DISCUSSION OF FUND POLICY AT THIRD JOINT SESSION[1]

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

B.T.G. Chidzero

In my capacity as Chairman of the Development Committee, I have the honor to present the Annual Report of the Committee for 1988. The report of the work and activities of the Committee for the year ended June 30, 1988 has been officially submitted to the Chairmen of the Boards of Governors, so I will only briefly touch on the highlights.

At the two meetings of the Committee since the Boards of Governors last met, a broad range of critical development issues was discussed focusing on the adequacy of resource transfers to all developing countries, environment and development, poverty issues, the impact of the industrial policies of the developed countries on the developing countries, and developments in the heavily indebted countries. Other subjects receiving attention were the need for a general capital increase for the World Bank, the enhancement of the structural adjustment facility of the IMF, and current international debt developments.

The Adequacy of Resource Transfers to Developing Countries

The Committee had an extensive discussion at its April 1988 meeting on the adequacy of resource transfers to developing countries, followed by a further review at the September 26 meeting. While it was concluded that the volume of financial flows to developing countries is inadequate to meet their needs for economic growth, poverty reduction, structural adjustment, the resolution of the debt difficulties, and environmental conservation, some positive developments were nonetheless noted. These included agreement on a general capital increase for the World Bank following a call at the Committee's September 1987 meeting for the Executive Directors of the Bank to complete their deliberations on such an increase expeditiously. Further, there was the implementation of IDA-8, progress on the Bank's Special Program of Assistance for the debt-distressed countries of sub-Saharan Africa, as well as on the enhanced structural adjustment facility and the establishment of the Multilateral

[1] September 28, 1988.

Investment Guarantee Agency. At the last meeting, the Committee welcomed the launching of negotiations for the Ninth Replenishment of the International Development Association (IDA).

Members called for enlarged flows of all types of financial flows to developing countries and encouraged the Bank to explore further the possibilities of financing poverty reduction programs, particularly in low-income countries. Particular note was taken of the role that foreign private investment could play in the transfer of resources. Members welcomed the efforts of the World Bank Group and the Fund to help revitalize markets in the private sector in developing countries, which could assist in creating an environment favorable to increased financial flows.

Environment, Growth, and Development

The Committee continued its discussion on environment and development issues in depth at its meeting last spring and reviewed a report of the World Bank's environmental program at its last meeting. Steps taken by the Bank in integrating environmental considerations in its lending operations were welcomed. In emphasizing the need for strengthening public confidence in the Bank's commitment to support sound environmental practices, the Committee requested the Board of the Bank to review and publish an annual report on the environmental aspects of its operations, including an assessment of selected projects with a major environmental impact.

Poverty Issues

At the last meeting on September 26, the Committee had a full discussion on poverty issues, including the impact of structural and adjustment policies on poverty alleviation. There was agreement that reduction of poverty is a crucial objective of development and that additional efforts were needed to achieve this goal. Members called on the international community to strongly support the efforts of governments of the developing countries who themselves have the primary responsibility in designing antipoverty policies. The Committee welcomed the World Bank's reaffirmation of the objective of poverty reduction and food security in its policies and operations. Members were encouraged by the positive response of both the World Bank and the Fund to concerns of the need to protect the poor against the impact of adjustment programs. Members urged both institutions to help design adjustment programs and assist in the adoption of well-targeted compensatory measures that would help shield the vulnerable groups from adverse effects.

Developments in the Heavily Indebted Countries

Both at the April 15, 1988 and the September 26, 1988 meetings, developments in respect of the low- and middle-income heavily indebted countries

were reviewed. At the April 1988 meeting, the Committee called for additional efforts to ease the burden of many debt-distressed low-income countries by, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. At our meeting last Monday, members, recalling the consensus at the Toronto economic summit, warmly welcomed that arrangements had now been worked out to provide additional debt relief through the Paris Club.

Noting that the debt service burden has become more severe due to the recent increase in interest rates, members emphasized, at the last meeting, the need to ensure adequate support for the process of adjustment. Regarding the heavily indebted middle-income countries, the Committee encouraged donors and creditors to broaden the menu of market-based and voluntary negotiated options, blending new money, where appropriate, with techniques that could reduce the stock of debt. The Committee reaffirmed the importance attached to efforts by the Bank and the Fund in facilitating developments in the menu approach, thereby catalyzing financial support for a growth-oriented debt strategy.

Industrial and Trade Policies

In its review of the impact of industrial policies of the developed countries on the developing countries at the September 26 meeting, the Committee concluded that protectionist and other trade-distorting measures of the industrial countries have a particularly adverse effect on the developing countries, often substantial compared to the level of official development assistance (ODA) flows. The Committee called for greater liberalization in international trade and industrial policies affecting agricultural and manufactured goods of the developing countries and also emphasized the crucial importance of the Uruguay Round in the process of trade liberalization. Members urged a positive outcome to the midterm review due to take place in December 1988.

Concluding Remarks

In light of my two-year experience as Chairman of the Development Committee, I am able to assert without any hesitation that while the potential of the Committee for influencing policies for the promotion of growth and development has always been recognized, given the unique character of the Committee, our challenge as finance and development ministers from the industrial and developing countries is to recommit ourselves to realizing the full potential of the Committee—to deepen and sharpen perceptions of problems, to generate the necessary political will, and to maintain the momentum for growth and development. Millions of people in the developing world depend on the success of our efforts to attain better living standards free from poverty. And we dare not fail them.

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

Il Sakong

I am very pleased to have this opportunity to participate in the Forty-Third Annual Meetings of the International Monetary Fund and the World Bank. I would like first of all to express my appreciation for the warm hospitality extended to the Korean delegation by our hosts here in Berlin (West).

For the people and Government of Korea, the Annual Meetings of the Fund and the Bank are always a special occasion. For many years now the Fund and the Bank have played a critical role in enhancing financial stability and international cooperation in the world economy. We in Korea are very thankful for all the help and support Korea has received over the years. Now that the Korean economy has achieved a measure of success, we are ready to increase our participation in the Fund and the Bank and to assume greater responsibility in managing the world economy.

As you are all well aware, Korea is in the spotlight these days as the Seoul Summer Olympic Games are currently under way. People around the world are tuning in to the Games to cheer their athletes or simply to enjoy this prestigious sporting event. The ultimate purpose of the Olympics is to promote understanding and cooperation in the international community. Similarly, the purpose of this meeting is to promote stable growth and international cooperation in the world economy.

Softening the Slowdown in World Growth

Fortunately for all of us, the much feared depression or recession in the world economy following last October's stock market crash has failed to materialize. Growth this year has been better than expected, and the world economy remains buoyant.

However, continued strong growth has led to an increase in inflationary pressures, rising interest rates, and tightened money supply in some major industrial countries. Owing to these conditions, growth in world trade is generally expected to decelerate somewhat during the next year. This in turn will mean slower growth at home for many countries, and it may also mean an increase in the debt-servicing burden of many developing countries.

The outlook is not that bleak, however, and I do not wish to paint an overly negative picture. The underlying buoyancy of the world economy should act to cushion the impact of this expected slowdown.

The point I wish to make is that the nations gathered here today also have a role to play in helping to soften the impact of this period of slower growth and to limit its duration. The only way we can accomplish this task is to join forces

and make special efforts to coordinate economic policies and cooperate more closely.

Resisting Protectionism

In this regard, one area that will call for special cooperation has to do with fighting protectionism. Resisting protectionist impulses during times of economic prosperity is one thing, but to do so when belts are being tightened and tensions may be rising is quite another matter. Yet, if we are to keep the spark in the world economy alive and healthy during this period, we have no choice but to act in concert to reduce frictions by enhancing the mechanism of free and fair trade.

In this connection, I note with regret a disturbing tendency toward expanding the scope of trade legislation and increasing the use of discriminatory trade measures. Rather than contributing toward enhancing the mechanism of free and fair trade for sustained world growth, such measures may have the very opposite effect at a most unwelcome time. In this regard, self-restraint on protectionist action should be a priority for all nations.

There is also a rising trend toward regionalism and bilateralism in the trade arena. But we must not forget that a multilateral approach is of the utmost importance for the world trade system. On this point, we should all work together toward a successful completion of the current Uruguay Round of Multilateral Trade Negotiations.

Of course, it is not just the industrially advanced nations that must make efforts to curtail protectionism. Developing countries must do their part, and in particular the newly industrializing economies (NIEs) have an increased role to play.

First of all, I would like to point out that the NIEs have been providing a spark of dynamism to the world economy, which has had a very beneficial effect. These countries should not be penalized for their competitiveness and resulting fast growth. After all, the world economy needs to find that dynamic spark in some quarter of the globe.

This having been said, there are several ways the NIEs can contribute toward improving the current international economic environment. First, the NIEs should make greater efforts toward accelerating market liberalization and reducing trade imbalances. Having benefited from development strategies utilizing trade as the engine for growth, the NIEs are well aware that market liberalization will in the long run strengthen their domestic industries, while at the same time ease frictions in the world economy.

Second, just as the NIEs have come a long way toward achieving outstanding economic development, so too should they assume greater responsibility for managing the global economic environment in which they have achieved so much. The NIEs should take steps to increase their participation in

international institutions, like the Fund and the Bank, which are dedicated to enhancing global economic cooperation. In turn they should also be invited to voice their opinions in shaping policies of those institutions.

I am pleased to note that Korea has made significant progress in this regard. First and foremost, Korea has accelerated import liberalization, reducing the share of imports subject to restrictions from about 20 percent at the end of 1983 to 5 percent this year.

Tariffs have also been reduced, and a major overhaul is currently under way that will cut the average tariff rate on manufactured goods from its present level of 17 percent down to 11 percent early next year and to 6 percent by 1992. In addition, the Korean currency has appreciated more than 22 percent against the U.S. dollar since 1986, and more than 10 percent during the past nine months.

During the past two years Korea has substantially reduced restrictions on current account transactions. In fact, we are already close to conforming with Article VIII of the Fund, and therefore we hope that in the near future, we may be able to fully accept the obligations of this Article. At the same time, we will continue to introduce measures to liberalize capital account transactions both into and out of the country.

As for increasing its role in international forums, I can only emphasize that Korea is willing and anxious to share its development experiences with other developing nations and to assume wider responsibilities in world economic affairs.

Third World Debt

Another area where cooperation among member nations may be critical concerns a coordinated response to the Third World debt issue. In our view, the best possible general solution to the debt problem involves a threefold response. First, the indebted countries must undertake serious and comprehensive domestic policy reforms in order to restructure their economies. External assistance—financial or other kinds—will have little lasting effect if unaccompanied by efforts to reform at home.

Second, a free and fair trade environment must continue to be maintained in the international economy. Many developing countries have to rely on trade to service external debts, and, if their efforts to increase exports are blocked, they may not be able to put their debt problems behind them. In this connection, industrial nations should be tolerant of moderate surpluses generated by their developing trading partners, because these surpluses can be used to repay external debts.

Finally, adequate external financing, on a case-by-case basis, must be made available to those developing countries attempting to overcome their foreign

debt problems through structural adjustment. Only with the input of fresh capital will these countries be able to succeed in making these adjustments.

The Role of the Fund and the Bank

Before closing, I would like to turn briefly to the role of the Fund and the Bank in the current world economic environment. First of all, I would like to express my appreciation to Mr. Camdessus and Mr. Conable for their outstanding leadership during the year and for their successful initiatives to increase the resources of both the Fund and the Bank. The enhanced structural adjustment facility launched by the Fund will greatly contribute to aiding low-income countries facing exceptional economic difficulties, while the general capital increase of the Bank will help to increase the scope of its activities. . . .

