all the countries in the Southern African region, including South Africa, still fall far short of fulfilling the basic needs and the aspirations of their people. Indeed, dealing with the problems of the developing world is a daunting task that calls for inspired leadership, original thinking, and the cooperation and support of the world community.

The plight of the African continent and the need for concerted action have been highlighted by the *World Development Report 1990*, which singles out sub-Saharan Africa as the one region that has not shared in economic progress and the reduction of poverty. A clarion call for constructive action emanates from the Report's finding that per capita consumption is no higher in the region now than it was twenty-five years ago, and that by the end of the century sub-Saharan Africa may account for more than 30 percent of the poor of the developing world against 16 percent in 1985.

In past years we have emphasized from this platform, the interdependence of the sub-Saharan region and the need for those countries to stand together to meet future challenges. With the emergence of a democratic and just new South Africa, the time has never been more opportune for us to reaffirm our understanding of this reality. As part of the family of African nations, we reiterate that we have both the potential and desire to play a meaningful role in addressing the particular and pressing problems of our region. Regrettably, and not entirely of our own making, our resources of finance and trained manpower are still limited. There are nevertheless many areas in which we are willing and able to assist. Indeed, the rapidly changing internal political

[1] September 26, 1990.

situation in South Africa and the general acceptance of the irreversibility of the process of change should greatly facilitate closer and more visible cooperation.

The momentous changes and events of the past twelve months on a wider canvas have also significantly influenced Southern Africa. Former adversaries are not only identifying and developing common objectives elsewhere, but also both inside my country and in our region. Countries and regions are moving away from strife and armed conflict toward more representative political systems and constitutional structures. These new conditions are clearly more conducive to supporting productive economic activities. Our region already benefits from no longer being an arena for international power play. I hope many other developing countries will now also no longer need to devote substantial portions of their national budgets to maintaining large security establishments. This is certainly happening in South Africa. As the peace dividend increases, and to the extent that prudent economic policies take effect, South Africa and other countries in our region will be able to spend progressively more on the alleviation of poverty by providing shelter, basic health services, and appropriate education.

These advantages will be attainable only through the consistent application of sound fiscal and monetary policies, involving a fundamental economic restructuring. Since these adjustments normally take a long time to implement, this will be no easy task. It will demand courageous leadership and the understanding and tolerance of the population.

Over the past few years, South Africa has worked at restructuring its economy on the principles of a socially responsible, market-oriented system. In this effort, firm control over public sector spending necessitated drastic changes in budget priorities in favor of socioeconomic expenditure. Despite these growing demands, we also had to apply strict monetary policy in order to create and maintain a stable financial environment conducive to long-term growth and development. This clearly is the only sound manner in which to meet these legitimate demands in the long term.

The developing world is already feeling the effects of donor fatigue. In addition, it has to contend with the imminent potential for a weakening in world demand, new problems with inflation, an international shortage of development capital, rising interest rates, declining demand, and lower prices for their exports of primary products. All of these factors are likely to be exacerbated by the consequences of the Gulf crisis and soaring oil prices. Indeed these countries, as innocent bystanders to this particular event, will pay the heaviest penalty, and a special and generous provision to address this issue, as referred to by President Bush, is a welcome and essential development.

In Africa, including South and Southern Africa, people are moving in large numbers to urban centers in search of jobs, often for the sake of trying to secure their very survival. Without adequate employment opportunities, these

migrants will face stark deprivation and even starvation. Hungry people without proper shelter, amenities, and fuel are also unlikely to appreciate such lofty aspirations as the long-term benefits of environmental protection. In addition, the welcome evolution toward more representative government could be severely undermined in those countries in which economic development and growth fall short of providing for basic needs.

The current and prospective setbacks for developing countries occur after difficult years of dealing with the pressures of the reverse flow of capital to the first world. Disinvestment in whatever form or for whatever reason affects the poor first—and overwhelmingly. South Africa, and consequently to a marked extent our whole region, knows firsthand the severe penalties this process incurs—this despite our country's good record and its low debt ratios. Like other developing countries that were compelled to become capital exporters, we could achieve the surpluses needed to service the outflow on the capital account only by severely and consistently restricting the growth of the domestic economy.

This has obviously led to the destruction of many potential and actual job opportunities and an inability to generate sufficient revenue for essential social expenditure. As the *World Development Report 1990* correctly acknowledges, economic growth and stability are primary conditions for alleviating and reducing poverty. Poverty, rather like trade, knows no boundaries, especially in the regional context—and this is so in Africa.

The World Development Report paints a somber picture of the extent of poverty in its many facets but also provides convincing evidence that significant progress can be made in pushing back its boundaries through the consistent application of appropriate policies. I can only echo President Conable's words that the reduction of poverty should be one of the international community's fundamental objectives in the 1990s.

South Africa, with its present rather limited means, and its own urgent need to address the problems of poverty and socioeconomic development within its boundaries, is nevertheless prepared to play its particular part in dealing with the related economic problems of Southern Africa, and even further afield on our own continent; and all that in a spirit of cooperation and interdependence.

Statement by the Governor of the Bank for Honduras

Benjamin Villanueva

It is a great honor for me to address this meeting on behalf of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Spain,

the Philippines, Guatemala, Guyana, Haiti, Mexico, Nicaragua, Panama, Paraguay, Peru, the Dominican Republic, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Honduras, at the dawn of a new decade in which the governments of our countries, firmly resolved to make their mark on history, have already undertaken, within a democratic framework, profound economic and social changes.

The countries of Latin America are facing, with ever greater prospects of success, a series of challenges, although the international environment is still totally unfavorable. The first great challenge is to restore the GDP per capita that Latin America lost over the last decade. The current state of things is such that we have to run fast merely in order to stand still. The second challenge is how to deal with the inevitable social costs of adjustment. The third is to reverse the process whereby Latin America has become a persistent net exporter of capital and to find ways to service an external debt that requires ever larger external transfers of resources.

The concerns of the Latin American countries are still almost the same as those we described last year, with the further difficulty that a new international situation, of extreme gravity for some of our countries, is developing as a result of the political and military conflicts in the Middle East. Therefore, I would like to retrace the proposals that Latin America made in this forum last year, so that we can identify areas in which progress has been made, the obstacles still in front of us, and the new actions that we must take in light of the latest developments in the world economy.

Maintaining a policy of constant external transfers of funds entails a compounding of the sacrifices and uncertainties of the 1980s. The most significant negative feature of recent years, apart from the stagnation and high inflation of the past decade, is this massive external transfer of funds. Indeed, as the distinguished Governor for Brazil noted, since the beginning of the debt crisis, Latin America has transferred some $250 billion to creditor countries, whereas it has received only $50 billion in return, a most eloquent indication of the fact that the region has exported resources in amounts several times greater than it obtained through the Alliance for Progress or than were involved in the Marshall Plan. We have still not found a concrete solution to this basic problem and we must do so as a matter of urgency.

We cannot allow the economic agenda for the 1990s to continue being obstructed by the external debt problem, thereby absorbing energies in bilateral and multilateral forums that ought to be devoted to tackling the problems of the future, rather than focused on the negative inheritance of the past. The governments of the industrial countries and the multilateral institutions that they largely control must play a much more active role in approaching the debt question as a real problem of international development and an essential issue in international public policy.

In recent years there has been a significant decline in net financial flows both from the International Monetary Fund and the World Bank. As a result,

we have already proposed that the role of both institutions should be reconsidered, particularly in light of the serious crisis that we foresee in the 1990s. The response we have received to date is that conditionality in both organizations has been expanded and strengthened and growing efforts are being made to increase their influence on the process of national economic policy formulation and implementation.

On previous occasions we observed that, where Latin America is concerned, the performance of the multilateral organizations was proving to be inappropriate for the new reality of democratic societies in which the elected congresses of representatives of the people now play a much more significant role in the definition of national policies. In our view, the Bretton Woods institutions must urgently develop a more positive approach designed to provide effective support for the economic efforts made by member countries, and according to priorities defined by these countries themselves rather than by priorities that aim to resolve the problems of those institutions.

We continue to stress that new themes, such as the environment, the role of women in development, a renewed concern for social issues, and especially the fight against poverty, ought to provide new opportunities for a positive approach in the 1990s.

An examination of the adjustment programs of the various countries on whose behalf I am speaking today, including my own country, Honduras, which is currently engaged in a comprehensive program of structural economic reorganization, reveals a common emphasis on restoring domestic and external financial stability through the reduction of imbalances in the public finances and exchange rate adjustment. At the same time the role of the state is being redefined through the privatization of various activities which, once transferred to the private sector, can increase productivity and raise the international competitiveness of our countries.

A key issue on the agenda for the 1990s is how the benefits of growth are to be distributed. The urgent need in our countries to find rapid solutions to short-term problems generated by financial imbalances frequently results in the impact of adjustment policies on income distribution receiving less than due attention, although in general such policies have greatly reinforced social inequity.

To mitigate this impact on the most vulnerable social sectors, targeted social programs have been designed which, through income supplements and by creating temporary and permanent employment opportunities, have somewhat reduced the costs of adjustment. It is nonetheless generally recognized that such programs are marginal in nature, and their effects cannot solve the problems of millions of Latin Americans who are still living on incomes that put them below the poverty line. Unquestionably, bolder measures are required in order to deal with this issue effectively in a broader context of economic and social development programs.

In the short and medium term, adjustment is imposing major sacrifices on

our populations and is sharpening social and political tensions. While we firmly believe that the adjustment process is necessary to alleviate economic problems, it is not sufficient if the necessary ingredients of external debt relief and greater net flows of external funds are not forthcoming. The dead weight of external debt service on public finances has increased the costs of adjustment, in that the scarce resources required for development have to be applied to servicing the external debt, as the first step in the enormous task of restoring our relations with the international financial community.

Notwithstanding the progress made in the negotiations on financial programs in some countries in the region, flows of external funds to Latin America are still insufficient, particularly when it is borne in mind that the greater part of the external financing obtained has taken the form of the involuntary accumulation of arrears. . . .

We welcome the reforms introduced by some industrial countries as regards the restructuring of the external debt. However, at the present juncture, the countries of Latin America are in favor of a global strategy that includes relief not merely on debts to the commercial banks and bilateral official organizations, but also debts to the multilateral financial agencies.

We therefore support in their entirety the conclusions of the Group of Twenty-Four regarding the debt strategy and the role that the Bretton Woods institutions ought to play at the present time. We see a clear need to increase organized multilateral cooperation. Although some progress has been made along the right lines, we are convinced that much remains to be done. Immediate action must be taken to alleviate the impact of the Gulf crisis on the developing countries. We believe that there is a need for increased access to IMF and World Bank resources, for expansion of the compensatory financing facility, and for broader access to, and coverage by, the concessional financing windows of both institutions.

Given the present situation it is clear that new official initiatives are required. We therefore congratulate the Government of the United States for its initiative on behalf of the Americas, which we trust will be translated into concrete actions in the short term, and the Governments of the United Kingdom and the Netherlands for their recent proposals regarding the official debts of low-income countries. We believe, however, that these initiatives should be extended also to the severely indebted middle-income countries, which will only be able to resume their development process if they receive support in the form of partial cancellation of their debts and additional resources on concessional terms. We are also gratified by the decision of the Government of Japan to allocate part of its trade surplus to a parallel fund for debt-reduction operations, a precedent that ought to be followed by other governments.