Looking ahead, it is apparent that if the Fund is to continue to play a central role in providing and arranging adequate financing for debtor countries, its capital base must be substantially enlarged. In this context, we would emphasize the importance of the general principle that the relative economic position of member countries should be reflected in allocating quota increases. In particular, ad hoc quota increases are necessary for countries with large discrepancies between calculated and actual quotas. . . .

Conclusion

It has been said that "success is not a destination but rather a journey." Over the years, although both the Fund and the Bank have been very successful in enhancing stability and growth in the world economy, the journey toward global economic prosperity is still far from over. Moreover, the road to continued success will not be easy to follow, as conditions in the global economic environment change over time and raise fresh challenges that must be overcome. Nevertheless, given the stakes involved, I am confident that the Fund and the Bank will adopt flexible, dynamic, and forward-looking approaches to meet these challenges and enhance their roles in fostering growth worldwide.

As for the member countries, we perhaps would do well to remember that this is an Olympics year. If we take the message of the Olympics to heart and strive to break new ground in maintaining fair and free trade in the spirit of cooperation and friendship that embodies the Games, we will all come out as winners.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE UNITED KINGDOM

Nigel Lawson

In my remarks today, I shall deal briefly first with some international debt issues, then with the state of the world economy, then turn to the vexed

question of the external imbalances between the major nations, and finally say a few words about the experience of my own country.

International Debt Issues

This has been a year of achievement for the Fund and the Bank. We have taken important steps over the past year to help the poorest, most indebted countries. We now have in place the World Bank's Special Program of Assistance for Africa and the Fund's enhanced structural adjustment facility. The United Kingdom is making substantial funds available to both.

I am particularly delighted that agreement has now been reached by all the creditors in the Paris Club on the scheme for easing the burden of official debt of the poorest, most heavily indebted countries, especially in sub-Saharan Africa.

The World Bank is now beginning to benefit from its capital increase: I hope other countries will follow the United Kingdom and subscribe quickly. The extra resources will be of special benefit to the middle-income debtors, always provided that the right economic framework is in place—and that means a Fund program.

I welcome the determination of the Fund not to be rushed into supporting macroeconomic programs before it is satisfied about the soundness of those programs and the commitment of the authorities to persevere in implementing them.

The market is now playing a larger part in the resolution of debt problems—through debt-equity swaps, debt conversions, and buy-backs—in ways that reduce the burden of debt. I would hope to see banks and debtors take this approach further.

The Bretton Woods institutions are playing a major role in the resolution of debt problems. This role will be damaged unless the problem of arrears is contained and reversed—and I have made a number of proposals. In particular, for the poorest countries with the bulk of arrears, shadow programs leading to a back-dated drawing on the enhanced structural adjustment facility should make a major contribution.

But we must look beyond the international financial institutions in our search for ways of sustaining the world economy, raising living standards, and reducing poverty. There is a growing acceptance that the role of the private sector in development needs to be expanded, and especially the role of private capital flows. To achieve this, barriers in developing countries will need to come down.

Barriers to international trade must also come down. We in the creditor countries must overcome the political problems of opening up our markets

further to the exports of developing countries—just as governments in debtor countries need to overcome the political difficulties involved in carrying through reform programs, including trade liberalization. At the midterm meeting in Montreal, we must all work together to achieve concrete results.

World Economy

This year's Annual Meetings have been held in a very different atmosphere from that prevailing last year. Then, many were worried about the danger of an imminent slowdown in world growth, and doubted whether Group of Seven cooperation and policy coordination was strong enough; the stock market crash a few weeks later reinforced those concerns. Now, we can see that growth picked up rather than slowed down; and our success in averting the potentially very damaging effects of the stock market crash has demonstrated the strength and value of Group of Seven cooperation.

This satisfactory performance has been made possible by our common commitment to sound public finance and a firm monetary policy. This has involved a willingness to raise interest rates when—as, for example, this summer—there have been signs in some countries of inflationary pressures re-emerging. At the same time, there has been increasing recognition of the need to pursue supply-side reforms, to remove the barriers and restrictions which hold back performance. And we are increasingly seeing the benefits of this.

As we go ahead, there will inevitably be fluctuations around the medium-term trend, but that is unavoidable and does not matter. What does matter is that, by sticking to this strategy, there is every prospect that this greatly improved performance of the world economy in the 1980s can be continued into the 1990s.

Current Account Imbalances

A widespread concern at these meetings has been the existence and scale of the current account imbalances between the major countries. Over the postwar period, it has not been unusual for many of the smaller industrial countries to run current account deficits or surpluses for many years. Denmark, for example, has had a continuous current account deficit for a quarter of a century, while Switzerland has had a persistent current account surplus.

But between the postwar "dollar gap" and 1983, there was virtually no experience of significant and sustained imbalances among the major industrial economies. Since then the picture has changed dramatically. The Federal Republic of Germany has had a current surplus of over 2½ percent of gross domestic product (GDP) every year since 1985, and Japan, every year since 1984. Conversely, the United States has had a current deficit of over 2½ percent of GDP in every year since 1984. This year, the United Kingdom also seems likely to have a current deficit of this size, and there is some concern about how long that, too, will persist.

There is still no agreement about a number of key aspects of these imbalances: the reason for their emergence; how long they can persist without causing serious problems; the appropriate response and role of governments; and the mechanisms by which imbalances are reduced. These are the topics I wish to discuss today.

When we look at the balance of payments, it is important to consider not merely the current account but also the capital account. Net capital flows are an equal and opposite counterpart to a current account imbalance. A country that is attracting net inflows of capital from overseas to supplement domestic savings must, by definition, be running a current account deficit. Conversely, a country in current account surplus must, by definition, be engaged in net investment overseas.

In other words, the current account reflects the difference between domestic savings and domestic investment. For example, a current account surplus may reflect either a shortage of attractive investment at home, or a very high level of domestic savings.

As we have seen, in the smaller countries there have long been examples where a significant portion of domestic savings has been invested overseas, or, conversely, where a significant portion of domestic investment has been financed by savings from abroad.

What has emerged over the past five years has been the sustained use of Japanese and German savings to make good the shortfall of savings in the United States, and to finance investment there. This has been made possible by the profound changes that have taken place in world capital markets. We have seen a worldwide move to deregulation, the development of a wide range of new financial instruments, and a massive growth of mobile capital. Against this background, it is not at all surprising that substantial imbalances have emerged: indeed, what would be more surprising would be if in each country domestic savings exactly equaled domestic investment, and capital inflows precisely matched capital outflows.

In the past, significant current account deficits in the major countries were not sustained, because of the unwillingness or inability of capital markets to finance such large flows. As a result, the private sector had to rely almost entirely on domestic savings to finance its investment; and financial market pressures forced governments to adjust domestic policies in the face of emerging current account deficits.

But today there is clearly no reason why, with free access to world capital markets, domestic investment should be limited to what can be financed from domestic savings. The recent imbalances have continued because capital markets have brought together investment opportunities and savers in different countries.

Inevitably, the pattern of savings and investment is likely to differ between countries, for cultural and demographic, as well as for economic, reasons; indeed it is also likely to change over time.

In a deregulated world, where market forces are given a much bigger role, savers will diversify their investments and seek out the most profitable opportunities. It is therefore natural for capital to move between countries to reflect differences in saving propensities and rates of return just as it moves between regions of a country or between generations.

Despite the evidence that current account imbalances can persist, there is an understandable concern that they cannot continue unchecked. A particular worry is the arithmetic of debt accumulation and debt service costs. Persistent large imbalances do become a problem as flows compound and therefore by definition become unsustainable. But even for deficits of the size we have seen recently in the major countries, this problem emerges quite slowly. As the Organization for Economic Cooperation and Development (OECD) has suggested, the effective constraint is not so much the size of a current account imbalance as a country's overall creditworthiness, in which net overseas assets play an important part.

There is also a concern that long before this constraint is reached, financial markets will take fright. Given the well-known volatility of these markets, it is clearly necessary for governments not just to pursue sound financial policies, but also to be prepared from time to time to exercise a stabilizing influence, as I discussed in my speech to these meetings last year. But, as experience has shown, this applies as much when the current account is in surplus as when it is in deficit. One of the paradoxes of much contemporary comment is that current deficits are seen as unsustainable, while surpluses are seen as endemic.

To summarize: large-scale current imbalances reflect differences in domestic savings and investment behavior in a world of free financial markets. Does the government then have any role at all in seeking to correct them?

First and foremost, the government has a responsibility to curb inflation by maintaining a sound monetary policy. If monetary conditions are too lax, the authorities have to tighten them. A tightening of monetary policy, through higher interest rates, will boost savings and hence reduce the current account deficit. But that is not the object of the exercise. And current account imbalances would occur even in a world of zero inflation.

The conduct of monetary policy also has implications for the exchange rate, and the exchange rate itself is an important factor in monetary policy decisions. It follows that the exchange rate cannot be assigned the task of balancing the current account, and it is a mistake to think that the automatic response to a current account deficit should be a lower exchange rate. Significant currency changes can at times be necessary when, as for example with the dollar in 1985, exchange rates have clearly moved out of line with

economic fundamentals. But it is wrong to assume that a current account deficit is sufficient evidence of this.

Governments do, however, have a clear role when a current account deficit is accompanied by a budget deficit. In those circumstances, they have a responsibility over time to reduce, and possibly eliminate, the deficit, and hence their call on private sector savings. The position is totally different when, as in the United Kingdom, there is no budget deficit at all and the current account deficit is entirely the result of private sector decisions. Generally speaking, it would be quite wrong for the public sector to seek to run an ever-increasing budget surplus in an attempt to offset private sector behavior, not least because private sector behavior is by its nature self-correcting over time.

To the extent that the deficit is the result of higher private sector investment, the adjustment mechanism is evident: the future returns will finance the original investment. To the extent that the deficit is the result of low net private sector savings, this too should correct itself in time. The main source of fluctuations in net savings is changes in the amount of borrowing by the private sector. There is a limit to the amount of debt that the private sector will be willing—or can afford—to undertake. Once that limit has been reached, the savings ratio will rise again. Moreover, higher debt means higher interest payments in the future, which will reduce disposable income and consumption. Thus, higher consumption now is at the expense of consumption in the future.

It is only in the unlikely event that the self-correcting mechanisms threaten to stretch over so long a period that the creditworthiness constraint to which I have alluded comes into play that it would be appropriate for the government to run a larger budget surplus in order to offset the lack of private sector savings.

The U.K. Economy

Over the past year, the United Kingdom has shared many of the experiences of other industrial countries—but in an even more pronounced fashion. Output, investment, and domestic demand have all grown much faster than expected.

At the same time, the supply performance of the British economy has improved further. The continued rapid growth of manufacturing productivity has convinced even the most skeptical critics that a major change of behavior has taken place. This improved productivity performance is reflected in the slow growth of manufacturing costs, rising profitability, higher rates of return on capital, and a strong export performance.

Combined with public expenditure restraint, this has had a dramatic effect on the public finances. Last year, we had a budget surplus—a public sector

debt repayment—of approaching 1 percent of GDP. This year, I budgeted for a further debt repayment of the same scale. It is now clear that it will be considerably larger than this. Yet, despite the tightening of fiscal policy, the current account has moved into sizable deficit.

Private sector savings have fallen, while private sector investment is surging. The fall in personal savings has been largely caused by a substantial increase in personal borrowing, partly as a result of greater confidence in the future and partly as individuals have adjusted to the increased wealth resulting from higher house prices.

At the same time, the deregulation of financial markets has made it easier for consumers to use the collateral of asset values to increase the level of borrowing. For the personal sector as a whole, the level of borrowing in relation to income is now almost on a par with that of the United States.

The fall in savings has coincided with a welcome growth in investment. This investment is crucial if the better growth rate is to be sustained. However, the investment boom, superimposed on strong consumer spending began to generate inflationary pressures. The government responded by a sharp tightening of monetary policy.