I would like to take this opportunity to raise certain questions that, while vital for Latin America in general, are even more urgent for the countries of Central America in the present international economic context. The natural

desire for integration of our economies is again being pursued with renewed vigor. We regard integration as an important instrument that will enable us to exploit our limited resources, but we also see it as an effective means of securing new and dynamic links with the international economy. Opening our economies, strengthening our vocation as exporters, and pursuing economic liberalization are not necessarily incompatible with the construction of complementary production systems that can generate comparative advantages through efficient utilization of resources at the regional level.

The Antigua Declaration issued by the presidents of the Central American nations last June, and the intensity with which these presidents have been working, indicate the political desire of peoples and governments to achieve peace and to embark on major political reforms. Although there is still a long way to go, we have made significant progress in strengthening and consolidating the democratic process. At the present time all the countries in Central America have democratically elected governments and to a large extent armed conflict has ceased. These are clear signs of the significant progress made in strengthening citizens' rights, establishing the legitimacy of state authority, and pacifying the region, which are necessary conditions for attaining new levels of development.

Central America has now reached a particularly delicate and sensitive stage. The fragile social and political structure of our economies is seriously threatened by the impact of the increase in oil prices on our already precarious balance of payments situation. We have projected that paying these new prices would increase our already very heavy external debt burden by the equivalent of somewhat more than 9 percent of our export earnings. The Central American countries wish to call the attention of this important multilateral gathering to the paradoxical situation in which we find ourselves. On the one hand, the absolute amount of our debt is small in relation to the sums owed by the large debtors and to the volumes of funds handled by the international financial system, but, on the other hand, the normal financial ratios are higher in relative terms than for most of the countries in Latin America. It should furthermore be borne in mind that in Central America most of our commitments are either bilateral or to multilateral organizations. These are precisely the areas in which the least progress has been made in alleviating the external debt situation.

We believe that to tackle this new crisis the International Monetary Fund ought, as an emergency solution, to increase substantially the access to its resources, and that the World Bank should immediately expand its operations so as to provide significant additional amounts of quick-disbursing sectoral loans on concessional terms. The uncertainties currently affecting both the domestic and international context and the differing estimates of external financing needs clearly call for wider use of contingency mechanisms that take into account the risks involved if foreign exchange earnings are lower and foreign exchange payments higher than estimated.

The experience of the Central American countries with the Bretton Woods institutions indicates that the role of the latter is to provide enhanced and timely assistance to our countries, and not to demarcate areas of influence, seek uniformity in economic policy advice or, still less, exert coordinated pressure on our countries. The Central American countries join the rest of Latin America in opposing the three kinds of cross-conditionality that are a continuing feature of the operations of these institutions. Given current world economic conditions and the social situation in Latin America in particular, we should put aside any strengthening of conditionality and concentrate instead on far more positive approaches that can truly solve the basic problems facing our economies.

We are convinced that the question of arrears to the Bretton Woods institutions is merely one manifestation of a much larger problem of external indebtedness and production structures that must be tackled in its broader context. In this new phase we hope to have the firm support of all those present here, since it is now that we need it most if we are not to give up our legitimate aspirations.

We wish to express our total support for the initiatives proposed by the Regional Conference on External Debt sponsored by the Permanent Secretariat of the Latin American Economic System in June 1990 for solving the external debt problem, based on the premise that no remedy can be found that does not incorporate a substantial reduction in principal and interest and does not drastically reduce external transfers of funds. We are sure that these proposals, strengthened by the official initiatives now circulating, will be accepted by the international financial community. All our efforts to transform our economies will be useless if we cannot achieve a consensus on the part of the international financial community to provide the external resources our development requires.

We must stress the importance of reaching agreement in the Uruguay Round to further reduce the obstacles to international trade, establish rules and discipline in trade matters for the future, and incorporate in the multilateral trade system those areas that to a large extent have been excluded from it.

Finally, I would like to appeal to all those present, who represent the core around which our hopes for the economic and social development of our peoples revolve, that we boldly face the challenges of the future to which the new economic thinking of the 1990s is leading us, and that we include in this thinking innovative, constructive, and realistic ideas that will resolve not only the debt problem but also the short-term and structural problems of poverty, the environment, and the lack of foreign exchange to recover the real income lost over the past decade, and, even more important, to confront the crises now facing the international economy.

Before ending, I would like to join in congratulating the Czech and Slovak Federal Republic, Bulgaria, and Namibia on becoming new members of the Bretton Woods institutions. We hope to be able to extend the same welcome in the near future to Switzerland and Mongolia.

Statement by the Governor of the Bank for Belgium

Philippe Maystadt

This year our Annual Meetings are dominated by the economic consequences of the events in the Gulf region, and by the responses that together we would like to set into motion with the support of the Bretton Woods institutions. Whatever actions we take in response to these challenges will be more effective if we are careful not to lose sight of the fundamental problems, systemic in nature, to whose solution the Bretton Woods institutions will have to make an essential contribution.

Responses to the Gulf Crisis

The Gulf crisis calls for us to respond on three levels:

—our macroeconomic policies must limit the inflationary consequences of the oil price increase;

—we must help the developing countries most directly affected by the crisis; and

—we must ensure that the International Monetary Fund will have the resources needed to fulfill the role we would like to see it play.

First, during our preparatory meetings, and particularly during the meeting of the Interim Committee, I was impressed by a strong desire for continuity; the countries in deficit must keep their budgetary policies restrictive while continuing to aim their monetary policies at price stability. In addition, I noted the consensus that has emerged on the danger of attempting to block the internal price effects of the resurgence of the price of energy, or to offset this price hike by raising wages; such actions would only aggravate the situation by fueling inflationary expectations and would lead later on to a hardening of budgetary and monetary policies.

Second, we must manifest our solidarity with the developing countries that suffer the most direct effects of the Gulf crisis and the embargo decreed by the Security Council of the United Nations. Belgium has already agreed to participate, in the framework of the European Community, in a global scheme of medium-term financial assistance to the most directly affected countries. In addition, we support the proposals of the Managing Director of the Fund and the President of the World Bank for preventing the adjustment programs of these countries from being disrupted by sudden change in their international environment. For this purpose, the Fund will be able, after a few necessary modifications, to use various mechanisms that are already available, notably its compensatory and contingency financing facility. The Fund will also have to display imagination in seeking ways of limiting the costs of its existing mechanisms for member countries that are affected by the Gulf crisis but that at present have not been admitted to the enlarged access of the structural

adjustment facility. I hope that to limit these costs, the Fund will be able to count in the first instance on support from the oil exporting countries for which the increase in the price of oil represents a very large windfall.

Finally, to ensure that the Fund will have at its disposal all the resources it will need, we must undertake, as Mr. Camdessus has suggested, to get under way all the arrangements necessary for the Ninth Quota Review to become effective before the next meeting of the Interim Committee, scheduled for April 29, 1991. This will require the simultaneous ratification of the Third Amendment of the Fund's Articles of Agreement, which is an important element of our strategy for eliminating arrears to the Fund.

The Gulf crisis must not be permitted to make us forget the more fundamental systemic problems that the Bretton Woods institutions must act decisively to help solve.

I am thinking essentially of the following three problems:

—strengthening the coordination of macroeconomic policies;

—the debt problem; and

—the transition of the countries of Central and Eastern Europe toward a market economy.

Coordination of Macroeconomic Policies

I see three areas where adjustment policies can be made more effective to the extent that they can be implemented through a clearly defined process of international coordination, aimed at medium-term goals.

The first is the *level and orientation of savings*. Especially because of the financial requirements of German unification and of Central and Eastern European reform, the problem of the international distribution of savings flows has become more acute: will savings flows from Japan and Europe still be available in the same proportions for financing the twin deficits of the U.S. balance of payments and the U.S. budget? Is there not a serious risk of an imbalance between the financing needs and the available savings? Resolving these tensions solely by raising interest rates could have negative effects on growth and weaken financial systems that already face other challenges. For the United States, the confidence of the markets could be secured if the U.S. authorities announced a medium-term program for reducing the budget deficit and increasing household savings. Within the European Community, the Federal Republic of Germany is also in a position to reduce future interest rate tensions by means of a harmonious blend of monetary and fiscal policy tools.

Second, now more than ever we need to center our deliberations on the essential contribution that a *stabilization of exchange rates* could make to the coordination of macroeconomic policy. The exchange rate, instead of being treated as a simple residual variable, should be an object of international cooperation. The experience of the European Monetary System demonstrates

the key role that exchange rate discipline can play in promoting a greater convergence of macroeconomic policies and creating a more stable and favorable environment for economic growth. I was especially pleased to hear my Japanese colleague in the Interim Committee express the hope for the coopertive establishment of an international monetary system ensuring more stable relationships among the currencies of the troika composed of the United States, Japan, and the European Community. The Fund could play a central role in the establishment of such a system.

Finally, a *sustained coordination of balance of payments policies* is indispensable for the success of the great commercial negotiations now under way in the framework of the Uruguay Round, which we hope to see completed during the Brussels meeting scheduled for next December. Coordination of balance of payments policies is needed to ensure that the commercial tensions that arise among the three major zones will not be settled bilaterally but will continue to be resolved in a multilateral context leading to improved resource allocation for all, including the developing countries.

New Initiatives for Dealing with the Debt Problem

It cannot be denied that a certain number of heavily indebted countries have made remarkable progress with the implementation of measures aimed at restoring their macroeconomic equilibrium and regaining the road to durable growth. Their progress has been greatly aided by financing from the Fund and the World Bank, including financing intended to facilitate operations for the reduction of commercial debt and debt service.

This is in contrast to some other heavily indebted countries, which continue to struggle against great difficulties and have apparently not yet managed to find satisfactory solutions within the framework of the debt strategy as it has developed up to now. These consist principally of low-income countries, and countries in the lower rank of the middle-income countries, whose debt is mostly owed to official creditors.

With regard to the second point, the problem of debt, I would like to remind you of two proposals I made during last May's meeting of the Development Committee. First, I am an advocate of the systematic use of *contingency clauses* permitting the financial obligations of indebted countries to be modified from year to year on the basis of fluctuations in exogenous variables—such as exchange rates and the level of interest rates—which affect their ability to meet their debt-service obligations. These contingency clauses would permit, in some years, a postponement of principal repayment or a partial capitalization of interest. I am glad that this idea of contingency clauses has been revived by my British colleague in his recent proposals.

Second, I share the belief of Chancellor of the Exchequer Major that the menu of options established pursuant to the Toronto agreement for low-income countries, heavily indebted countries, and countries implementing

adjustment programs supported by the Fund or the World Bank falls short of what is needed to put most of these countries back on the road to development and external viability. The proposal I made last May was for the industrial countries to place in a common "pool" or fiduciary fund ("*Trust Fund*"), all or part of their claims on countries meeting the Toronto conditions, in other words, undertaking an adjustment program supported by the Fund and the Bank. On the basis of the analyses of a country's payments capacity made by the Fund and the Bank in the course of its adjustment, the Trust Fund would be able to authorize adjustments of principal and interest obligations of a larger size than those provided under the Toronto options. Moreover, the Trust Fund could accept all or part of the debt-service payments in a country's own currency, which would then be reinvested in local development projects mutually agreed on.