The temporary edging up of inflation, which has been exaggerated by higher mortgage rates, will reverse some time in the course of next year. There are already signs that the higher interest rates are beginning to take the steam out of the housing market.

They will also boost savings, and this will speed up the adjustment that will be brought about in any event by the self-correcting mechanisms I have described. In particular, the growth of personal borrowing will slow as the once-for-all adjustment to the new climate of deregulation in financial markets is completed, and people judge that they are close to the prudent limit of indebtedness. And over time this will reduce the current account deficit.

Some may be puzzled why the existence of a current account deficit is so newsworthy in the United Kingdom. The truth is that we are prisoners of the past, when U.K. current account deficits were almost invariably associated with large budget deficits, poor economic performance, low reserves, and exiguous net overseas assets. The present position could not be more different. The output and productivity of the United Kingdom are both growing strongly. The official reserves are high, and net overseas assets are greater as a proportion of GDP than in any other major industrial country. And the public sector finances are in sizable surplus. By any standards, the United Kingdom's creditworthiness is high.

The decline of savings in the United Kingdom at a time of high investment opportunities appears to be a particularly striking example of a worldwide trend. Increasing capital flows between countries can satisfactorily complete

the balance of savings and investment for an individual country. But there remains the question of the balance of savings and investment opportunities for the world as a whole. This may well be at least as important an issue in the coming years as the handling of current account imbalances.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR THE FEDERAL REPUBLIC OF GERMANY

Gerhard Stoltenberg

It is a particular pleasure for me to address these meetings for the first time on home ground, in Berlin (West). In spite of the political division from which it suffers, this city has remained dynamic, cosmopolitan, and full of intellectual ferment. There is a genuine interest here in world affairs, and a strong sense of responsibility toward the disadvantaged on our globe. I am sure these meetings will show you the strong desire of the German people to see global economic development progress rapidly and visibly. And I also hope that the meeting will prove to our citizens that our institutions are pursuing these objectives seriously and successfully and that they are, indeed, central elements of our framework of international economic cooperation.

As we are about to move into the seventh year of continued noninflationary expansion in the industrial countries—one of the most extended upswings in recent years—I would like to draw two conclusions from the experience of the past few years.

First, it has paid off to pursue a steady policy oriented to the medium term, based on fiscal and monetary discipline, and geared to the improvement of supply conditions. We have been well advised to avoid excessive reactions to short-term fluctuations in statistics and in sentiment. It was right not to follow the counsel of those who, after the unrest in financial markets last fall, predicted a negative turn in the global economic situation. The world economy has proved more resilient than many observers had thought.

Second, events have borne out the value of close and effective cooperation among the larger industrial countries. We have strengthened the momentum of growth. We have moved the process of external adjustment a good deal further. And we have returned to conditions of relative stability in international financial and exchange markets. Together with the vigorous expansion of world trade and the marked improvement in commodity prices, this has created an international environment that is also more supportive of the efforts of the developing countries to restore growth and to improve social conditions.

The industrial countries remain committed to this cooperative strategy. The Fund must continue to assist in this process not only with its valuable analysis and policy advice, but also because it represents the interest of the world economy as a whole.

Germany has played and will play its part in supporting these common efforts. Domestic demand this year should rise by 3½ to 4 percent, and gross national product (GNP) by more than 3 percent. The shift from foreign to domestic demand will thus continue. Our foreign balance, which had already come down from 5.4 percent of GNP in 1985 to 3.0 percent in 1987, should decline further this year to some 2–2½ percent of GNP.

Monetary and fiscal policies have supported external adjustment and strengthened the domestic forces for growth. For the past two years, monetary aggregates have been allowed to expand significantly faster than GNP; more recently, the Bundesbank took advantage of the situation in foreign exchange markets to bring monetary growth closer to its target range and to help prevent a resurgence of inflationary expectations.

In the area of fiscal policy we are in the process of passing on to the public the fruit of several years of consolidation. In the six years from 1983 to 1988, federal expenditures have increased on average by only 2 percent a year, which is clearly below the increase of nominal GNP. This restraint on public expenditures gives us the room for reducing the tax burden by 2½ percent of GNP between 1986 and 1990. Since 1985 the public sector deficit has widened, from 2.1 percent of GNP to 3.0 percent this year. We have accepted this temporarily in line with our international commitments. But over the medium term we must ensure that our fiscal policy remains sound and that deficits do not get out of hand.

With the tax reform and the planned reforms of our social security and pension systems, our program of consolidating public finances has increasingly incorporated qualitative aspects. Structural reform, the removal of rigidities, and the strengthening of incentives for better utilization of our productive potential will be among the central tasks my Government will be pursuing during the coming years.

The completion of the internal market in Europe without barriers to trade and to the flow of capital represents both a policy challenge and an impetus for further liberalization of our own domestic structures. A free, dynamic, and unified European market with open borders toward the rest of the world will give new stimulus to investment and growth at home and abroad.

The more favorable international economic situation and outlook are giving the developing countries as a group some urgently needed breathing space. Both exports and imports of developing countries are expanding strongly; current account deficits of these countries as a group have returned to manageable levels; and debt ratios have been declining for the first time since the onset of the debt crisis.

But there are important differences among the various country groups and among individual countries. While many countries are still facing serious and in some cases even growing difficulties, others are clearly improving their

economic situation. For example, many East Asian but also several Latin American and African nations have successfully managed to adapt their economies, diversify their export base, and build a stable policy environment. They have thus been able to benefit considerably from the strong expansion of world trade.

For the majority of countries in sub-Saharan Africa and also for some middle-income countries in Latin America, however, the situation remains far from satisfactory. The heavy burden of external debt has compounded their deep-seated problems of economic underdevelopment and poverty. In some cases, too, delays in implementing the necessary adjustment policies and structural reforms have severely curtailed the economic and financial room for maneuver in these countries.

It is important that we responsible governments and citizens in the industrial countries realize what courage and patience it takes to implement reforms under the very difficult circumstances with which many developing countries are faced. Let us be mindful of how difficult we find it ourselves to build the political consensus for economic reforms in the industrial countries, although we are operating in a much more favorable environment with higher living standards and more flexible economies. However, this is also the experience of the last few years; the penalties for delaying necessary adjustment are high for any country.

The success of those developing countries that now enjoy the rewards of timely reforms in terms of rising living standards and better access to financing should serve as an encouragement to all. Their experience shows that determined reform policies adapted to the individual circumstances but avoiding the risks of an overly gradualist approach can quickly yield positive results, which will in turn strengthen the political basis for the reform effort.

It is here that the Fund and the Bank need to continue to play their central role: to help member countries design appropriate adjustment and reform programs and to provide assistance during their implementation so as to restore financial viability with adequate growth—the only basis from which countries can embark on a path of sustainable, balanced development. In this context we can feel encouraged by the number of stabilization and reform programs undertaken or launched during the past year with the assistance of the Fund and Bank. This shows an unbroken will on the part of these countries' governments to do what they can to undertake the necessary economic reforms even if the severity of their situation often requires difficult choices and sacrifices.

In this connection the generally positive outcome of the review of the Fund and World Bank lending policies has to be mentioned. Of course, one has to admit that the appropriateness of some details can—as always—be disputed. But the review has demonstrated that both institutions are able to adapt to the changing circumstances of their membership.

The establishment of the new combined compensatory and contingency financing facility in the Fund will give assurance to members who undertake the necessary adjustment efforts that the international community is ready to assist them when the success of their policies is threatened by unforeseen adverse external developments. I am also happy to note that the World Bank is paying increasing attention to the need for protecting the natural environment. The very real financial pressures of today must not be allowed to lead to the destruction of the resources that are essential for our survival tomorrow. I wish to encourage the Bank not only to pursue and to strengthen its environmental work, but to give leadership in this field among multilateral and bilateral donors.

It is obvious that developing countries need our continued—in some cases, improved—financial assistance in order to master their difficult situation. As far as the low-income countries are concerned, a number of far-reaching initiatives have been taken during the past 18 months. Let me mention only the most important ones, namely the Eighth Replenishment of the International Development Association, the World Bank's enhanced program of cofinancing, the fifth replenishment of the African Development Fund, and the enhancement of the Fund's structural adjustment facility. In accordance with the economic declaration of the Toronto summit, the Paris Club will further ease the debt-service burden of the poorest countries that are undertaking adjustment programs. Germany is providing a substantial share of all these multilateral initiatives.

In addition we have recently decided to extend our previous program of official development assistance (ODA) debt cancellation for the least-developed countries to a number of highly indebted low-income countries in sub-Saharan Africa that cooperate with the Fund and the World Bank. And we will further reduce interest rates and extend maturities on development loans.

For the highly indebted middle-income countries, too, a market- and growth-oriented strategy remains the only viable alternative for overcoming their external debt problems. Although some of these countries continue to face difficulties in servicing their debt, there have also been signs of progress recently.

As far as official support to middle-income debtors is concerned, the Fund and the development banks must continue to play their role. In order to enable the Fund and the World Bank to carry out their growing responsibilities effectively, Germany has given strong backing to a substantial general capital increase for the World Bank, and we are also in favor of a significant increase in Fund quotas as soon as possible.

However, adequate support to middle-income debtors' adjustment efforts through the Fund, the World Bank, and other multilateral development institutions is only part of the story. Given the large share of commercial loans in the total debt owed by these countries, it remains essential for them to seek

cooperative solutions with their creditor banks. The development of new financing techniques under the "menu approach" has provided more flexibility to the efforts of debtor countries and their banks to find constructive solutions. As has been shown by a number of financing packages concluded during the past year, there is further scope for allowing both debtors and creditors to benefit from the application of innovative market-based techniques. I would like to encourage the further development of such voluntarily agreed financing options in order to facilitate new financial flows or to reduce the stock of debt where possible and appropriate. In Germany the regulatory framework provides banks with adequate room for maneuver to respond flexibly to new developments in financial markets. However, it is not the responsibility of governments or official institutions to assume private commercial risks.

At the same time, we all need to recognize the crucial importance of one other vital ingredient to global prosperity and the resolution of the debt crisis—namely, that of open markets, of a liberal international trading system. One cannot expect developing countries to increase their exports while at the same time frustrating the success of their efforts. History has taught us that there can be no gain from protectionism. In the General Agreement on Tariffs and Trade (GATT) we have a cooperative framework, based on mutually accepted rules, that in the past has served us well. We need to use it even more actively and to strengthen it. I believe that we have a special opportunity to do so with the ongoing Uruguay Round and the upcoming midterm review. We need to demonstrate our common will to resist protectionism and to liberalize trade across a wide range of goods and services, including areas of particular interest to the developing countries. Let us not miss this opportunity.

We have the opportunity to make the 1990s a decade of growing prosperity and stability, and—this is essential—on a more widely shared basis; and to expand this growth and greater prosperity to countries that pursue good policy on their own responsibility and cooperate within the institutions. It is evident that more still needs to be done, especially to enable developing countries to exploit fully their economic potential.

Everyone has to accept his share of the burdens involved. Both developing and industrial countries must shape their economic policies with these objectives in mind—to be innovative and to be courageous. We all face a continuing need to adapt to changing circumstances. The Fund and the World Bank have a unique role to play. As they constitute our institutional framework for cooperation, they need to remain strong and independent in providing advice and assistance, in promoting stability and policy consistency among the various countries that make up their membership, and in helping to advance the development of the productive resources of all their members.

The Fund and the Bank will continue to receive Germany's full support.

Statement by the Governor of the Bank for Sudan

Omer Nour El Daim

It gives me great honor to address these Annual Meetings of the International Monetary Fund and the World Bank on behalf of the Arab Governors.