I hope that this proposal, despite having attracted less attention, could also be the object of an in-depth study by the Paris Club.

The Transition of Central and Eastern Europe Toward Market Economies

Belgium was particularly gratified by the decisive change of course made by the countries of Central and Eastern Europe toward democracy and market economics, and by the fact that the reunification of Germany could occur in the context of a European Community that is on the threshold of decisive choices for economic and monetary union and toward political union.

However, the transition period will not be without peril for the Central and Eastern European countries, and the Bretton Woods institutions will have an essential role to play.

First, as was emphasized by both Mr. Conable and Mr. Camdessus, the profound reforms that these countries must accomplish will have a much better chance of succeeding and of gaining wide popular support if a *safety net* is provided from the very start to cope with the harshest social costs of the transition. The zeal of the newly converted must not make the new leaders of these countries forget that the economic model that makes the countries of the European Community appear so attractive to the countries of Central and Eastern Europe is that of the *social* market economy.

Second, for reform plans to succeed, their structure must be both coherent and comprehensive. Partial reforms run the risk of getting stalled. The Bretton Woods institutions, like all the rest, have only limited experience with this kind of *truly systemic adjustment*. This limited experience makes it all the more important that all institutions participating in the dialogue with the reforming countries should share their experiences and coordinate their actions closely.

Third, we must not underestimate the magnitude of the *external financing* that will be required for the reconversion of the Central and Eastern European economies to succeed. These needs will be aggravated by the double shock

of the oil price hike and of the obligation to correct the foreign currency exchange patterns that prevailed within COMECON. The Bretton Woods institutions, like other sources of public funds, must vigilantly maximize their catalytic effects on private flows, especially those resulting from direct investments that will make an equally decisive contribution.

Toward a New System for Distributing International Liquidity

The extraordinary financing requirements stemming from the integration of the Central and Eastern European countries into the world payments system bring me to one last important reflection.

We cannot, in fact, exclude the possibility that an exceptional combination of circumstances might produce an outcome where the resources of the Fund over the next five years will turn out to be inadequate. I am thinking of the conjunction of the following elements:

—the financing needs of Central and Eastern Europe;

—the supplementary resources required by the reinforced debt strategy;

—the balance of payments difficulties that are sure to arise if the Gulf crisis lasts long enough to bring about a significant reduction of world economic activity; and

—the exchange market interventions that will be needed to establish more stable relations among the currencies of the United States, Japan, and the European Community.

The combination of these eventualities I have just mentioned emphasizes, I think, a double need: first, that of doing everything possible to ensure that the Ninth Increase of Quotas can effectively come into effect as soon as possible; if possible, indeed, before the next meeting of the Interim Committee in April 1991; and then the need perhaps to re-examine this Belgian proposal, which would be to combine with the current quota system an allocation of SDRs, in the context of which the industrial countries could retransfer to the Fund all or part of this allocation.

Now that the political model of democracy and the economic model of the market economy appear to prevail decisively throughout the world, it is more important than ever for us to organize, at both the international and the national level, the common body of rules that will enable economic agents, competition, and the initiative of enterprises to make their full contributions to the prosperity of all.

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

D.B. Wijetunga

On behalf of His Excellency R. Premadasa, President of the Democratic Socialist Republic of Sri Lanka, the Government, and the people of Sri

Lanka, let me express our warm felicitations and good wishes to all of you. At the outset, we warmly welcome into our membership fold the Czech and Slovak Federal Republic, Bulgaria, and Namibia.

The resiliency of our Bretton Woods institutions stood us in good stead in the 1980s even though crises management demanded too much of our attention. At first, we grappled with the 1979–80 oil price shock and then it was the debt crisis. But we closed the decade in a sense of eager anticipation. The Fund and the Bank both gave operational content to some of our primary concerns through financial facilities tailored to the circumstances and needs of low-income countries. For the crises-ridden heavily indebted developing countries, the strengthened debt strategy provided a light at the end of the tunnel. The exercise of the Fund's surveillance function contributed, through international policy coordination, to reduced tensions in financial markets and, in particular, to greater stability in the exchange markets. These building blocks, together with the windows of opportunity provided by the Uruguay Round on the trade front, and the World Bank's thrust on poverty alleviation and the global environment, provide a strong foundation and the framework to close the final decade of this century on a note of achievement—to prove that human ingenuity is also capable of halting and firmly reversing these man-made problems.

Yet, at this time, our attention is pre-empted by another crisis: the economic and financial fallout from political tensions in the Gulf region. The Fund's World Economic Outlook concludes that the non-oil heavily indebted developing countries will be affected more than the industrial countries. Per capita income growth, thus far elusive to many heavily indebted developing countries, now takes another beating. The broad statistical aggregates conceal wide country disparities. Compliance with the mandatory sanctions of the United Nations is associated with extreme hardship in particular cases. Output, employment, income, and balance of payments effects arise from substantially higher prices for oil and from disruptions to export markets and to migrant labor.

Face as we should this new crisis, we cannot, however, ignore some impediments in the external environment that were already evident before the latest crisis. The world economy was slowing down by another notch. The overreliance on monetary policy in the industrial world to stamp out any hint of inflation, together with the expected larger demand from Eastern Europe on world savings, was already driving interest rates up. The reduced world growth prospects, of course, will depress commodity markets. These trends were already undermining one of the prerequisites for satisfactory performance of developing countries, namely, a favorable international economic environment.

Many heavily indebted developing countries are currently making heroic efforts at generating higher savings even at their low income levels as part of an economic adjustment strategy. The industrial countries have to accept

responsibility for a better savings performance in a way that the needs of Eastern Europe are harmonized with the pressing needs of other developing countries at a level of interest rates consistent with their debt-servicing capacity. Multilateral institutions, as well as the commercial creditor community, have complementary roles to play in promoting this objective, namely, that investment should flow where economic and social returns are greatest. In this context, we welcome the recent bilateral initiatives to cancel some of the ODA debt. Such actions provide much-needed cash flow support to the balance of payments, as do new inflows. The proposals made last week by Chancellor of the Exchequer Major are well timed. We urge that it would be fully consistent with the spirit of the proposal to include, therein, those low-income countries that serviced debt on time despite the debt burden.

Without detracting from the underlying imperatives, we have to find solutions to the economic problems of the Gulf crisis. Such solutions should emphasize the financing element in our response and thus reflect the temporary character of the problem. For, to do otherwise, as for instance through sharp adjustments, would unduly weaken our economies while also undermining our cooperative commitment to solve the political problem.

In a situation arising from violent conflict and tension, it is natural that a high level of visibility is attached to countries in the immediate vicinity of the conflict. This is rightly so. However, on a more sober and balanced assessment, the higher oil prices and disruption to some export markets have economic effects that permeate a wider range of countries, the vast majority being developing countries. For migrant labor, an economic shock is compounded by a social trauma, and national governments will be in the front line in accepting responsibility for their welfare.

The international community has responded strongly to the UN directive to impose economic sanctions so as to speed up settlement of the issue. In recognition of the adverse impact that such actions have on participants, certain initiatives are being developed. We would urge that these be suitably coordinated to ensure that the multilateral endeavor reflected in the UN-mandated economic sanctions is matched by a multilateral focus in the disbursement of assistance to the severely affected countries.

A speedy response from the International Monetary Fund and the World Bank is called for in the light of the risks posed to the world economy. While underscoring the multilateral character of the problem, it could help catalyze additional support from other sources. The creation of a facility along the lines of the 1974 oil facility would be a courageous first step. At the same time, existing financial facilities should be reviewed with respect to procedures and practices. Having in mind, particularly, those members having or about to have Fund-supported programs, the actual access to financial facilities should be increased. The Fund's compensatory and contingency financing facility deserves special mention for adaptation to the exigencies. To be truly effective for the low-income countries, such financing should be at

concessional interest rates. Earlier in the year at its spring meeting, the Interim Committee endorsed the maintenance of maximum access limits to Fund facilities until the Ninth Quota Review becomes effective. The present and prospective comfortable liquidity position should provide the required latitude for the Fund to bring forward, as well as raise, actual access beyond the conservative averages of the last few years. As it is the low-income countries that are most in need of a safety net, the structural adjustment facilities of the two institutions should be closely examined to permit a larger financing role in particular cases. Needless to add, the situation of arrears countries that are cooperating with the Fund and the Bank deserves special consideration.

Despite these setbacks—and we should never be complacent about the future—our ultimate objective of higher living standards, poverty alleviation, and a better environment should be kept in perspective. We commend the World Bank for focusing on these issues through analyses and recommendations so as to prod the international community. These are interrelated subjects and should be tackled in a comprehensive framework, and, because the benefits therefrom would spill over national and geographical boundaries, should be of central concern to the international community.

The World Bank's *World Development Report 1990* on poverty comes out at a time when Sri Lanka has substantially strengthened its economic policies, is making quantum jumps in restructuring the economy, and is implementing a multifaceted poverty alleviation program. After a major revamping under the direction and guidance of President Premadasa, the Sir Lanka strategy has essentially moved away from general commodity subsidies on to direct transfers to the poor. This has vastly improved the efficiency of the scheme through better targeting. An emphasis on community participation is an important supplement to determine eligibility thresholds, and thereby both targeting and administration have been facilitated. While upgrading unacceptably low consumption levels, the program is linked to generating productive rural and urban employment. Together with fiscal policies that seek to provide for the development of social infrastructure, the poverty alleviation program will provide a powerful impetus to human resource development in Sri Lanka.

We are greatly encouraged by the increasing emphasis placed by the international community on policies that tackle poverty. We would note that the Sri Lanka strategy is implemented within the broad framework of macroeconomic stabilization, structural reform, and investment in human capital. This setting will greatly facilitate the absorption and efficient utilization of donor support with a minimum of further effort needed on the part of donors to ensure that the resources pledged reach the intended beneficiaries. It is hoped that these characteristics will bring forth greater flexibility in donor support as, for example, through general balance of payments financing.

While poverty alleviation is central to the mandate of the World Bank,

like the donor community, an active complementary role should be played by the Fund in this area. The Fund, like a central bank, is a monetary institution set up to provide temporary balance of payments financing. The evolution of the international monetary and trading system has been such that policy reform and adjustment are taking longer than anticipated to yield the desired results. Long before the Baker proposals on debt, we agreed that Fund-supported adjustment programs should provide for a reasonable growth rate. Economic adjustment involves hardships to some, and, without offsets, the domestic consensus to sustain policy reform would not exist. The program will fail. It is this same need for domestic consensus that drives us to insist that poverty alleviation and social concerns be given closer attention in Fund programs. In recommending the adoption of policy tools, considerations of economic efficiency should be tempered by social and equity concerns. As social structures vary across countries, the standard policies should be capable of adaptation to suit differing circumstances.

Through our recent decisions on the Fund's Ninth Quota Review and the Bank's capital increase, we have substantially strengthened the finances of the two institutions. Putting these resources to optimum use with due regard to their security calls for a parallel effort at improving the capacity for designing effective programs and timely policy advice. We would urge the respective Executive Boards and managements to intensify their efforts in this direction. Fund and Bank policies have converged in a number of areas. We trust that this trend will yield effective programs whose benefits will reach a much wider circle and at an earlier stage of implementation than we have been accustomed to in the past.