The Arab countries represent a wide spectrum of the developing world. It is, therefore, not surprising to find large differences in their economic structures, in their endowments of natural resources, and in the progress they have been able to achieve in their drive for development and for raising the standards of living of their respective populations. These differences notwithstanding, since the early part of this decade, the Arab countries, like the rest of the developing world, have been faced with a common challenge: the challenge of coping with a much less favorable global economic and financial environment. The decline in the prices of primary commodities, the drying up of capital inflows, and the mounting barriers to exports from the developing world have made it difficult for these countries to maintain the development momentum, on the one hand, and domestic and external financial stability, on the other.

The sharp decline in oil export revenues over the last few years has had a particularly adverse economic impact on our region. Not only did the oil exporting countries themselves suffer a sharp decline in their income, but other countries in our region also experienced a substantial decline in their worker remittances and other regional flows, in addition to the drop in their revenues from commodity exports.

In response to these adverse developments, countries in our region embarked on adjustment programs to address their fiscal and external imbalances. In some of the middle- and low-income Arab countries, the adjustment process also had to cope with mounting debt-servicing obligations. In the oil exporting countries, fiscal expenditures were reduced sharply, while at the same time measures were adopted to mitigate the impact on private sector activity and to strengthen the prospects for a steady and sustainable economic growth. Moreover, these countries have maintained a liberal exchange and trade system and, despite their fiscal retrenchment, have continued to provide substantial external assistance to other developing countries. As a percentage of gross national product (GDP), aid from Arab donor countries has continued to be significantly higher than that provided by industrial countries.

When we, as developing countries, look at the current state of the world economy and the prospects for the period ahead, we find many reasons for concern. The uncertainties surrounding the external economic environment facing developing countries continue to threaten the adjustment efforts that many of them have embarked upon and that in many cases have involved

substantial policy reorientation. Those uncertainties also continue to hamper an orderly management of the international debt situation.

Since the early part of this decade, developing countries have made substantial efforts to deal with their external payments difficulties. In many of them this entailed difficult political decisions and great sacrifices in terms of lower investment and deteriorating living standards. Over the last few years, it became increasingly apparent that the sustainability of the adjustment process and the restoration of debt-servicing capacity of these countries will require an export- and growth-oriented approach. It also became all the more crucial that the external environment be conducive to a successful implementation of such an approach. Unfortunately, this has not been the case so far.

The high degree of interdependence in today's world economy makes it all the more necessary that efforts to deal with today's economic and financial problems be truly collaborative. This is not only because collaboration is essential for the success of such efforts, but also because the costs of failure will affect us all either directly or indirectly.

With this in mind, I believe it will be crucial in the period ahead for both developing and industrial countries to strengthen their efforts in promoting a world economic environment that is conducive to growth and financial stability.

The industrial countries have a special responsibility in fostering such an environment, given the major impact of their policy choices on the global economy as a whole. More specifically, the design and coordination of their economic policies should be geared toward avoiding a global economic slowdown, which can be costly to industrial and developing countries alike. At the same time, the adjustment process in the industrial countries should be strengthened in order to deal fundamentally with their external imbalances, which over the last few years have led to sharp and costly fluctuations in interest rates and exchange rates. Unless these imbalances are reduced quickly enough, the threat of protectionist pressures will be more difficult to alleviate. It is ironic that at the same time that developing countries are being encouraged to follow export-led, growth-oriented adjustment strategies, the access of developing countries, including Arab countries, to the markets of industrial countries continues to be hampered by all forms of trade barriers. The efforts of the oil exporting Arab countries to diversify their exports, particularly in the area of petrochemicals, are being impeded by protectionist attitudes, especially in Europe. Similarly, the future of agricultural exports of the Arab countries of North Africa continues to be clouded by the trade policies and practices of the European Economic Community (EEC). The current round of multilateral trade negotiations provides an opportunity that should be used to reverse the protectionist trend of recent years. Furthermore, it is essential that all countries, particularly the reserve currency nations, refrain from practices that impede capital movements and trade flows, including the freezing of other countries' foreign assets, as in the case of the freeze imposed by the United

States on Libya's assets. Such actions not only present a threat to the international financial system but may also undermine economic and political relations among nations.

On behalf of the Arab Governors, I wish also to express our indignation at Israel's continued occupation of, and inhumane policies in, the occupied Arab territories, including the recent restrictions imposed on exports from, and financial transfers to, those territories. We call upon the international community to bring pressure to bear on the Israeli authorities to halt such practices. In this connection, we welcome the steps taken by the EEC, which are aimed at opening the Community's market to imports from the occupied territories.

Over the last six years, the potential systemic implications of the international debt problem have been contained. However, despite the great adjustment efforts of the indebted countries, little progress has been made in moving the debt strategy out of the crisis management stage. The sustainability of adjustment in debtor countries will depend not only on the success in containing the costs of that adjustment in terms of income and employment, but also on whether the debt strategy is perceived as providing a light at the end of the tunnel. While we welcome the recent adaptations to the debt strategy, including the development of new financing options to facilitate commercial bank participation, the fact still remains that without an adequate net flow of resources to indebted countries the sustainability of adjustment in these countries, which is another essential element of the current strategy, will remain in question.

While on the subject of commercial bank participation, let me also express our concern over the new framework for measuring the capital adequacy of international banks, which has been recently endorsed by the Group of Ten Governors and which classifies countries into two groups for the purpose of calculating country transfer risks. Such a classification could have adverse implications for many creditworthy developing countries as well as for debtor countries that have managed to improve their creditworthiness in recent years.

As I said earlier, the interdependence of the global economy makes it essential that international economic issues be addressed in a truly cooperative manner. It is with this in mind that we welcome the positive initiatives aimed at finding solutions to the economic problems of the Third World. We also attach particular importance to the roles of the International Monetary Fund and the World Bank.

As far as the Fund is concerned, we believe that its ability to perform its mandate effectively and to contribute positively to the process of global adjustment at this juncture will depend both on the quality of its policy advice to developing as well as industrial countries and on the financial support it is willing and able to provide to members.

It is important that the opportunity of the Ninth General Review of Quotas

would lead to an increase in the size of the Fund that would enable the Fund to respond adequately to the needs of its members over the coming several years. In administering its policy on access, the Fund, on its part, should avoid undue rigidity and should reverse the downward trend in actual access that has been experienced in recent years. The fact that a number of countries have not been able to remain current in their financial obligations to the Fund should not be a reason to unduly tighten the Fund's lending policy in general. It should be kept in mind that in most cases this reflects an inability rather than an unwillingness to pay. In those cases, a solution to the problem will require a cooperative approach involving the members concerned—the Fund as well as donors and creditors.

It is also unfortunate that it has not yet proved possible to agree on a new allocation of SDRs despite the strong evidence of a global need for reserve supplementation. We urge those members who are still opposed to an allocation to reconsider their position on this matter.

The need to increase the flow of concessional resources to the low-income countries is beyond dispute. We therefore welcome the establishment of the enhanced structural adjustment facility, which we hope will play a constructive role in assisting the adjustment and reform policies in these countries, and help reverse the deterioration in the living standards that many of them have experienced over the past decade. Clearly, a solution to the debt-servicing difficulties of low-income countries will require an exceptional effort from donors and creditors, particularly industrial countries with large external surpluses. We hope that the recent Toronto declaration will be followed up by concrete steps to alleviate the debt burden of these countries.

Clearly, the availability of Fund resources alone is not a sufficient condition for members' success in addressing their economic and financial difficulties. As I mentioned earlier, the quality of policy advice given by the Fund and the design of adjustment programs that are supported by Fund resources are also crucial for the effectiveness of the Fund's role. In this regard, we welcome the increased emphasis being placed on the growth objectives of members' adjustment programs. We also welcome the recent adaptations in Fund policies, particularly in relation to the extended facility and the newly established contingency facility, which will hopefully strengthen the adjustment framework and make it better able to withstand external shocks. I should also mention, however, that we consider it unfortunate that the establishment of the compensatory and contingency financing facility has been partly at the expense of the compensatory financing facility, which is an important instrument for assisting members experiencing temporary export shortfalls. We hope that in the implemention of the guidelines governing the new joint facility, the spirit and purpose of compensatory financing will not be jeopardized.

In spite of the increasing recognition that sustainable adjustment has to be accompanied by adequate growth, and notwithstanding some of the above-

mentioned adaptations in Fund policies, we believe that a greater effort is needed to ensure that adjustment programs are suited to the problems faced by individual members, and which may differ from one country to another. It is important that the Fund be, and be perceived as being, sensitive to members' social priorities and the political constraints within which economic policy has to be formulated. Paying due regard to such considerations is important not only for a successful implementation of adjustment programs but also for the Fund's image as a cooperative institution. I should add that our region's contributions to the resources of the Fund have been quite substantial, and there may be a greater need in the future for the use of Fund resources by countries in our region than has been the case in the past. . . .

I mentioned earlier the detrimental effects on developing countries of the industrial and trade policies of the major industrial countries. In this connection, the resolution that was passed recently in the U.S. Congress and that aims at imposing economic sanctions against Iraq and at pressuring international financial institutions to do the same is clearly inconsistent with the acceptable standards of international relations. As the Development Committee's paper on the industrial policies of the developed countries and their impact on the developing countries clearly shows, such policies constitute an impediment to the adjustment process in the developing countries, prolong the debt problem, and involve heavy costs to the industrial countries themselves. The Fund and the Bank as respected institutions with a great capacity for objective technical analysis should play a leadership role in publicizing the costs to all parties, including the industrial countries themselves, of such inadequate policies. There should be a follow-up on this important paper, and technical assistance to countries involved in the current round of trade negotiations should be continued and deepened. . . .

We would like to commend the directives included in the statements of Mr. Camdessus and Mr. Conable, and I wish to refer to the spirit of Berlin and to address our deep thanks to the Chancellor of the Federal Republic of Germany and the Mayor of Berlin (West) for their warm welcome in Berlin. Our deep thanks go to the President, the Chancellor, and the Mayor for their welcome, and peace be upon you all.

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

Ray MacSharry

We can look back with some satisfaction at world economic trends in the past year. World trade and output have been growing and are likely to continue to grow, and it is encouraging that some progress is being made in reducing the global imbalances that threaten the benefits achieved to date. While the

debt problem that has dominated the agenda for so long is still unresolved, practical proposals have been put forward that should produce an improvement. In particular, there is evidence of greater willingness among the international community to assist the poorer countries.

These developments should not, however, blind us to the dangers, such as renewed inflation, that overhang the world economy. Neither should they lull us into ignoring the depressing facts that growth in many developing countries remains unacceptably low and that the poorer countries continue to experience financing problems that destroy their best efforts to break out of the appalling cycle of poverty and destitution. It is disappointing that greater progress has not been made in coordinating economic policies to achieve a better balance worldwide and that unemployment and a sense of hopelessness remain the lot of so many people in so many parts of the world.

The growth of world trade is not only an essential condition for easing the problems of the developing countries, but it is also vitally important for the economies of the developed world, as some of these are especially vulnerable to any downturn. Continued strong growth in world trade will depend, in large measure, on the continued effectiveness of international coordination. It is good that the major industrial countries are sustaining their efforts toward greater coordination of economic policies and the development of a consistent view of the world economy. I hope that this process will gather momentum. Possibly one of the more important benefits of coordination is that it can provide governments with a firm political will to make difficult choices in the face of opposition from domestic pressure groups.