Statement by the Governor of the Bank for Dominica

Mary Eugenia Charles

It is my honor and pleasure to speak on this occasion on behalf of the members of the Caribbean Community and Common Market (CARICOM), namely Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

We welcome Namibia, Bulgaria, and the Czech and Slovak Federal Republic to membership of the Fund and the Bank. Their accession to membership heralds a new phase of global cooperation.

The theme of my speech today is that this new phase presents us with exciting prospects for world development in the 1990s and that the developing countries should be assisted to take advantage of the new opportunities that will be offered. These new developments require fresh thinking, and bold

approaches are necessary to uplift the millions in the developing world in particular from the degradation of poverty and hopelessness during the new decade. Yet the evidence suggests that while the developments in Europe and Africa could create enormous opportunities for expansion, the economies of the developing countries are likely to contract unless immediate action is taken to secure for them continued and increased flows of resources, both in terms of a fair share in world trade and financial assistance.

In addition, the crisis in the Gulf region will make permanent changes in the pattern of Middle East and world economic activity no matter how it is settled. The impact on the countries of the Caribbean will be particularly severe because of their openness and vulnerability and the acute debt problems of two of the largest territories, Jamaica and Guyana. Apart from Trinidad and Tobago, all the other Caribbean countries are importers of oil and will be faced with higher import bills and a further deterioration in their external balance that will require further adjustments.

We agree with the emphasis that is being put at this meeting on prudent policies to minimize the impact of an extended oil crisis, but we see a danger in further contraction of our economies. What we need is expansion to enable us to take advantage of the new opportunities and prospects arising from the new phase of global cooperation and to surmount the shocks that will spread from any steep rises in the price of oil.

We are not confident that policies prescribed for the developed countries will help us in the developing countries to gain a larger share of the growth in world trade and investments, especially if any reduction in deficits will be at the expense of the commodity exports and tourism earnings of the poor countries. Moreover, the obligations of the United States in the present crisis in the Gulf region and the cost of the unification of Germany could further reduce the supply of capital and consequently apply increased pressure on interest rates. This clearly points to the need for appropriate fiscal and monetary policies in the developed countries.

Since we were here last year, we in the Caribbean have seen considerable activity from the Fund and the Bank. In this respect, we welcome the success of the Guyana Support Group and commend the efforts of the Fund and the Bank, which have seen the return of Guyana to eligibility and borrowing status in the Fund and the Bank, and also in the Caribbean Development Bank. Jamaica continues to meet its obligation to the Fund and the Bank and has been taking bold measures in liberalizing the exchange rate regime to enhance the prospects for success in the long run. However, initiatives such as that taken by MIGA to help Jamaica host an investment conference in 1991 are being threatened by short-run difficulties.

Many of the smaller countries in the Caribbean have been beneficiaries of assistance from the Fund and the Bank. A blend of IDA and IBRD loans helped St. Lucia to finance an imaginatively conceived water project. A blend

of IDA and IBRD funds has also been made available to the Caribbean Development Bank to assist its poorest members. . . .

We are also pleased with the concern, of the Bank in particular, about the effect of adjustment on poverty, and we look forward to an imaginative collaborative approach by both the Fund and the Bank to devise effective strategies to bring relief to the distressed millions, whose condition of life has been made worse by the slow and insignificant response to adjustment policies in terms of job opportunities and improvements in social amenities.

We are also pleased with the intentions of the Fund to provide resources under the compensatory and contingency financing facility to finance some of the cost of the increases in oil prices.

But while these prospects are exciting, the support of these institutions in the Caribbean has been far from enough. None of the policies of the Fund and the World Bank make explicit reference to the small size and vulnerability of small island states, especially those that are exposed to frequent natural disasters. The competition that takes place in large economies does not exist in microeconomies, where just a few firms control the market. The fact that the effectiveness of otherwise sensible macroeconomic policies is hindered by inefficient markets and undeveloped financial services in small developing countries is too often ignored.

There is the need, therefore, to develop programs that address these deficiencies and that provide longer-term assistance, a higher level of concessional flows, and more flexible conditions, which will allow for a more gradual process of adjustment than that now contained in current Fund and Bank packages.

There is also the need to design special arrangements for those small countries that are most vulnerable to natural disasters and that incur considerable debt in repeatedly replacing lost assets, especially social and economic infrastructure, destroyed by hurricanes, volcanoes, or floods. Similarly, special arrangements need to be made for small island states that are exposed to man-made disasters, such as oil spills, to mitigate the economic consequences of such disasters that could cause a major setback for tourism-dependent countries.

Despite these obvious weaknesses, the graduation polices of the World Bank and the conditionalities associated with loans of both the Bank and the Fund do not distinguish between large and small countries. The international communities should not accept that per capita income alone is a satisfactory criterion for graduating countries from IDA and IBRD lending. We all know that there must be many more considerations for small island economies. We all know that per capita income alone is no measure of the sustainability of the level of development of countries that have to rely almost entirely on external markets (including capital markets).

The Fund and the World Bank will need to rethink the conditions that they

apply to small states. The World Development Report itself acknowledges that the strategy choices that all governments make reflect both economic and political factors. It is true that trade should be liberalized and that income tax burdens should be reduced. Yet care has to be taken to do so without increasing the propensity to import and thereby weakening the balance of payments.

Similarly, agricultural development programs are designed as if farmers in the Caribbean have the assets and the technology to compete on a global scale. The fact of the matter is that they do not. And even if the Uruguay Round went well and stopped subsidization of agriculture in the main OECD countries, that will not be the end of the matter. Farmers in the Caribbean need credit, and they will need technical assistance.

This is why we will welcome a regional agricultural research project and a human resource development project. Preparation of both projects should be accelerated if we are to gain from the likely beneficial impact of liberalized world trade, of Europe after 1992, and of the Canada/USA free trade areas of President Bush's Enterprise for the Americas Initiative.

We note with concern that while some middle-income countries have remained current in their debt obligations and are pursuing structural adjustment within the context of Fund arrangements, these countries have not benefited in any substantial way from the current debt strategy, particularly with respect to debt relief. We, therefore, urge the international community to show a greater degree of flexibility and imagination in providing adequate solutions to the debt and debt-service burdens of these countries.

In this respect we are grateful for the initiatives already taken by Canada to forgive significant amounts of debts owed by less-developed countries, and for the recent decision by the United Kingdom to write off a substantial part of Guyana's debts.

We welcome also the new initiative of Chancellor Major, referred to as the Trinidad and Tobago Terms, which will enhance the present Toronto Terms and offer greater relief to debt-distressed countries. More important, we would like to seet his new initiative implemented with greater urgency than we have seen in the past with other debt initiatives. In addition, we hope that the Caribbean countries may soon benefit from the new terms proposed by Chancellor Major.

We further urge that serious consideration be given to providing resources to reduce the interest burden of debt to multilateral institutions. This is extremely necessary in the present situation, where real interest rates are already so high and are likely to increase further and capital is so expensive.

For countries that are undertaking major adjustment programs involving debt rescheduling and balance of payments support, the composition and timing of support become critical. The experience of Guyana under the Paris Club, structural adjustment loans, and ESAF arrangements indicate the following:

—Too high a proportion of commodity support does not permit timely conversion into export earnings and could lead to a mismatch with cash obligations.

—The logistics of negotiating SAF and ESAF programs are far too complex and drawn out, so that the impact of adjustment is considerably diminished as a result of delays in disbursing funds.

In fact, just as actions concerning macroeconomic policies must be swift and decisive, so too must the release of financial support for adjustment programs be quick and consistent with their needs. The present bold and far-reaching adjustment program that Jamaica is undertaking needs the fullest cooperation of the Fund and the Bank.

Finally, we wish to emphasize the importance of the development of the appropriate financial institutions and the associated dialogue, which are as important as the other forms of assistance. We do need to review the various aspects of the incentive framework in our countries with the staffs of the Bank, the Fund, and the IFC. There should be a greater investment in dialogue with our countries than has been the experience so far. . . .

If I may summarize, first, the major task rests with the Managing Director of the Fund and the President of the World Bank to help lower the cost, and increase the availability, of capital. Fund surveillance should be strengthened to achieve this end. Second, small states need to receive appropriate analyses, and appropriate conditionalities should be devised for them. Third, graduation should be associated more with sustainability than with per capita income. Fourth, poverty reduction will require greater flexibility in program design and more research into poverty conditions in the Caribbean. Fifth, consideration should be given to subsidizing high interest rates. Sixth, support for adjustment involving debt relief and balance of payments financing must be quick and consistent with the needs of the programs. Negotiating procedures need to be improved to reduce the time required for implementation. Seventh, the Fund and the Bank should spend more time talking with us about the incentive framework that will trigger investments in our very small states.

To ensure the survival of the small states in the Caribbean and in other parts of the world, these tasks must be given the highest priority. I am confident that I can leave them in the capable hands of the Managing Director of the Fund and President of the World Bank.

STATEMENT BY THE GOVERNOR OF THE FUND AND BANK FOR KOREA

Yung-Euy Chung

It is a great pleasure for me to have this opportunity to address the Forty-Fifth Annual Meetings of the Fund and the World Bank here in Washington. I truly believe this year's meetings will be of particular significance since 1990 marks the beginning of a crucial decade with new hopes and challenges for the world.

Before proceeding with my remarks, I would like to extend my warm welcome to the delegates of the new member countries, the Czech and Slovak Federal Republic, Bulgaria, and Namibia, and the participants from Switzerland, Mongolia, and the Union of Soviet Socialist Republics, who are attending these meetings as observer, special guest, and special invitee, respectively.

I would also like to thank the Fund's Managing Director, Mr. Camdessus, the World Bank's President, Mr. Conable, and all the staff members who, through their efforts, have made these meetings both possible and successful. My thanks also go to the citizens of Washington, D.C. for their warm hospitality.

The World Economy

While the growth rate in 1989 subsided from that of 1988, the world economy has maintained modest growth for eight consecutive years. This is due to a relatively steady and gradual increase in industrial production and foreign trade in the midst of overall commodity price stability.

This year, however, there is a growing concern that inflationary pressures stemming from the rise in oil prices, combined with an economic slowdown and a decline in world trade, may result in a turnaround from the present trend of sustained growth to one of stagflation.

In particular, the recent crisis in the Middle East, which has caught the world unprepared, is fueling fears of a third oil crisis and poses a grave threat to the world economy. This sudden turn of events is not only likely to have extremely adverse effects on oil importing developing countries, but may also cause severe disturbances for the world economy as a whole.

This unforeseen crisis comes at a time when the world economy is suffering from various structural imbalances. For instance, almost one third of the population of the developing world still lives in poverty, and many developing countries are burdened with the servicing and restructuring of excessive foreign debts.

In the midst of these difficulties, some positive trends are also emerging. The transformation of the economic landscape in Europe—most notably the historical reunification of Germany, the consolidation of the European

Community, and the economic reform efforts of Eastern European countries—is of significant importance and will surely alter the world economic order. In addition, the rapid pace of liberalization and globalization of world economies is adding momentum to the restructuring of the international economic environment.

Vision for the 1990s

The 1990s will undoubtedly be a critical decade for the rectification of the many structural problems plaguing the world economy, which had become aggravated in the 1980s despite sustained growth. In order to maintain growth in the 1990s in the midst of these problems and changes in the world economy, active cooperation between East and West and between North and South is needed now more urgently than ever before. In particular, close policy coordination among major developed countries is extremely vital.