Last year, when addressing these meetings, I mentioned the importance for the Irish economy of continuing growth in a stable international environment. We are a small and open economy, heavily dependent on export trade. There are clear indications of improvement in the Irish economy and a growing confidence reflected in substantial inflows of capital. Considerable progress has been made in correcting our budget difficulties, inflation is very low, and there has been a very significant drop in interest rates during the past 12 months. I am confident that this turnaround will soon generate increased employment opportunities. I should also add that we are looking forward with optimism to the full implementation of the program for greater integration of the internal market of the European Community. Perhaps there are lessons that can be learned and applied on a global basis from the experience of the development of the Community.

Our own efforts to improve our situation have made us particularly sensitive to the very much greater difficulties that face the developing countries. The papers prepared for Monday's meeting of the Development Committee, and the discussion itself, reflected an active concern about the possibly adverse effects of adjustment programs on the poorer sections of communities. Both the Fund and the Bank are showing a willingness to confront this very difficult

issue. In particular, we endorse strongly the new measures that the Bank is taking to incorporate a poverty focus into its day-to-day work. We welcome the acknowledgment that it is morally, politically, and economically unacceptable to wait for resumed growth to reduce poverty, and we strongly support the reallocation of resources toward explicit antipoverty activities.

The Fund has taken a number of decisions that are designed to make its facilities more relevant to the needs of the heavily indebted, middle-income countries. I am glad that the existing access limits to Fund resources will be maintained in 1989. I believe it is important that agreement is reached quickly on the size of the next quota increase. If the Fund's role in the international monetary system is not to be diminished, it must have sufficient resources at its disposal. I wholeheartedly support a substantial increase in those resources. . . .

In the modern, complex world economy the need for supranational institutions such as the Fund and the Bank to lead the way in achieving greater stability and sustaining balanced growth is stronger than ever before. We live in a world of great potential and, yet, great inequality. With diverse and often conflicting priorities, it requires much goodwill and commitment to achieve consensus. We must all have a common interest, however, in the betterment of world society through greater coordination of economic policies directed toward the best use of resources and the defeat of poverty.

The fact that so much remains to be done, that the gap between rich and poor is so wide, and that sometimes we seem to move backward rather than forward must not discourage us. The Annual Meetings provide us with a forum in which to develop a greater sense of cooperation and to renew our efforts toward finding better solutions. It is important that these meetings result in a stronger commitment from all members to the work of the Fund and the Bank.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BOTSWANA

P.S. Mmusi

An overview of the world economy reveals important uncertainties in the short-term outlook. Although moderate economic expansion has been estimated for 1987 and 1988, at about 3.4 percent, world output growth for this period is below the annual average of 4.2 percent attained in the 1970s. The continuation of growth at an estimated annual rate of about 3 percent in industrial countries means that the economic environment facing the developing world would remain difficult. Fundamental problems that threaten growth and financial stability persist and are, indeed, worrisome. The large fiscal and financial imbalances, particularly the fiscal deficit of the United States, the ramifications of the continuing large and unsustainable payments imbalances

among the major industrial countries on developing countries, and the unresolved debt crisis have all become a source of instability and friction. It is discouraging to note that despite strong declarations of commitment to free trade in international forums, protectionism in industrial countries is on the rise, jeopardizing the international trading system and cooperation.

For the developing countries in general, the persistent deterioration in the terms of trade and increasing external deficits in the face of serious financing constraints continue to pose obstacles to growth. Available statistics on economic performance in these countries remain grim: growth is generally disappointing; fiscal deficits have remained high; and the average inflation rate is significantly higher than that for the developed countries. Living standards have declined in a large number of these countries, especially those in Africa where incomes are intolerably low, and adjustment fatigue is setting in as more and more countries reach the point where further austerity, in the absence of meaningful economic growth, has become politically, socially, and economically untenable. We note that although both the Bank and the Fund have each recently acknowledged that domestic policy reforms and adjustment have been intensified in many African countries, we continue to face weak export prices, large debt-service obligations, lack of adequate external financing, and the generally adverse external environment.

It is necessary to stress that the removal of exogenously induced obstacles to growth is a key factor to improving Africa's economic prospects. To this end, financial policies in industrial countries must move in a direction conducive to the reduction of internal and external imbalances, and monetary policies must be implemented in a manner flexible enough to preserve the momentum of noninflationary growth and to bring down real interest rates. Furthermore, there must be adequate access to the markets of industrial countries for both goods and capital. In addition, more effective coordination of macroeconomic policy is therefore required among the major industrial countries in order to promote greater stability in exchange markets. Experience has made it quite clear that notwithstanding the improved quality of our economic and financial policies, a crucial requirement for strengthening growth in our continent remains a supportive international environment, including the availability of appropriate and timely external finance. In this connection, we strongly urge the Fund through its surveillance role to exercise necessary and sufficient leverage on the major industrial countries' economic and financial policies so as to promote a more propitious world economic environment to facilitate recovery and growth in African countries.

Africa's external debt, which is currently estimated at $220 billion, has more than doubled since 1980 and is causing us grave concern. The severity of its burden is most evident when the debt service payments are related to exports of goods and services. This ratio more than doubled from 15.2 percent in 1980 to 33.2 percent in 1987, and is now over 50 percent in some of our

economies. In this regard, given the generally declining prices of primary commodities, which constitute the bulk of Africa's exports, the resultant acute shortage of foreign exchange earnings has rendered the management of the debt problem almost intractable. The impact of the heavy debt burden on African economies has been reflected in the declining growth rates. Through severe curtailment of the continent's import capacity and a cutback in investment and development projects, the debt burden has inflicted enormous hardship, which has induced social and political unrest in a number of our countries.

As we are well aware, the unique character of Africa's debt crisis has attracted increasing attention from the international community. In 1986, the Special Session of the United Nation's General Assembly adopted the African Priority Program for Economic Recovery (1986–1990), thus giving it universal endorsement. The Bank and the Fund have each taken new initiatives to increase resource flows to Africa through the Fund's enhanced structural adjustment facility and the Bank's Special Program of Assistance for the debt-distressed low-income sub-Saharan African countries. We note the Toronto Declaration and its approach to the debt problems of the poorest countries. In this connection we welcome the announcement of the Ministers of the Group of Seven here in Berlin (West) that the necessary arrangements have now been worked out by the Paris Club for the implementation of the Toronto approach as regards the debts of the poorest countries. This appears to be a step in the right direction. While we appreciate these initiatives, there is no doubt that given the magnitude of the debt crisis in our continent, they are far below our immediate requirements, which calls seriously into question the adequacy of the existing debt strategy.

In the search for a broadly acceptable solution, a plethora of proposals has been made. While each of these proposals may have its merits, we urge the Fund and the Bank to support the African Common Position on Africa's External Debt Crisis adopted in December 1987 by the Third Extraordinary Assembly of Heads of State and Government of the Organization of African Unity (OAU).

The main elements of the OAU approach call for an improvement in the terms of trade of African primary commodities; the removal of protectionist measures, enhancement of resource flows to Africa through, inter alia, an increase in grants under bilateral assistance, reduction in real interest rates, and extension of the repayment and grace periods of financial and commercial loans for all types of new credits. Other elements include linking debt service to a reasonable and bearable percentage of export earnings; suspension of external debt service payments for a period of 10 years starting from 1988; conversion of all past official bilateral loans into grants; payment of part of official bilateral debt in local currency; and a multi-year rescheduling for a minimum period of 5 years, with maturities of at least 50 years, including 10

years of grace and zero rate of interest. We would like to stress, however, that for any debt strategy to be viable and relevant to Africa, the quantum of resources allocated to debt servicing must be so restricted as to assure social stability and ensure a minimum rate of economic growth. Both the Bank and Fund programs should, therefore, take into consideration the need not only to service debt but, more important, to secure economic growth. Moreover, in view of the predominance of many African countries' indebtedness to the Bretton Woods institutions, we urge these institutions to consider a more pragmatic debt relief approach consistent with the current initiatives to alleviate the debt burden of this group of countries.

Given the disappointing growth impact of adjustment on most of our economies, much needs to be done to strengthen the design of programs and make them more relevant to the particular needs of individual countries. Although a "case-by-case approach" is allegedly used in the design of programs, it is common knowledge that much of the work is done in Washington and that different country programs show a very close similarity. We strongly believe that national authorities should be allowed to play a more important role in the design and implementation of adjustment programs, so as to ensure that due regard is given to the particular circumstances of each country, and that the tendency on the part of international institutions to dictate programs to national authorities is eliminated. Furthermore, in view of the greater realization of the imperative of generating growth under adjustment programs, sufficient weight should be given to productive investments. Obviously, not much can be gained from adjustment policies that overemphasize the stabilization of short-term macroeconomic variables without adequate provision for growth. Financial programming and growth exercises should be integrated so that a program design clearly specifies the level of foreign credit flows consistent with gross domestic product (GDP) growth targets and the level of debt-service burden that a country can bear.

We note the progress made in the ongoing Ninth General Review of Quotas, which, we hope, will result in a substantial quota increase to enable the Fund to meet its members' financial needs. However, we are deeply concerned that the formula used in the calculation of quotas remains unchanged and that the proposal to include a poverty index in order to protect the relative shares of developing countries has not been accepted. In this connection, we strongly urge that the quota shares and voting power of African countries be preserved and that the current review exercise should not result in an erosion of the relative position of African countries.

There is also the perennial issue of equitable distribution of the burden of adjustment between surplus and deficit countries and an efficient exchange rate system that provides stability while retaining flexibility to allow adjustment to take place without putting undue pressures on the level of economic activity. Unfortunately, the current situation is that the burden of adjustment continues

to fall disproportionately on the developing countries. Thus, while the Fund's leverage over these countries has remained very large, particularly through implementation of Fund-supported programs, there is virtually no effective surveillance pressure on the major industrial countries to comply with the Fund's policy recommendations. Although we support the use of indicators to encourage policy coordination among major industrial countries, it is doubtful if such an exercise would ever ensure symmetry in the international adjustment process. In addition, we believe that policy coordination should not be limited to exchange rate agreements, but should encompass genuine attempts at the cooperative formulation of macroeconomic policies aimed at adequate growth, minimum inflation, and a constellation of current account positions that are sustainable and that provide for an adequate flow of resources from developed to developing countries.

The impression that is generally given, that the provision of assistance without stringent conditionality may encourage African countries to delay the adoption of appropriate policies, reflects a misunderstanding of the African economic situation and underestimates the degree and intensity of the ongoing adjustment efforts in the continent. It is regrettable that this impression has apparently influenced the existing conditionality that is attached to the new lending window, the enhanced structural adjustment facility. We remain convinced that only realistic terms and conditions that take sufficient account of the economic, financial, and sociopolitical circumstances of member countries are relevant. In the present circumstances, the time frame for the repurchase of Fund resources requires a change, given the fact, supported by Fund staff, that the existing three to five years is too short a period for most of the low-income countries to attain external viability because of the difficult external environment, which means that structural programs to resolve the balance of payments in the 1980s take a longer time to produce results. As we have stressed in the past, the monitoring of performance criteria should focus more on the direction of policy rather than on precise extent of change. In other words, performance criteria should be stipulated in ranges so as to provide the necessary flexibility. As regards the nondiscriminatory treatment of members, we have noted that in cases of "systemic" threat, the Fund has approved the use of its resources to members under arrangements that would not have otherwise been approved. We welcome such adaptability and urge that systemic threat be interpreted in broader terms to include low-income countries facing critical situations, because these countries constitute a sizable segment of Fund membership and their economic stagnation—and more so, their contraction—is a threat to global prosperity.

While we support genuine cooperation between the Fund and the Bank, it is totally unacceptable that such collaboration should lead to cross-conditionality. The Fund and the Bank have different mandates, different functions, different financial structures, and different expertise; and their domains of responsibility should be preserved. Although there are areas of shared con-

cerns to both institutions, our recent experience with the preparation of policy framework papers (PFPs), clearly shows that the problem of cross-conditionality has become more real than apparent. There are cases where projects that should normally meet the lending criteria of one institution have been rendered ineligible for funding, owing to the requirement that they should also pass the other institution's criteria. There are also instances of program loans of one institution that have been delayed awaiting compliance with requirements of the other institution, and some loans that were subjected to the two sets of conditions simultaneously. It is crucially important to avoid this cross-conditionality if undue complication and delays in negotiations, particularly for use of Fund resources under the structural adjustment facility and the enhanced structural adjustment facility, are to be minimized. . . .

In regard to the Fund/Bank-supported adjustment programs, we have in the past highlighted the high social costs of these programs. We have urged the Bank and the Fund to be mindful of the effects of these programs on the social fabric of our communities. We are, therefore, pleased to see that the Bank, in cooperation with other donors, has launched the Regional Project Facility whose main purpose is to help governments identify projects and programs aimed at alleviating poverty. . . .

In conclusion, we would like to stress that the economic difficulties afflicting Africa remain serious, despite the modest growth recorded in the global economy. In particular, the exogenously induced obstacles to our growth and the disappointingly low level of external financing have seriously undermined our efforts. While we appreciate the new initiatives recently taken by the Bank, the Fund and in other forums to increase resource flows to Africa, we urge the international community to give an adequate response and provide substantial support in the search for solutions to our economic difficulties.

Statement by the Governor of the Fund for Finland

Rolf Kullberg

First of all, I would like to express our gratitude to our hosts for their warm hospitality and efficient arrangements of these Annual Meetings in Berlin (West). I have the honor to speak on behalf of the five Nordic countries—Denmark, Finland, Iceland, Norway, and Sweden.

Economic developments in the industrial countries since our meetings a year ago have certainly not solved our problems, but the picture has been encouraging in many respects. Growth has continued at a more rapid pace than expected and indeed has continued in spite of the severe dislocations in stock markets last autumn. For this we should give some credit to the flexibility of economic policy, which was adapted to the necessity of re-establishing

stability in financial markets. It is indeed imperative that confidence in economic policies be maintained, in order to secure a high level of investment and promote employment.

Economic growth in the industrial countries has improved the external environment of the developing economies, and in some cases the debt burden now appears more manageable. Nevertheless, the situation has worsened in many poor countries.

It is clear that the immense task facing the developing world would be facilitated if the industrial countries manage to sustain growth. On this point, a closer look at the world economy reveals some disturbing features. The imbalances threatening the maintenance of growth and stability remain fundamentally the same as a year ago. Adjustment has so far been too slow in the largest economies, and new imbalances are emerging within Europe. There is an urgent need for more effective corrective action.

We know from past experience that determined adjustment policies provide a stable climate for economic growth. This, in turn, makes it easier to resist protectionism and to further open up the world economy through liberalization of trade in goods and services. Financial stability is also a precondition for meaningful progress in monetary integration.

The excessive swings in real exchange rates that we have experienced during the 1980s put heavy strains on the structures of our economies. Such swings may also lead to pressures for protectionist measures. This is particularly likely to happen if a slowdown in economic expansion occurs as a result of not adequately dealing with the imbalances. A marked increase in the application of protection is in fact observable. These measures tend to be particularly detrimental for the developing countries; indeed, protectionism works against all efforts to achieve progress in the developing world.

Also, the trend toward integration in the financial area will be disturbed if imbalances continue and turbulence in money and foreign exchange markets is allowed to re-emerge. This applies both at the global and regional levels.

In sum, recent developments contain many seeds of new disturbance that could harm the growth process and push the world economy back into stagnation. To avoid such a development, more effective international coordination of economic policies is crucial, and a stronger role must be assigned to fiscal policy.

The single most important precondition for a better working of the global adjustment process is for the United States to cut back, permanently, the twin deficits. Conversely, countries with a strong balance of payments position should pay less attention to the budget figures and more attention to the overall savings-investment balance in judging their room for fiscal expansion. Orderly adjustment of international payments balances is always a two-sided affair; a reduction in deficits is possible only if surpluses are also cut back.

Although some developing countries have been able to reduce their debt, no fundamental improvement in the debt situation is visible. Several poor economies have been unable to reap benefit from international growth. Lower growth and higher interest rates would further aggravate the problems for many middle-income countries, as well.

Difficulties have continued both in the implementation of necessary domestic policies and in arranging external financing. All in all, the goal for the debt strategy for the middle-income countries is still remote. Not surprisingly, this has caused persistent demands for relief from the indebted countries.

There is, however, no general solution to the debt problem, and debt relief will never be a substitute for strong adjustment policies. Adjustment will remain a precondition for attracting financing from the market, and the case-by-case approach remains the only way in which economic policy programs and external financing can be tailored to individual country circumstances.

We welcome the agreement reached at the Toronto summit and the arrangements worked out by the Paris Club regarding the official debt of the low-income countries. In the case of middle-income countries, we favor market-based approaches that can be voluntarily agreed upon between debtors and creditors. Of course, there is a continuous need to look for new approaches and initiatives to ease the debt situation.

Considering the magnitude of the debt problem in the highly indebted countries and the resources available to the Fund, it is obvious that the Fund should not in most cases assume a major role as a provider of capital. Accordingly, its role should be mainly that of an adviser and a catalyst of market-based financing. Conditionality must not be eroded, and Fund credits should only be granted to countries that are willing and able to implement strong adjustment programs with a view to attaining a viable balance of payments situation.

The goal of the Fund's new compensatory and contingency financing facility is to secure the execution of Fund programs against adverse external events that threaten the implementation of the program. The future will show whether expectations related to this facility will be fulfilled. Needless to say, if the Fund is to succeed in playing the role of a catalyst in a constructive way, its facilities must be efficient in linking adjustment with financing. Since the bulk of financing must also in the future be provided by the commercial banks and other market sources, these sources must be provided with grounds for confidence.

In discussing the role of the Fund, I would like to voice our concern about the overdue financial obligations to the Fund. They have in a few years increased to SDR 2.4 billion as of the end of August 1988. The arrears are

indeed rapidly increasing in relation to outstanding Fund credit. If no remedies are found, the arrears problem will cause serious difficulties for the Fund.

The Nordic countries want to give their full support to the Fund in its efforts to look for effective approaches to the arrears problem. Cooperation with multilateral development assistance organizations and bilateral donors and creditors can be helpful in this work.

Giving full regard to the cooperative nature of the Fund, we, for our part, cannot accept any, even indirect, cancellation of the obligations to the Fund. My constituency also shares the view of many others that the resources of the enhanced structural adjustment facility should not be used simply to settle arrears.

I would like to reiterate the view of the Nordic countries that the Fund's lending should, as a matter of principle, be based on ordinary resources. Also, the enlarged access policy is to be seen as a temporary arrangement. These considerations alone indicate a need for a substantial increase in the Fund quotas.

The Fund's role in the debt strategy also calls for increased resources that would allow the Fund to adequately support members' adjustment efforts and to enhance its catalytic effect in the mobilization of other sources of financing. This is particularly important since economic prospects for the world economy continue to be characterized by uncertainties, with fluctuating exchange rates, commodity prices, and interest rates. It should also be pointed out that the relative strength of the Fund has been clearly reduced during the period since the Eighth Quota Review.

Let me, therefore, express the hope that work on the Ninth General Review of Quotas will be completed soon and that the present deadline for the decision, the end of April 1989, will be respected.

On the basis of the above considerations, let me say that the Nordic countries believe that a doubling of quotas would be most appropriate. A quota revision of such a magnitude would also facilitate a restructuring of the quotas in a way that better reflects the relative importance of member countries.

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

S.B. Chavan

I would like to join my fellow Governors in congratulating Mr. Feldt on his election as Chairman of the Annual Meetings. We thank the Government of the Federal Republic of Germany and the people of this great city for their hospitality and for the care taken to make our stay comfortable.

Recent trends in the world economy show some positive features. The collapse in major capital markets in October 1987, shortly after our last meeting, did not disrupt steady growth in the Organization for Economic Cooperation and Development (OECD) countries. Global economic growth is projected by the Fund to increase to 3.7 percent in the current year, mainly because of a significant improvement in the growth rate of industrial countries. Overall macroeconomic adjustments in major industrial countries have been assisted by a better alignment of exchange rates. The recent surge in commodity prices has helped a number of developing countries.

But these welcome developments should not distract our attention from the disturbing features of the global economic scene that demand our urgent attention. The continuing financial imbalances in some major industrial countries have caused concern over the prospective stability of prices and exchange rates. A substantial number of developing countries remain in the grip of serious debt-servicing problems. In a number of developing countries, growth in investment and income continues to be unacceptably low. The short-term outlook for the world economy is clouded by downside risks associated with persistent trade imbalances between the major countries, fears of resurgence of inflation, the rising trend in interest rates, and the problems of debt and financial constraints facing developing countries.

Quite apart from these negative features, any sense of complacency based on the improvement in the growth of world output and trade during the past year would appear misplaced if global economic developments are set in their proper historical perspective. Clearly, the growth of the world economy in the current decade has been substantially restricted by systemic constraints. Of even greater concern is the fact that the average growth rate of 4 percent for developing countries as a group is largely accounted for by a handful of rapidly growing nations. A large number of countries, especially in sub-Saharan Africa and Latin America, have enjoyed little or no growth during the current decade. The Bank's World Development Report estimates that between 1980 and 1987 real per capita gross domestic product (GDP) declined by almost 3 percent a year in sub-Saharan Africa and by 1.3 percent a year in the highly indebted countries, mostly in Latin America.

A key constraint of world economic growth has been the insufficient flow of capital on appropriate terms to the developing countries. Of particular concern to low-income developing countries has been the deceleration of official development assistance (ODA). The OECD estimates that in 1985 prices and exchange rates, net ODA from all sources had stagnated in the range of $35 billion to $36 billion between 1980 and 1986. Other sources of capital have also dried up. Net international bank lending and net foreign direct investment are estimated to have declined sharply during the past several years. Although gross disbursements from the Bank have continued to increase, net transfers have been declining since 1985 and have become negative this year. Net disbursements from the Fund have also been declining since

1984, which has led to reverse flows from borrowing countries to the Fund in recent years.

Many developing countries made growing use of commercial loans in the latter half of the 1970s. Subsequent events have demonstrated the imprudence of excessive reliance on private commercial capital to fund long-time development projects in poor countries. It is important that we absorb this lesson for the future so as to avoid emergence of another debt crisis. . . .

We welcome the World Bank's renewed focus on the problems of poverty in both its lending program and in its analytical work. From our own experience, we believe that well-established institutions and programs for poverty alleviation are critical, not only in the context of short-term adjustment but also in the wider framework of overall development. The international community has commended India for the management of the severe problems posed by the unprecedented drought in the summer of 1987. We believe that our success in relieving widespread distress and preserving the tempo of economic activity, in spite of the drought, was due not only to the availability of sizable foodstocks, but also to the effective functioning of certain well-established nationwide institutions, especially the public distribution system for food and essential commodities and the national programs for rural employment and relief.

The resilience of the economy demonstrated in the past year has been built over a period of time. For almost four decades, India has pursued strenuously the path of growth and development with stability to build a strong and self-reliant economy and a just society. Thanks to the endeavors of our people and the strong national consensus behind our growth strategy, India has achieved self-sufficiency in foodgrains, established a diversified industrial structure, and created a large pool of trained people. As a result of steady growth and nationwide antipoverty programs, the proportion of the population below the poverty line has declined progressively, although the absolute number of the poor remains large.