Accordingly, all nations must avoid the temptation of reverting to nationalism to further their own narrow self-interests and should rather pursue the ideal of cosmopolitanism, since working toward global prosperity is the only sure way to national prosperity.

In this regard, the Uruguay Round ought to be concluded in such a way as to gain the full support of both industrial and developing countries. In addition, international financial organizations should also strengthen their roles in the world economy in order to support the framework of multilateral cooperation.

The Korean Economy

The Korean economy has been, since last year, experiencing difficulties, such as high inflation and a deterioration in the balance of payments situation. The current economic slowdown seems to be part of a cyclical adjustment after three consecutive years of high growth. It also seems to have resulted from the process of structural transformation of the Korean society during the transition to a mature democracy. External factors, such as the rippling effects of sluggish growth in world trade, rising protectionism, and instabilities in the international foreign exchange and financial markets, have also become burdens on the Korean economy.

In spite of these internal and external problems, Korea will forge ahead with appropriate and practical liberalization and internationalization policies to fulfill its role and responsibilities as a member of the international community. Internally, we will also intensify our efforts to promote structural adjustment as well as to enhance productivity and technological development in order to respond effectively to the adverse changes in the domestic and global economic environment.

In keeping with this policy direction, Korea has already liberalized imports and foreign exchange transactions substantially. In addition, for the

liberalization of the capital market, Korea has also announced "The Mid-Term Plan for Capital Market Liberalization" and has been implementing this plan on a gradual basis to prepare for full deregulation of the capital market.

Furthermore, to contribute to the common goal of world prosperity, Korea has been making efforts to enhance relationships with other developing countries. As part of this endeavor, Korea has made significant contributions to the ESAF and IDA.

Moreover, Korea perceives the market-oriented reforms of the Eastern European countries as a historic development and actively supports the establishment of the European Bank for Reconstruction and Development (EBRD) and will strengthen cooperative economic ties with these nations.

The International Monetary Fund and the World Bank

Turning to the activities of the Fund and the Bank, the continued efforts and accomplishments of these two institutions in achieving balanced world economic growth and reducing the debt burden of developing countries deserve the highest praise. I would like to take this opportunity to propose several recommendations for the activities of the Fund and the Bank in the 1990s.

The Fund and the Bank

First, the Fund and the Bank should place special emphasis on stabilizing exchange rates and interest rates and expediting a smooth flow of funds. To do so, they must strive to prevent excessive fluctuations of the exchange rates of major currencies as well as instabilities in the world financial markets, which have intensified uncertainties in the world economy and hindered the management of economic policies of the developing countries.

Second, the recent rise in oil prices arising from the current crisis in the Middle East will possibly lead to lagging economic growth and surging inflationary pressures among developing economies, which can ultimately result in economic stagnation. It may also cause further deterioration in the debt situation of oil importing developing countries. Accordingly, the Fund and the Bank should commence a comprehensive review of the current strategies for dealing with the debt problem.

At the same time, the Fund and the Bank ought to support actively the economic reform efforts of the Eastern European countries together with the EBRD now being established to ensure that the transition to a market-oriented economy is smooth and successful, but not at the expense of other developing countries. . . .

The Fund

To achieve the Fund's primary goal of balanced and sustained economic growth, the Fund's surveillance role ought to be intensified with greater

emphasis on efficiency. For instance, the Fund's symmetric surveillance over trade surplus and trade deficit countries must be especially strengthened, in addition to the surveillance over trade deficit countries that do not rely on resources from the Fund. Policy research with respect to the effectiveness of surveillance must be further reinforced.

While it is indeed fortunate that the Ninth Review of Quotas was concluded without further delay, we find it regrettable that Korea was not given a quota that is proportional to its relative position in the world economy. Therefore, it is hoped that the actual quota will be reconsidered in future rounds of quota review negotiations so as to achieve a balanced quota for all member countries. To this end, we hope that the next round of the quota review will be held as early as possible.

I should also mention that the continuation of the problem of arrears could be harmful to the credibility of the Fund. In this regard, we support the Third Amendment of the Articles of Agreement and the introduction of the rights approach in the hope that these new instruments will successfully alleviate the problem.

Closing

In the first year of this decade, the world has been witnessing a tremendous transformation of the international economic order, through such events as the unification of Germany, the consolidation of the EC, and the reform movements in the Eastern European countries. At the same time, however, overall imbalances in world development still exist, and uncertainty over the future seems to be growing. Therefore, the 1990s call for closer global cooperation than ever before. In this connection, the roles of the Fund and the Bank have also become more critical.

I would like to close with a small reminder that the key to our success in making a smooth adjustment to the historical changes occurring in the world and in achieving global prosperity lies in cooperation rather than conflict, and in compromise rather than confrontation. I hope that all nations of the world will display the proper wisdom and resourcefulness in meeting the challenges of the 1990s through cooperation and conciliation.

Statement by the Governor of the Bank for Pakistan

Sartaj Aziz

I congratulate the Chairman on presiding over these Annual Meetings at a most challenging time. Kenya stands out as a model of sustained growth and stability. Your inspiring address has been a source of guidance and hope in

our deliberations. I also welcome Namibia, Bulgaria, and the Czech and Slovak Federal Republic as new members of the Fund and the Bank. I also join previous speakers in expressing my appreciation for the excellent arrangements made for these meetings.

While the world was still in the midst of celebrating the end of the Cold War, while the applause to herald far-reaching reforms in Eastern Europe was still ringing in the air, and while the first few steps on the path of sustained growth and stability were being taken, the world was overtaken by a gigantic crisis arising from developments in the Middle East. The adverse impact of this crisis on oil importing countries has been severe. For countries like Pakistan, the balance of payments has been affected not only by a sharp increase in prices of oil and oil products but also by a substantial decline in home remittances and loss in exports to these countries. The Gulf crisis will impose on Pakistan a minimum additional burden of $1.1 billion owing to the expected increase in the oil import bill, loss in workers' remittances, and loss in exports from enforcement of sanctions. This estimate is based on an average oil price of $24 a barrel. If the price of oil exceeds $30 a barrel, the adverse impact may be between $1.7 billion and $2 billion.

The majority of developing countries are net oil importers and face a sharp deterioration in their terms of trade. These countries have little elbow room. Most of them are in the midst of an adjustment process. While these countries have to take all feasible measures to face the new situation, their capacity is limited in relation to the magnitude of the adverse impact. Therefore, it is imperative that supportive arrangements are put into effect to help developing countries overcome the adverse impact of this crisis. Intensive consultations are in progress this week to explore the scale and modalities of this assistance within a coordinated framework. May I offer some suggestions on the role that the Fund and the World Bank can usefully perform in these circumstances.

The International Monetary Fund

First of all, the most important need is to enable the IMF to lower the cost of its financial assistance through a special subsidy account. The Fund has the resources, but the interest rates are relatively high and are likely to impose further strains on the debt-servicing capacity of the recipient countries. Facilities like the compensatory and contingency financing facility (CCFF) have to soften their terms, such as interest rates and period of repayment to enable countries to overcome this crisis.

Simultaneously, there is a need to introduce greater flexibility in the conditions attached to facilities like the CCFF to ensure that the Fund can respond more promptly, flexibly, and on an expanded scale. If access under this facility remains dependent on fulfilling stringent conditions or ceilings, it will be difficult for many countries to meet them because the margins available under an ongoing adjustment program are seldom large enough to accommodate additional burdens of the kind arising at present.

Third, while an independent oil facility may be difficult to establish at this stage, thought might be given to creating a separate "oil window" within the CCFF, which can deal with the current situation over, say, the next three years in a more flexible manner and on more reasonable terms. In this context, it will be important not to cancel the impact of higher import burden against larger exports, as is done under the food financing facility.

Fourth, the present emergency clearly highlights the need to augment the flow of resources to developing countries on more reasonable and sustainable terms. At present, repayments have been higher than gross disbursements; therefore, net disbursements from the IMF have been negative for the fourth successive year. Even if overall access to the coming years is enhanced, it will take some time before the overall flow of resources from the IMF becomes positive on an adequate scale. In the medium term, the objective of a larger transfer of resources from the Fund can be achieved promptly if a special issue of SDRs is allocated over a three-year period, both as a means of transferring additional resources and of strengthening the SDR's role as a reserve asset.

As the Managing Director of the Fund said in his opening statement yesterday, this institution was created precisely for the purpose of assisting its member countries to deal with such shocks and emergencies. We hope it can meet this challenge in a spirit of partnership. . . .

Finally, may I say a few words about Pakistan's efforts at structural reform to improve the efficiency of resource allocation and to attain the viability of the economy over the medium term. In recent years, Pakistan has not only achieved impressive growth with relative price stability, but has also been implementing a broadly based program to liberalize the economy. More specifically, the program has emphasized wide-ranging financial reforms to make the sector market-oriented, liberalization of sanctioning investment, lifting of controls on domestic trade, decontrol of prices, and maintenance of a flexible exchange rate regime. In addition, a program to privatize nationalized enterprises has been initiated. While this has been a difficult process, the resultant improvement in policy environment has started paying dividends. Although much of the gains of adjustment have been clouded by the Gulf crisis, the achievements are by no means unimpressive. It is also encouraging that we have developed a bipartisan political approach toward economic reforms. The structural adjustment programs finalized with the IMF and the World Bank have not been affected by the political changes that occurred in 1988 and 1990. However, we need the continued understanding and support of international financial institutions to carry this program forward to attain the desired objectives in full measure.

In conclusion, may I express the hope that the strong measure of solidarity shown in the recent Gulf crisis by countries of the North and the South will lead to what President Bush called "a new partnership of nations" for sustainable and equitable growth in the world economy in the coming decade.

STATEMENT BY THE GOVERNOR OF THE FUND FOR DENMARK

Niels Helveg Petersen

I have the honor of addressing this meeting on behalf of Denmark, Finland, Iceland, Norway, and Sweden.

First of all, the Nordic countries would like to express their heartfelt welcome to Namibia, the Czech and Slovak Federal Republic, and Bulgaria as members of the International Monetary Fund.

Let me begin with a brief discussion of the present world economic setting. Looking at developments so far, there are several positive signs to be registered. Economic growth has been rather satisfactory in many parts of the world. External imbalances among the major trading nations have been reduced and in Eastern Europe large-scale reforms in the direction of market-based economies are under way.

On the other hand, there are still a number of important issues to be dealt with. Inflationary pressures persist in many countries. Debts are a heavy burden for the majority of developing countries and necessary economic adjustments are often too slow and inadequate. This difficult situation may well take a turn for the worse if oil prices remain at a high level. In most European countries there are still relatively high levels of unemployment, which point to the need to address this problem more effectively through structural reforms.

One major source of uncertainty is, of course, the future developments in oil prices. It is essential to maintain the credibility of policies aimed at reducing inflation. Only by doing so will there be realistic possibilities for sustained long-term growth. Consequently, we must resist the temptation to make short-term accommodating adjustments undermining anti-inflationary policies. A general policy response along these lines will also help to avoid a new, deep recession similar to the one we experienced in the early 1980s.

Our experience from the 1970s has taught us that we must maintain—or rather strengthen—economic and structural policies. There is no room for what one might call "an oil excuse." The only certain result of postponing necessary measures is that, far from easing economic difficulties, it will actually increase them, except in the very short term. The recent changes in oil markets remind us once more in a dramatic way of the continuing need for energy saving.