In this very difficult decade, the annual average growth of our domestic product is expected to be about 5 percent. The rate of inflation has been moderate. In recent years, India has taken strong measures to liberalize its industrial and trade policies for promoting efficiency, modernization, competitiveness, and export capabilities. These policies are already showing good results. Industrial production has been growing at a rate of 8–9 percent a year. Exports have picked up substantially. Investment is growing. These results have been achieved predominantly with the help of our own savings. Gross domestic savings now constitute about 22 percent of GDP. We have made effective use of the support provided by the international community. Our recourse to financial markets for commercial credits has been kept within prudent limits. Considering, however, our low per capita income and still widespread poverty, we face enormous challenges, which will continue to engage our energies.

The present decade has witnessed major new initiatives by both the International Monetary Fund and the World Bank Group in the area of adjustment lending. . . . Frankly, our own reaction to the innovations in the field of adjustment lending has been somewhat mixed. On the one hand, we have welcomed the initiatives by the multilateral institutions to support programs of economic adjustment undertaken by developing countries in the face of adverse changes in the international and domestic economic environment. We fully appreciate that the fundamental purpose of adjustment lending is to support developing nations in carrying out necessary economic adjustment with minimum sacrifice of growth and development momentum. On the other hand, we are apprehensive about some features of adjustment lending as it has evolved over the decade. These include tighter and far too detailed conditionality in adjustment programs and application of uniform policy prescriptions to all borrowing countries, sometimes without adequate regard for the complexity of the development process and the uniqueness of each country's circumstances. There is also a tendency to expand the menu of policy prescriptions.

In our view, excessively tight conditionality and the consequent disruption of timely availability of finance are, in large part, responsible for some of the disenchantment with adjustment lending. We must recognize that the transition involved in adjustment cannot be readily determined by application of mechanical criteria. The range of policy conditionality associated with each adjustment loan should be realistically limited. There should also be a greater willingness to undertake adjustment lending operations in support of government policy actions that have already been undertaken to promote adjustment, without imposing further fresh conditionality.

With regard to Fund quotas, we hope that the Committee of the Whole will complete work on the Ninth General Review of Quotas by April 1989. With respect to the distribution of quotas, we have suggested in the interest of the large majority of Fund membership, that developing countries should be given a combined share of at least 40–45 percent and that variables and formulas based on need should be incorporated in working out calculated quotas. In the past, a combination of equiproportional and selective increases has formed the basis for the distribution of quota increases among members. It is our considered view that the major part of the agreed increase in Fund quotas should be distributed equiproportionally.

While work on the Ninth General Review of Quotas proceeds, it is crucial to ensure that policies on access limits to Fund facilities are not made more restrictive. In view of the difficult world economic situation and outlook that I outlined earlier, it is clear that any reduction in access limits under either the enlarged access policy or special facilities such as the compensatory and contingency financing facility would seriously impede the adjustment effort in many developing countries. It is also necessary that effective access, which has remained far below potential access, should be substantially raised.

We have been considering the question of fresh allocation of SDRs for more than six years. As we have maintained on earlier occasions, the emergence of a multicurrency reserve system and large international capital markets has in no way reduced the need for a fresh allocation of unconditional liquidity in the form of SDRs. We fully support the views expressed by the Managing Director of the Fund that, in view of the present high vulnerability of the international monetary and financial system, an allocation of SDR 20–30 billion during the next two years is essential. We trust that members who still have reservations on the subject will agree to such an allocation in a spirit of understanding and international cooperation.

As we approach the end of 1980s, I believe it would be desirable and instructive for us to take stock of how the Fund and the Bank have evolved during the current decade in light of developments faced by the world economy and to explore the changes needed in these institutions to enable them to meet the challenges ahead.

Statement by the Governor of the Bank for the Netherlands

H. O. Ruding

This is the sixth time that I have the honor of addressing this meeting in my capacity as Governor of the World Bank for the Netherlands. When I was considering this year's topics for discussion, I realized once again that some of them have figured for quite a long time already on the agendas of the various international forums that usually meet before we gather together. The most pressing of these issues is the debt problem, but the large payments imbalances between the major industrial countries, the need for greater exchange rate stability, and the still too high level of interest rates have also come to the fore. Although these problems differ widely in nature, they have in common that their persistence points to underlying structural rigidities as barriers to adjustment. The conclusion is obvious: in both industrial and developing countries structural adjustment is of major importance for a return to sustainable internal and external balance.

Of course, the first and foremost condition for a reduction of current payments imbalances between industrial countries to more sustainable levels is a sound and internationally consistent macroeconomic policy mix in both major deficit and surplus countries. The process of international policy coordination, which got public attention in 1985 with the Plaza Accord, has produced some tangible results, especially in the areas of interest rate policy, exchange rate policy, and foreign exchange market interventions.

After years of exchange rate instability, international cooperation has resulted in more stable exchange rate relations. To a large extent, this

cooperation takes place on an ad hoc basis, but several ministers—among them, Chancellor Lawson on the occasion of last year's Annual Meetings—have mentioned the possibility of building a more permanent regime of managed floating. France also has frequently indicated its interest in strengthening the international monetary system and in more stable exchange rates through target zones. The challenge for the future is to design an exchange rate system that combines flexibility in adjusting to major shocks with the objectives of external and internal monetary stability. The Managing Director has aptly quoted the Articles of Agreement in saying of the Fund that it is the "permanent institution which provides the machinery for consultation and collaboration on international monetary problems." I support the Managing Director in giving content to this purpose of the Fund and would welcome it if the Fund gives more attention to this in its work program.

Mutually compatible macroeconomic policies are indispensable but do not in themselves guarantee an adequate pace of adjustment. Structural rigidities at macro- and microeconomic levels frequently inhibit an appropriate supply-side response and stifle the efficacy of fiscal policy. Indeed, there is a clear relationship between the effectiveness of macroeconomic policy and the flexibility of economies. Fortunately, this relationship is increasingly being recognized by the international community. The Fund's staff, in an annex to its World Economic Outlook study, has investigated the possibilities of developing indicators for structural adjustment for use in its surveillance of the industrial countries' policies and has made quite a positive assessment. By developing a small number of simple quantitative structural indicators, each country's progress in removing structural rigidities could be followed more closely. In this way, international policy coordination in the context of the Fund's surveillance would be significantly broadened in scope. Therefore, in spite of the technical difficulties involved, I would strongly recommend that the Fund continue its work in this area in collaboration with the Organization for Economic Cooperation and Development (OECD) and the World Bank, not only in order to develop indicators, but also to achieve a division of labor that is in accordance with each institution's strengths and mandate.

Without going into a detailed discussion of structural policies, I want to indicate the most prominent areas that need to be addressed: these are labor markets, sectoral policies, and trade protection. Not only surplus countries have a responsibility in this area. The area in which it is clearest of all that both deficit and surplus countries should act vigorously is trade protection. Recent Fund and Bank studies show that trade protection in industrial countries has intensified in recent years and is increasingly being applied in a discriminatory fashion. Bilateral agreements that increase protection not only damage the interests of all concerned, but also shred the multilateral fabric that is so great an achievement of postwar global cooperation. Even bilateral agreements to reduce protection hold this danger. Moreover, attention needs to be given to the fact that protection reduces the speed and effectiveness of adjustment. To

realize a given adjustment in current account balances, larger changes in prices, exchange rates, and absorption are required. Thus, protectionism contributes to economic instability.

The ill effects of protection by industrial countries are the most painful for the developing countries. The propensity to protect runs counter to our common interest in making their debt problem bearable. Rising protectionism, including internal subsidies, hardly encourages these countries to embark upon the more promising outward-looking strategies that are recommended unremittingly by the Bank and the Fund. Therefore, it is absolutely necessary for the Uruguay Round to be successful in establishing improved access to the markets of industrial countries. Indebted countries can in any event improve their prospects by dealing with the macroeconomic and structural imbalances in their own economies. Performance in this respect has been very uneven. In contrast to countries without serious debt-servicing difficulties, highly indebted countries, particularly in Latin America and sub-Saharan Africa, have benefited disappointingly little from the continued buoyancy of economic activity and world trade. While external factors, such as the rise in interest rates and the continuing low level of some primary product prices, have contributed, for the most part this weak performance is due to domestic policy deficiencies. Frequently stop-go policies are compounded by the inability to respond flexibly to changes in the environment. I only mention the widespread use of exchange and trade restrictions, distortionary taxes and subsidies, inefficient credit-rationing systems, and ineffective management of state enterprises. This underscores the need for incorporation of structural policy measures in adjustment programs.

Contrary to common belief, structural adjustment measures may very well have a rapid impact. This is particularly true of the replacement of administered prices by market forces. When demand management and structural policies reinforce each other, the effects can be very beneficial. For example, short-term monetary policy measures aimed at a reduction of inflation would be reinforced in a flexible labor market. The removal of price subsidies could be accompanied by the enhancement of local credit facilities, so that production can respond more quickly to price incentives. In industrial countries, the relaxation of minimum wage requirements and the abolishment of investment subsidies could increase labor demand at short notice.

More emphasis on structural adjustment measures in Fund and Bank programs does not imply that conflicts need arise with social and environmental policies. Within the context of structural adjustment programs, it is not only possible, but also imperative to increase the emphasis on poverty alleviation. The excellent documents of the Fund and the Bank on poverty issues explore how to implement a balanced policy and demonstrate that progress is being achieved. Designing adjustment programs with due attention to poverty issues and targeting social expenditures on the poor can ensure that the burden of

adjustment is made more bearable and that the benefits of growth are shared fully and relatively quickly by the poor without jeopardizing the basic goals of adjustment. Our efforts should be directed toward eradicating poverty, and not only toward temporary alleviation. Therefore, I am strongly in favor of an integrated structural approach when dealing with poverty issues. Such an integrated approach can be successful only if the programs are fully supported by the governments involved. In order to achieve sustainability, such programs should contain a limited number of relatively simple and unambiguous conditions and targets. Moreover, special attention should be given to strengthening the institutional capacity to enable successful implementation of the required policies. . . .

It is my firm belief that structural adjustment creates more room for maneuver and allows a better targeting of government policies of the kinds that I have described. Policy framework papers, which are already used for low-income countries, could play a role in this respect. They offer a general framework for the governments of the countries concerned, the Fund, and the Bank to pursue an integrated approach. However, the increased collaboration between the Fund and the Bank makes it all the more necessary to have each institution abide by its mandate. Whereas structural and microeconomic policies are the primary area of the Bank, the Fund as a monetary institution must focus on policies with a distinct macroeconomic impact that are intended to restore balance of payments equilibrium. Such a clear separation, based on the nature of the money they provide, safeguards the complementarity of the institutions and helps avoid a damaging rivalry.

Adjustment needs to be supported by financing. Good adjustment should be rewarded by generous financing. The Japanese offer to provide additional parallel financing with Fund programs, while not yet clear in all its details, appears to serve this purpose very well, and I welcome it. Both the Fund and the Bank will need to scrutinize future demands for credit carefully and pay great attention to performance in advancing money. The number of cases in which performances have been disappointing is too large. Frequently, domestic mismanagement can be observed. All too many are the instances in which an embarrassing degree of income inequality is coupled with corruption, capital flight, or high military expenditure. Economic and moral deficiencies of this nature do not provide a basis for support by the international community. Moral perfection is not the goal of adjustment, but there should be clear evidence of a political will to tackle problems seriously. Only then can generous support by the Fund and the Bank, each for its own preserve, be forthcoming and can this be used to the full to encourage the commercial banks to come across as well.

I welcome the inventiveness that is being displayed in the concoction of financing packages. The menu of market-based techniques for voluntary debt reduction without transferring risk from private lenders to official creditors is

being broadened all the time. However, given the financing needs of countries with adjustment programs in place and the hardships they are already exposed to, banks should not skew the packages exclusively in that direction. New money must play a role. For the same reason, the Bank has been granted a capital increase by its members, and I call upon members to stand ready soon to provide the Fund with substantial new resources under the Ninth General Review of Quotas. Governments have already shown welcome evidence of the will to take over some of the burden of the poorer countries in the context of the Paris Club.