All economies will clearly have to adjust to meet these changing conditions, but all do not have the same ability to do so. If oil prices remain at a high level, the situation of the net fuel importers among the developing countries will become even more difficult. This will certainly also be the case for most Eastern European countries, which face even higher relative oil price increases.

The increased financing needs of these countries can only, to a limited

extent, be met by the Fund. Therefore, the Fund's catalytic role assumes increased importance. The Fund itself must once again stand ready to apply its existing facilities and policies in a flexible manner while emphasizing the need for continued adjustment efforts.

In this context, I believe that lately we have been provided with encouraging evidence by some of the major debtor countries. They have demonstrated that sticking to strong macroeconomic and structural adjustment policies is the only way of securing progress toward both medium-term balance of payments viability and renewed access to international capital market financing. As regards the low-income countries, we agree that there is a need to review the existing options being applied to this group. The Paris Club should examine without delay recent proposals for additional debt relief.

Let me turn to the issue of Fund policies. The Managing Director put it very appropriately when he recently stated that the prime objective for the Fund's programs is the achievement of "high-quality growth." This was defined as growth that is sustainable economically, ecologically, and socially.

Policies that only produce short-term benefits must be avoided. Such policies are characterized by excessive borrowing, growth for the privileged few, and growth achieved through disorderly exploitation of natural resources. This is true for developed as well as developing countries.

Specifically, as regards developing countries, well-designed macroeconomic adjustment programs will benefit also the poor. Still, recognizing that economic adjustment may have adverse social consequences in the short run, the Nordic countries welcome that the Fund, in its advice and design of programs, is paying attention to ways to alleviate the burden on the poor segments of the populations.

In this connection we should acknowledge that the Fund alone cannot provide a full-fledged cure. The Fund's task has been, and should continue to be, to assist member countries in working out adjustment programs designed to restore a viable balance of payments situation. This will lay the necessary foundation for long-term development, for which, among others, the World Bank provides its assistance.

I will now turn to another important problem that will have a major impact on the quality of growth for many years ahead. The progressive liberalization of trade over the past forty years has been a major factor—perhaps the most important one—behind the unprecedented economic growth and prosperity in countries with market-oriented economic systems. The open, multilateral trading system is, however, now threatened on two fronts: first, the GATT system needs to be strengthened and brought up to date in areas covering services, agriculture, textiles, trade-related areas such as intellectual property rights and investment measures, the stricter use of the balance of payments clause and reversal of the trend toward unilateral and bilateral trade-restrictive measures. All these are important areas. We must seek substantial and ambitious results on all fronts in the Uruguay Round.

Thus, the negotiators in the Uruguay Round have a tremendous task in front of them. Regrettably, the growing acknowledgment in most countries of the economic merits of a fully liberalized multilateral trading system does not seem to have sufficient impact on some of the trade negotiators of the Contracting Parties. The political message must therefore be: There is no acceptable alternative to substantially improved trade discipline and effective trade liberalization in *all* areas under negotiation.

Second, large economic imbalances should not be used as a pretext for trade-restrictive measures. Such measures lead to a misallocation of resources and to even more intractable economic problems. Tendencies of that nature must be halted and reversed. Many countries need a better coordination of economic and trade policies. Therefore, on the international front the coordination and cooperation between the Fund, the Bank, and the GATT must be improved and strengthened, of course, within their respective mandates.

The Nordic countries hold the view that the activities of the Fund remain central to the international community. For instance, the Fund has a unique role in assisting centrally planned economies in their transformation into market-oriented economies.

Therefore, in addition to the Fund's advice and technical assistance to its member countries, the institution must have an adequate amount of resources at its disposal. The Nordic countries firmly believe that the agreed increase in quotas is the minimum required for the Fund to fulfill its future tasks. We, therefore, fully agree that the implementation of the quota increase must be given top priority.

Statement by the Governor of the Bank for Bangladesh

Mohammad Abdul Munim

It is both a great honor and a pleasure for me to represent the Government of Bangladesh in the Annual Meetings of the World Bank Group and the Fund. Let me start by congratulating you, Mr. George Saitoti, on your election as Chairman of the Annual Meetings. I join my fellow Governors in extending my hearty welcome to the Czech and Slovak Federal Republic, Bulgaria, and Namibia to the Bretton Woods family. I also welcome Mongolia, Switzerland, and the U.S.S.R. to these meetings.

We are meeting at a very crucial time; the international economic climate is uncertain and volatile. The momentum of growth in the developing countries is slackening due to a slowdown in the industrial countries, decline in the transfer of financial resources, rising trend of interest rates and inflation,

deteriorating terms of trade, and increasing protectionism in the industrial countries. The global economic outlook now appears much more dismal due to recent events in the Middle East. The aggregate real GDP growth of the developing countries is likely to decline to 2.25 percent in 1990 from 3 percent in 1989 and 4 percent in 1988. Higher oil prices, trade disruptions with Iraq and Kuwait, and loss of workers' remittances have already severely affected some of the developing countries. If the Gulf crisis continues, the growth-oriented structural reforms and poverty reduction programs of the net oil importing developing countries will be disrupted. This extraordinary situation calls for a quick and flexible response both from the Bank and the Fund, and from the international donor community for additional economic assistance for countries hard hit by the crisis. Apart from setting up a new special facility for oil and making the enhanced structural adjustment facility a permanent feature with additional resources, the Bank and the Fund should take a flexible approach toward conditionalities to accelerate disbursement of funds. Bangladesh is one of the worst sufferers of this crisis. Our estimate shows that in fiscal year 1991, Bangladesh will incur a loss of $500 million by way of higher oil prices at $25 a barrel, and a loss in export earnings and workers' remittances; this constitutes about 2.5 percent of our GDP. In addition, the country will face a serious fiscal burden; revenue receipts will suffer, and a considerable amount shall have to be spent on repatriation and resettlement of returning workers.

We have launched the Fourth Five-Year Plan in July 1990. During the Third Five-Year Plan, Bangladesh undertook major structural reforms and achieved substantial progress, particularly in agriculture and infrastructure development with an annual GDP growth of nearly 4 percent, despite unprecedented floods and other natural calamities. Our experience shows that structural adjustment, though necessary, is not a sufficient condition for economic growth with social justice, unless it promotes the growth of the real sector by utilizing the inherent dynamism of the poor and the disadvantaged who in Bangladesh constitute the majority. The Fourth Plan objectives are to achieve an annual GDP growth of 5 percent, poverty alleviation, employment generation, women's involvement in development, and increased self-reliance. These objectives are to be achieved through human resource development, decentralized participatory planning, community involvement, and substitution of scarce capital for abundant labor, and by adopting group-based planning along with desirable structural adjustment. The Plan also seeks to develop a dynamic private sector through liberalization, deregulation, and privatization.

We are well aware of our development constraints. Unfortunately, Bangladesh is also a victim of serious environmental degradation. We need to make significant investment to save ourselves from recurring flood devastations. This has made our development process more complex and painful. We are

required to achieve an annual growth rate of 5 percent to make any meaningful dent on poverty alleviation. In this gigantic task, we seek the active support of the international community.

The structural adjustment policies of the developing countries, though pursued with determination, have not produced the desired results, due mainly to the absence of a favorable international economic environment and a more symmetrical adjustment and effective coordination of macroeconomic policies by industrial countries and inadequate inflows of external resources. The debt overhang is still a major impediment to development for many developing countries. Although some progress—much less than initially expected—has been made in reducing the commercial debt of the highly indebted middle-income countries, the problem is still far from being resolved, due to reluctance of the commercial banks to participate in the financial packages that require new money. For heavily indebted lower middle-income countries with debts mainly to official creditors, reduction of official debt and debt-service burden is imperative for their return to normal debtor-creditor relations. Under the Toronto terms, considerable debt relief has been provided to low-income countries of sub-Saharan Africa; these terms are required to be extended to other low-income countries outside Africa that are implementing strong adjustment policies. We also strongly endorse the British Plan unveiled at the Commonwealth Finance Ministers' Conference for writing off up to $18 billion of debt owed by the world's poorest nations to Western governments.

The declining share of the developing countries in world trade in the face of their persistent trade liberalization process is disquieting. We urge industrial countries to roll back their protectionist measures and improve market access to exports of finished and semifinished goods as well as primary commodities from developing countries. We look forward to a successful completion of the negotiations of the Uruguay Round that will take into account the special interests of the developing countries. . . .

We are increasingly concerned at the continued decline of aggregate net flows in the 1980s and the consistently negative aggregate net transfer of resources to developing countries. The President of the Bank in his report to the Development Committee clearly stated that stagnation in aid flows is totally inconsistent with the need to restore growth and reinvigorate development, and he underscored the need for a substantial expansion in aid flows. For low-income countries, the greater concern is the stagnation in the net disbursements of official development assistance (ODA), which is their main external resource for development and poverty reduction. We endorse the Development Committee's call on donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts to secure financial flows to developing countries. In this connection, I would like to call on the rich nations to fulfill their pledge of aid commitments to the least developed countries in the present decade in order to realize the targets of

the Plan of Action adopted in the Second UN Conference on Least-Developed Countries held in September 1990 in Paris. We welcome the recent agreement on the IDA-9 Replenishment for the period fiscal years 1991–93 at $15.5 billion, which would maintain the real value of IDA-8.

The 1980s was a lost decade for the poor. The new decade commenced with high hopes and aspirations, but the Gulf crisis has cast a long and deep shadow on our future prospects. The crisis has already affected many of the developing countries, and they need additional assistance on an emergency basis and without any delay to sustain their growth. Economic growth and poverty reduction in the developing countries, as well as global environmental protection, are important issues vitally affecting all of us. It is imperative therefore that both developed and developing countries address these issues jointly. I hope we will not fail in this.

Statement by the Governor of the Bank for Portugal

Luis Miguel Couceiro Pizarro Beleza

It is a great honor and a pleasure for me to address these Annual Meetings of the World Bank and the International Monetary Fund. Allow me also to join in extending a warm welcome t the new as well as the hopefully soon-to-become members of the Bretton Woods institutions.

The world economy is entering the ninth consecutive year of uninterrupted growth. This historical performance was made possible by a mix of monetary policies oriented toward financial stability and structural reforms aimed at strengthening the efficient functioning of market mechanisms. As was rightly stressed in last year's World Development Report, financial stability, especially in the context of unrepressed financial markets, is the right environment for steady growth and social development. I would add that the evidence for my country is, if anything, stronger than suggested by the World Bank.

The European Communities assume these goals as fundamental in the context of the just-born Economic and Monetary Union. When the full union is achieved, there will be a single currency and a single monetary policy carried out by a central monetary authority that will have the unequivocal mandate of ensuring price stability, and, of course, the single market, including perfect capital mobility, is just around the corner.

We are fully committed to this integration process and, in particular, to full economic and monetary union. I believe that both the challenges from, and the opportunities afforded by, the EMU are the greatest for a country such as mine.

In the long run, given sound monetary and fiscal policies, the prospects

for the Portuguese economy are very good. The fact that growth has been based primarily on the sustained expansion of investment and exports, strongly suggests the long-run sustainability of recent trends. In fact, our growth is widely forecast to be one of the strongest of the EC through the 1990s.

The recent events in the Persian Gulf have introduced an important element of uncertainty in the outlook of growth and price stability for the world economy.

It is important to recognize that the sharp rise in oil prices is basically the consequence of the effect on demand of the increased uncertainty. It is not the result of a structural shift in supply. Nevertheless, these reactions may well have lasting effects, as the so-called shock of 1979–80 testifies.

The experience with the previous oil shocks shows that it is completely futile to try and offset the decline in real incomes derived from the terms of trade loss. It is therefore important, first, to pass the increase in crude oil prices on to final users, that is, consumers and firms should be given the appropriate price signals; second, to ensure that the change in relative prices is not offset by nominal increases in other prices and incomes; and third, to pursue tight, nonaccommodating budgetary and monetary policies. One possible, unfortunate consequence of this policy reaction may be, hopefully, a temporary rise in world interest rates given, in particular, the scarcity of world savings relative to investment at current rates. But our common experience is eloquent enough. There is no alternative if conditions for steady growth are to be preserved.

There is a very substantial role to be performed by the International Monetary Fund and the World Bank in supporting the appropriate policy responses. The availability of stabilization assistance associated with positive conditionality could be the most appropriate. I would like to welcome the ongoing considerable efforts in this direction by both organizations. The proposals put forward by the United Kingdom, France, and the Netherlands ought to be considered in this light. Our current involvement in development assistance will reflect these principles.

One of the most important points of our policy agenda is a broad privatization program. This is a crucial part of Portugal's overall strategy to reduce the weight of the state in the economy and strengthen the role of the private sector and of market mechanisms in resource allocation. Privatization is also important as a means of reducing the debt burden. By law, the proceeds from the sale of state-owned enterprises are to be used to reduce the public debt. Allow me to suggest that our experience in this field may be useful for other countries initiating or considering such a program. But let me make clear that I am not suggesting that we have discovered something new. In fact, as Alfred Marshall once said, "It is all in Adam Smith," and in this light, Mr. Chairman, allow me to quote from the *Wealth of Nations*:

> In every great monarchy of Europe the sale of Crown lands would produce a very large sum of money, which, if applied to the payment of public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the Crown. . . .

When the Crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated.

Statement by the Governor of the Bank for Nepal

Devendra Raj Panday

It is a great pleasure and privilege for me to address these joint Annual Meetings of the International Monetary Fund and the World Bank as the representative of the government formed after a successful people's movement for the restoration of democracy in Nepal.

At the outset, I take this opportunity to express our sincere gratitude to the President of the United States, Mr. George Bush, for his inspiring and eloquent address.

I also join other fellow Governors in extending our hearty welcome to the Czech and Slovak Federal Republic, Bulgaria, and Namibia as new members of the Bretton Woods institutions.

Recent experiences worldwide seem to confirm the synonymy between democracy and economic development. Development efforts cannot be sustained without the establishment of democratic institutions to enforce public accountability and to give a definite purpose and direction to economic management. At present, the Nepalese Government is engaged in bringing about full democratization of Nepal's polity and this, in turn, should form the basis for improved economic management and performance.

The 1990s seem to be a challenging decade for the world. The fundamental changes taking place in Eastern Europe, the reunification of Germany, and the European market unification by 1992 will all have a profound impact on the international economic environment. The recent happenings in the Gulf region have also cast a shadow over the sustainability of world economic growth, at least in the immediate future, not to speak of the human misery these events have entailed. There is a genuine concern in the developing countries that they may be left out of this new and fast-changing scenario, especially in relation to access to external resources and markets for exports. The enormous resources necessary to supplement market-oriented reforms in the centrally planned economies, we hope, would not affect the developing countries' access to external finance.

The world economy continues to face the problems of large payments imbalances among major industrial countries, large fiscal deficits in the United States, volatile exchange rates, external indebtedness of developing countries, and the negative transfer of resources from these countries. The tight monetary policy stance adopted by the developed countries to combat inflation has accentuated the problems for the less developed countries through higher

interest rates. The recent happenings in the Gulf region have also cast a shadow over the sustainability of world economic growth, at least in the immediate future, not to speak of the human misery these events have entailed.

Nepal is one of the least developed oil importing countries hardest hit by the present crisis. And this has happened to us at a time when we are facing the daunting task of finding our way out of the legacy of an era of economic mismanagement under the old political regime where, in a period of thirty years, there was little or no growth in per capita GDP.

As a result of a popular national movement, Nepal went through a major political change in April 1990 that brought a democratic political order to the country. The present government is now mainly involved in the twin tasks of institutionalizing the democratic polity, on the one hand, and preparing a sound economic framework for the future, on the other hand. Our efforts in the latter will be concentrated in stabilizing the economy and in streamlining strategies and policies to meet our development objectives by taking good cognizance of our resources and capabilities.

For us, therefore, there is an urgent need for strengthening international cooperation to face the challenges ahead. The role of the Fund and the Bank in fostering a more conducive global economic environment, in addressing development issues, and in facilitating resource transfers to the developing countries assumes extra urgency. May I say that the theme of these meetings, which emphasizes economic growth and poverty reduction, is a heartening development for us since the objective of our own development endeavors cannot but be on the same lines. "A decade of economic growth and poverty reduction," in the words of Mr. Conable, is starting happily at a time when we are commencing our own first decade of democratic government in Nepal, and, now, we hope to have institutions and policies necessary to respond to this challenge.

We will pursue the objective of poverty alleviation through a strategy of increasing labor absorption and enhancing labor productivity. The essential component of this strategy is to organize and empower the people—the poor and the deprived, including the women, in conformity with the spirit and principles of democracy—so that they can participate and take the lead in their own development. In this broader context, we see the role of a dynamic private sector including, what I may call, the rural household sector in our economy. These are the policy areas around which there is national consensus in Nepal—a fact that will assure the future continuity of the policies and programs of the present government.

The success in tackling poverty largely depends, in addition to adequate resource flows, on our ability to pursue the program of poverty alleviation in the context of adjustment while generating technological and institutional choices appropriate for efficient and sustainable growth. This entails more attention to the potential trade-offs between macroeconomic stability and

equity. We are happy to note that greater attention is now being given to the distributional aspects of economic growth by the Fund and the Bank, including measures to mitigate the transitory adverse effects of economic reforms on the poorest segment of the society.

In the area of debt and debt-service relief, we take note of the positive developments and emphasize that parallel efforts are needed at a much higher level to restore external viability to the severely indebted low-income countries and to prevent the structurally handicapped countries like Nepal from falling into the debt trap.

Equally important is the environmental concern that will continue to dominate as another international development issue through the 1990s or perhaps even beyond. Though world attention is gradually shifting to the affluence-related environmental problems, we, the developing countries, are also much concerned with the poverty-related problems of environment. Let me state here that we welcome the initiative on the setting up of the Global Environmental Facility, while we look forward to working with the international community in the management of our own fragile environment and ecological system that is under pressure from conditions of poverty and rapid population growth.

In the changed context marked by political liberalization and economic reforms, more attention is being paid to the issues of market and private sector development and enhancing the role of women. In our view, there is no alternative to private sector development matched by the efforts of a good government. The related financial sector reforms should proceed in a gradual manner, consistent with a country's administrative capacity and stage of development, and in a broader perspective with full awareness of essential trade-offs and balances. While developing countries continue to implement painful adjustments and reforms, there is an equal need for the developed economies to create a more conducive external environment by reducing trade barriers and by maintaining stable exchange and interest rates. We firmly believe that greater policy coordination among developed countries would contribute toward this goal.

While the Fund and the Bank are to be commended for their collaborative efforts to reduce the debt burden of some heavily indebted countries, as well as in their support to countries undergoing structural reforms, it is, however, disappointing that net resource transfers to developing countries have remained negative. This calls for greater efforts, especially by the Bank, to increase disbursements. A country like Nepal needs to do its share in reforming its own management to facilitate this process. . . .

On the operations of the Fund, we welcome the increase in quotas under the Ninth General Review. We are in favor of making the quota increase effective within the specific time frame.

Nepal has been implementing the structural adjustment program with Fund and Bank support. The economic situation calls for the continuation of the

adjustment efforts. The Government is committed to maintain the internal and external balances with judicious use of fiscal and monetary instruments as well as by undertaking institutional reforms to enhance the efficiency of resource allocation.

As we move ahead in preparing and implementing our policy program and reform packages for rapid, sustainable, and equitable development, we need external assistance more than ever before in this crucial transitional phase of Nepal's history. The fact that an accountable Government is committed to deploy both domestic and external resources efficiently and responsibly to the cause of the poor should make the case of Nepal special and all the more appealing for external support.

It will be difficult for the people of Nepal to understand that the lending institutions and other members of the donor community do not owe us consideration and some respite in respect of preconditions and conditions attached to projects for financing, when we are trying to consolidate democratic gains and begin an era of economic development after freeing ourselves from a political system that, with all the resources at its command, was able to contribute very little to economic growth, poverty reduction, or, for that matter, respect for human rights and human dignity. The factors that contributed to this dismal record are primarily internal, as indicated, including the consequences of a somewhat unfavorable resource endowment. But will it not be helpful if the Bank and the other important donors also make an assessment of their own perception, judgment, and performance of the past in respect of our development problem as we move ahead to an era of more productive partnership?

In the recently concluded Second UN Conference on the Least-Developed Countries, we discussed multifaceted problems of this group of countries, Nepal included, and the serious setbacks that they suffered in the 1980s. We took several important decisions, which culminated in the adoption of an action program for the 1990s that aims at bringing these countries onto the path of sustained growth and development. We, in particular, were overwhelmed and encouraged by the solidarity demonstrated by the world community to the cause of the least-developed countries wedded to pluralism, democracy, and development.

In view of the urgent need to concentrate the efforts of the world community on uplifting the living conditions in the least developed countries where the poorest among the poor live, there is a need to group these countries separately in the World Economic Outlook analysis and in various types of studies and analyses for the programming purposes conducted by the Bank. A separate grouping will show clearly the effects of development efforts and their inadequacies over a certain period of time in these countries. This will also permit meaningful discussion on conditions and criteria for graduation of countries in this group out of the status of least developed to a more advantageous position. I want to repeat here what I said at the Paris Conference of least-developed countries that Nepal hopes that it will not have to participate

as a least-developed country in yet another such conference ten years hence. To this end, we will commit all our resources and political will, and we hope to continue receiving goodwill and support from our development partners.

STATEMENT BY THE GOVERNOR OF THE FUND FOR BULGARIA

I. Dragnevski

I have the pleasure to express our appreciation for granting full membership to Bulgaria in the International Monetary Fund and the International Bank for Reconstruction and Development.

We are convinced that by becoming a member of the Fund and the Bank, Bulgaria will set up a solid basis for broadening and deepening the mutually advantageous cooperation in the different aspects of financial activities.

Bulgaria's accession to these international institutions, among other things, is clear evidence of the intention of the People's Republic of Bulgaria to follow the policy of opening its economy and integrating it with the world economy and the international trading and financial system. It is, as well, a basic international prerequisite for implementing the process of democratization in my country through rule of law, multiparty parliamentary democracy, and transition to a market economy. We consider our accession to these organizations to be recognition of our policy by the international community.

Allow me to express our gratitude to the missions of the Fund and the Bank who visited our country and contributed to the necessary procedures so that our membership could become a fact within a reasonable time.

Despite the current difficulties, we feel encouraged that this international support will assist our efforts aimed at overcoming the structural imbalances and speeding up the transition to a market-oriented economy.

It is well known to you that the crisis in our economy manifests itself in an increasingly difficult macroeconomic situation, a drop in production, an increase of foreign debt, a shattered consumer market, a rising budget deficit, deteriorating financial problems in the enterprises, and growing inflationary pressures.

The difficulties in our economy are sharply aggravated by the recent developments in the international environment:

—The threat of a permanent rise in the oil price where the country depends on imports for 80 percent of its energy consumption.

—The consequences of the Gulf crisis and our strict observation of Resolution 661 of the Security Council, resulting in direct damages to Bulgaria, which just for the rest of 1990, amount to $1.4 billion.

—The decrease in oil deliveries and other primary and raw materials from our traditional foreign trading partners.

—The expected decline in CMEA trade as a result of the transition to convertible currency payments and world market prices.

To be able to take the economy out of this situation, it is necessary to carry out a radical economic reform that will ensure a rapid transition to a market-oriented economy. The dynamization of economic life and the restructuring of the national economy can and should be done in accordance with the demands of the market, both at home and abroad. The essence of the economic reform under way at present is the realization of a transition from a centrally planned economy to a market economy supported by an active social policy.

I would like to mention the main characteristics of this transition:

—The introduction of different forms of property, and in this connection, the intensification of the processes of privatization.

—The transformation of the market into the main regulator of production, exchange of goods, and consumption.

—The social orientation of economic development and integration with the world economic structures.

The first steps toward a market economy are already being implemented. Equal conditions for the development of all types of ownership have been created. A series of measures to deregulate economic activity have been taken. A partial liberalization of prices has been undertaken in line with the conditions of the present stage of economic reform. The system of obligatory state orders has been abolished. A unified exchange rate was introduced for all enterprises for buying and selling convertible currency by using the market rate of the currency auctions. A new reform of interest rates has been developed envisaging a considerable increase in the average level of interest rates on deposits and credits.

The transition of our country to the principles of the market economy necessitates widening the scope of our cooperation with other countries and international financial organizations. Under these circumstances, the international factor and the international support for the reforms under way are vitally important. Being aware of these realities, our country has also applied for membership in the organizations affiliated with the International Bank for Reconstruction and Development—the International Finance Corporation and the Multilateral Investment Guarantee Agency. At the same time, I would like to stress that we do understand the necessity of doing our own job, and of finding our own way, bearing in mind the economic realities of the country and its historical and cultural traditions.

The expected sharp aggravation of the economic crisis through external factors reinforces the urgency of concerted internal mobilization of efforts and puts forward the issue of the needs of large-scale international assistance.

In this process, we would like to have the support of the Fund and the Bank in implementing the economic reform, and at the same time establishing a closer contact with other countries and the international financial community.

I would like to believe that the challenges that the changes in the countries from Central and Eastern Europe call forth will create an expanded environment and added possibilities for the two global financial organizations, the Fund and the Bank, to look for means and instruments for the faster integration of those countries in the world economy.

Statement by the Governor of the Bank for Afghanistan

Mohammad Hakim

First of all, I would like to extend a warm welcome to Bulgaria, Namibia, and Czech and Slovak Federal Republic, as new members, and the special invitees from the Soviet Union. On behalf of my Government, I wish to express my appreciation to the organizers of the Forty-Fifth Annual Meetings of the International Monetary Fund and the World Bank, and for their careful preparation and sincere efforts, which will undoubtedly contribute to the success of the ensuing consultations among the member states of the Bretton Woods family. The forum provides an appropriate opportunity to review economic and financial events since the last meeting, in September 1989, which leaves one with mixed feelings.

There has been a growing expansion in the volume of world trade, which exceeds the 7.5 percent predictions of the IMF. This is not the general trend in most of the developing countries for which the *Annual Report* of the IMF gives a remarkable decline of 4.6 percent in the average growth rate of those countries in 1989, together with a decline in per capita income, continuous inflation, a deficit in the trade balance, and a decline in living standards. Unfortunately, the number of the least-developed countries also increased in the last decade, from 31 to 42, encompassing more than 400 million people who suffer illiteracy, poverty, hunger, disease, homelessness, and a high mortality rate. Of this total, 10 out of 42 less-developed countries, including Afghanistan, are landlocked and have enormous transit problems. The special problems and inherent disadvantages of being landlocked, especially the adverse effect on socioeconomic development efforts, have long been discussed and recognized by all the members of the United Nations. With the single exception of the Land-Locked Fund for Developing Countries, which was unfortunately abolished a few years ago, no viable additional measures in favor of the landlocked countries have been put into effect.

On the other hand, in the past twelve months the general growth of world trade was accompanied by relatively large fluctuations in the value of major convertible currencies and by problems of marketing. However, there has also been a gradual but significant "opening of doors" to market economies in almost half of the world, including the U.S.S.R. and Eastern Europe. This

has been accompanied by a new arrangement of economies, price reforms, privatizations, stock companies, and the creation of an organizational shell of the future market economy. This rejoicing to the world of free markets shall certainly bring forth drastic changes and deep re-evaluation of financial and monetary policies, which according to some economists will bring a boost of 10 to 15 percent in the world trade volume in the initial stages.

In trade, protectionist and other trade-distorting measures, especially nontariff barriers, continue to have a severe adverse impact on the export earnings and national incomes of developing countries, especially the least developed. This impact could be quite substantial in relation to the level of official development assistance. My delegation supports the recommendations of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, which emphasize the responsibility of the industrial countries in reducing trade barriers and promoting a more liberal multilateral trading system so as to enhance and ensure sustained, export-oriented economic growth and development.

Our world has also gone, in recent months, through a critical situation that caused, and is still going to cause, unbearable disorders in international economic transactions, particularly in normal stock exchanges and pricing systems. The recent Gulf crisis and the dire fuel supply prospects will continue in 1990–92 to top the list of serious concerns of financial and trade planners, who virtually foresee the upcoming constraints in economic development, particularly in the developing countries.

In this connection, my delegation appreciates the timely and highly essential external shock-absorbing mechanism that was recently put in place by the IMF: the new compensatory and contingency financing facility was devised to protect the economic programs of member countries against unforeseen external developments that might interrupt their implementation. We hope and are certain that this new facility will prove to be of immeasurable benefit to all developing countries, especially the least developed whose economies are the most vulnerable to unforeseen contingencies.

In viewing the extraordinary events as regards real prices in the oil and commodity markets—which by themselves require special scrutiny—we have not witnessed any return to order and stability in international currency markets, through the structural adjustments and macroeconomic policy coordination, as recommended at last year's Annual Meetings.

This year, there has been no stop in the increasing uncertainty of export revenues in the developing countries whose budgets are already pressed by a huge debt-service burden totaling $1,370 billion, scarcity of resources, external financial constraints and financial outflows, regional disputes, high military expenditures, increasing population—by 4 percent this year—in the least-developed countries, and a decline in official development assistance. An austerity program is urgently needed as is far greater and far more serious

financial assistance to the developing countries, especially to the least developed, in the form of substantially strengthened resources. The need is felt for the Fund to review its assistance and lending capacity quotas, so as to redress macroeconomic imbalances.

According to the current report of the World Bank, owing to the relaxation of tensions in the world, if the major industrial countries add 10 percent of their military expenses to their official development assistance, the volume of assistance would be doubled.

It is hoped that the special consideration for the plight of these developing countries, embodied in the documents of the ministerial conference on the developing countries held in Dacca in February 1990 and the Paris conference of September 1, 1990, may attract the attention of this meeting, too.

At this stage, it is essential to point out that lending to the developing countries, especially the least developed, should be devoid of political consideration. In this context, the suspension of pending loans, amounting to \$71–97 million, to the Republic of Afghanistan on the basis of political considerations is most deplorable. We hope that the IMF and the World Bank will utilize their influence toward the eradication of this undesirable trend and negative policy.

Afghanistan is one of those countries that is moving toward national reconciliation, for which this year the prospects are very visible. A new atmosphere of confidence, vitally needed for attracting foreign assistance, is appearing. The new government of Mr. Khaliqyar—70 percent of its composition is nondependent on any political grouping—is a symbol of an end to the party's monopoly of administration and economic centralization. A positive reorientation toward a decentralization of the country's economy is practically beginning. We have already embarked on a comprehensive socioeconomic endeavor based on privatization and a multisectoral economy where superfluous government controls are being drastically reduced.

The Constitution of the Republic of Afghanistan, which was amended this year, not only guarantees and encourages private and foreign investment in almost all fields, such as industry, commerce, construction, transport, and agriculture and agro-economic services, but also has permitted private investment in forestry, pastureland, energy supplies, mines, and sales of communication devices.

In Afghanistan, during last year's constitutional readjustment, besides state-owned banks and insurance institutions, stock banks and mixed and private land and air transport enterprises have been privatized. The state has also been bound by the Constitution to encourage and attract foreign investors, as foreign investors can share more than 50 percent of the total capital according to the law on foreign investment. It is to be mentioned that the privatization of state-run enterprises is under study and will soon be decided upon.

We have undertaken a well-analyzed rehabilitation plan for two five-year

periods during the 1990s. The first stage will be devoted to the repatriation of millions of displaced persons and the revitalization of normal life. Thus, as was declared by H.E. President Dr. Najibullah in the Paris conference of September 1990, we shall remain dependent on foreign assistance. The country will need, according to preliminary estimates, over $6 billion from foreign sources to cover its program.

There have been new criteria for the types of taxation and duties, and scope for better and beneficial utilization of international assistance and credits has been widened. There is a considerable move toward the desirability of a liberal economic order and the elements of reform that would induce such an order.

But, owing to the war, my country faces huge financial losses and devastation, a drastic budget deficit, and imbalance of payments with almost a stop in socioeconomic development. Owing to the reduction of domestic production, the deficit in foreign trade amounts to over $530 million, which is equivalent to 137 percent of annual export earnings. As a result, GNP has declined by 1.2 percent annually, and owing to population growth, per capita real income has fallen by 3 percent. Agriculture GNP decreased from Af 61.9 billion to Af 47.3 billion (23 percent) in the last ten years. There is also much dissension about the proper sequence of our drastic economic reforms, which warrants close attention.

Afghanistan, as a landlocked developing country, is an integral part of the world economy. My country is facing the most difficult task of postwar reconstruction, which is to catch up with its share in the economic transactions of the world. This can never be carried out in the absence of an especially high level of international assistance, of which the Fund's share is pivotal.

I consider this an appropriate place to call for the revitalization of a virtually halted financial, technical, and humanitarian aid package to Afghanistan, which totaled $2.5 billion in 1979, but of which not more than a very small percentage has been channeled.

Expressing my deep appreciation for the recent UN initiatives on humanitarian assistance, as the representative of Afghanistan, I also feel proud of the fact that my country has been a long-time member of the Fund and the Bank, and I reassure our full compliance with, and loyalty to, all principles and decisions adopted.

In conclusion, while planning great hopes for the deliberations and decisions of the Annual Meetings to alleviate the problems that stand in the way of our country's prosperity and well-being, I sincerely wish that under your able chairmanship, Mr. Chairman, we may move toward fulfillment of these expectations in a more fruitful and comprehensive way.