What cannot be endorsed, however, is the existence of sizable and mounting arrears in the Fund and, to a lesser extent, the Bank. The cooperative nature of these institutions and the special role they play in standing ready to support adjustment and development, respectively, should vouchsafe them their preferred creditor status. Prevention and cure in accordance with meaures proposed by the Board of the Fund meet my wholehearted support.

I have already underlined that commercial sources will have to play their role in increasing the flow of financial resources from developed to developing countries. In this connection I should like to mention the Multilateral Investment Guarantee Agency (MIGA), which I am honored to do also on behalf of Switzerland and Cyprus since, in the framework of MIGA, Switzerland, Cyprus, and the Netherlands form a constituency.

We are pleased to see that, after a long period of preparation, MIGA is now becoming operational and will soon contribute to enhancing private direct investments in developing countries. Some conditions, however, are yet to be fulfilled in order to give MIGA the good start it deserves. Its staff should be brought to the projected level as soon as possible, and a large number of countries should take up membership in order to enhance the multilateral character of this important institution. These steps will enable the agency to develop a portfolio of activities both professionally designed and of substantial financial and development impact.

Finally, I want to devote a remark to the standards of value that govern our institutions. The SDR mirrors the weighted value of five major currencies and as such absorbs to a significant degree changes in their relative values; it is thus a stabilizing element in calculations and operations. As a matter of principle, moreover, it appears neither logical nor fair to base the standard of value on the currency of a single country. I therefore urge the Bank Board Committee that occupies itself with this matter to take account of this conviction.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR OF THE FUND AND GOVERNOR OF THE BANK FOR COLOMBIA

Luis Fernando Alarcon-Mantilla

It is my privilege to address this Meeting of Governors of the member countries of the International Monetary Fund by decision of the Governors for

Argentina, Bolivia, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Colombia. On behalf of the countries which I thus represent, I thank the Government of the Federal Republic of Germany, the city of Berlin (West), and all their authorities for the warm welcome and hospitality that have been offered us since we arrived here.

Recent Economic Developments

During the last six years, following the recession of 1980–82, the economies of the industrial countries have experienced rapid growth, while in almost all the countries of Latin America and the Caribbean per capita gross domestic product (GDP) was lower in 1987 than 1980. In some countries of the region, national product in real terms has declined, per capita income has fallen, and social conditions have deteriorated. Moreover, the strengthened balance of payments current account situation of some high-debt economies has been achieved at the cost of reductions in consumption and investment.

Although gross domestic investment has recovered in some countries, in general it is still more than 25 percent below its 1980 level in real terms; in the case of the heavily indebted countries it has fallen from around 25 percent of GDP in 1980–81 to 17 percent in 1985–87. The decline in investment is due mainly to the negative transfer of financial resources that began in 1982, when total private and official capital inflow fell short of total amortization, interest, and profit remittance payments; these transfers are equivalent to no less than one third of the region's savings. These facts add up to a serious depression, which has led the 1980s to be described as a "lost decade" for the development of Latin America and the Caribbean.

For the group of countries classified by the World Bank as heavily indebted, the debt/product ratio rose from 37 percent in 1981 to 61 percent in 1986. In contrast, in 1987 the outstanding external debt balance of Latin America and the Caribbean rose by $13.8 million, to a total of $408 million, an increase of only 3.5 percent. It is evident from this that the rate of growth is slowing, in spite of the changes in the parities of the major reserve currencies.

Nor will 1988 be a good year. GDP growth is estimated at about 0.6 percent, with a sharp fall in per capita income. Some improvement is evident in terms of trade, chiefly for the countries that export farming and mining products, but the oil exporting countries will lose further ground. The balance of payments current account situation will be slightly better than last year; however, the net outflow of resources from the region, estimated at over 4 percent of product, will continue to cause concern.

Handling of the Debt Topic

During most of the decade the region's economic development has been

limited by the debt problem and the inadequacy of the measures taken to deal with it.

The strategy envisaged a few years ago to resolve the debt problem has turned out to have serious limitations. Although it is evident that in some cases the adjustment measures the countries had to take were inadequate, it is clear that of the three known components this is the one in which most progress has been made—and this despite the unsatisfactory trend in the external sector as regards terms of trade, protectionism, and foreign currency financing on suitable terms. Reiteration of the adjustment efforts is increasingly straining the people's capacity to bear their consequences, and the programs are floundering in an intolerable vicious circle.

There is therefore an urgent need to accept that the debt topic calls for a cooperation agreement among the countries involved that recognizes the harmful efforts of heavy debt-service obligations on the international economy and finances and, accordingly, provides for realistic and resolute support on the part of the governments of the industrial countries, the multilateral agencies, and the private banks, all in their own sphere.

In addition, if the macroeconomic adjustment programs and structural changes in the debtor countries are to contribute effectively to a solution of the debt problem, it is essential that our economies be able to export their products and benefit from income growth in the industrial countries.

Unfortunately, increased trade activity has not been accompanied by reduced protectionism; on the contrary, restrictive practices have been intensified. Trade policies are certainly not helping to correct the imbalances among the industrial countries and between these and the developing countries. Restrictive agreements and measures have been stepped up even in sectors that in times past were subject to quantity controls, as is happening in agriculture, textiles, and clothing.

Another factor that is hampering solution of the debt problem is the recent rise in prices in some of the industrial economies. Higher inflation reduces the level of imports that can be financed out of expanded export earnings, and higher interest rates swell the debt service burden. At the same time, a reduction in imports diminishes the GDP growth potential of the debtor countries, while high interest rates raise the volume of net transfer of resources to the creditor countries.

External Financing Flows: The Example of Colombia

The availability of financing is obviously an essential element of debt strategy. The amount and terms of such financing will be such as to enable the countries of Latin America and the Caribbean to reverse the flow of external resources, and this in turn will facilitate the growth of their economies and consolidation of their social and political stability. On this point, I should like

to refer to the case of Colombia, which I believe adequately illustrates what is happening in the market.

Following a process of resolute macroeconomic reordering, Colombia has regained its rate of growth, with average annual growth of 5 percent during the last three years. The necessary policies have been adopted to introduce structural changes into the tax system, trade, and the financial sector. The fiscal deficit has been reduced below 3 percent of GDP, inflation has fluctuated, in accordance with Colombian patterns, around 20 percent, unemployment has been reduced by 4 percent in two years, and the country's international reserves are currently sufficient to cover six months' imports of goods and services. Economic management is thus contributing decisively to enhanced efficiency in resource allocation.

At the same time, Colombia has been unfailingly honoring its debt service obligations, with respect to both principal and interest, while its debt level indicators have improved substantially.

Our economy requires commercial bank loans for the next few years in amounts equivalent to our capital amortization payments; the Government is currently negotiating a credit operation for an amount slightly below that sum. In view of its particularly good performance toward its creditors and excellent macroeconomic policy management, Colombia ought to be able to conclude this operation without difficulty; otherwise, we would face a sudden negative transfer of resources, which is unacceptable in view of our requirements.

Despite some difficulties, Colombia is confident that, as a country that is known for its capacity to pay and its desire to be a good debtor, the private banks will respond favorably and promptly to its request. We believe that the good economic management achieved during the last few years and the firm line taken to preserve Colombia's good reputation on the international financial markets cannot be set aside because of arguments, unrelated to Colombia, that would seriously question the capacity of the system to assume its responsibilities in relation to the existing resource requirements.

At recent meetings of the Fund and the Bank, and in other forums, the Latin American countries have repeatedly pointed out that the debt crisis continues to go unresolved in spite of the efforts made to correct the existing disequilibria. The case of Colombia—should the operation now being negotiated not meet with success—could highlight even more clearly the limitations of the financial system with respect to implementation of the debt strategy and the impossibility of returning to market mechanisms even with a solid history of good macroeconomic performance.

Function of the Official Credit Institutions

Emphasis needs to be laid on the positive aspect of the changes in International Monetary Fund and World Bank policies to provide an increased flow of

financing on terms more in line with the duration of the adjustment programs and to ensure that these in turn serve as catalysts for funds from other sources. We recognize the contribution that the structural adjustment lending programs and compensatory and contingency financing facilities can make.

It is nevertheless a matter for concern that utilization of Fund resources in relation to access limits has fallen from 60 percent in 1980 to 43 percent, and that both the International Monetary Fund and the World Bank are lending lower amounts of resources than they are receiving from amortization of existing loans and thereby swelling the net transfer of financial resources from Latin America and the Caribbean to the rest of the world.

The Fund's enlarged access policy must continue at least until total Fund quotas have increased to a level consistent with the volume of world economic activity.

The Governors of the countries that I represent reiterate that it is necessary that Fund quotas be at least doubled to enable it to perform the functions incumbent upon it in relation to orderly functioning of the international monetary system and adequate financing of adjustment programs adopted by growth-oriented member countries.

We urge the few countries that are still opposed to regular allocations of SDRs to reconsider their position. Regular allocations would facilitate the adjustment-with-growth programs of the developing countries and improve the functioning and stability of the international monetary system.

Until now, we have clearly been in a dilemma in our efforts to resolve the serious debt problems. The heavily indebted countries are advised to reform their economic policies in order to make growth more viable; in general, the necessary adjustments have been undertaken. In addition, creditors have offered to increase financing in order to facilitate a solution, but the result has been the contrary: a net reduction in available external funds, with the resulting prolongation and aggravation of the crisis.

The mechanisms designed so far have not fully achieved their aim of mitigating the debt burden. This Berlin (West) meeting should open up new avenues and outlets from this dilemma, including, of course, the case of the medium-income debtor countries. There has been a lot of talk of debt forgiveness and partial remission and reduction or capitalization of interest; schemes have been outlined, such as that put forward by Japan calling for active participation by the industrial country governments and international agencies. In addition, it is being stressed that the private banks have increased their capital and provisions in order to strengthen their financial capacity to handle the consequences of the debt.

All these considerations are indicative of a commitment on the part of official authorities and of the multilateral institutions to resolve the problem of

the serious limitation of resources faced by the debtor countries. It is urgent that this objective be turned into reality very quickly. This will call for a political commitment by all the parties involved, in order to resolve this already intolerable situation once and for all and to restore to our countries their capacity for growth and thereby avoid the indisputable social and political risks latent in the countries that face the serious dilemma of the debt problem.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Pramual Sabhavasu

As the incoming Minister of Finance of the Kingdom of Thailand, I am honored to address for the first time the Joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank. On behalf of His Majesty's Government, I wish to reaffirm Thailand's real commitment to the principles embodied in the establishment of the International Monetary Fund and the World Bank Group. I pledge our continued cooperation to the Fund and to the Bank in promoting sustained economic and social development, the maintenance of international financial and monetary stability, and the efforts to further the cooperation between the industrial and developing member countries for mutual benefits.

On this occasion I wish to speak only on a few points of crucial interest to Thailand and to the developing member countries.

The areas of concern are the growing uncertainty in the world economy, the ongoing debt crisis, the concurrent problem of a dwindling flow of official development assistance (ODA) as well as commercial resources flowing to the developing countries, and trade protectionism. The Fund and Bank will require strong support and effective leadership in order to assist member countries to overcome these problems.

Some progress has been made toward the reduction of external imbalances, which in the recent past have been the main source of instability in the currency and financial markets. The wild fluctuations in these markets have imposed an additional burden on developing countries that have to rely on external capital to finance their development. As well, it has hindered the growth in world trade.

It is imperative that the Group of Seven take effective action to coordinate more closely their own domestic policies to bring about less volatility in the world currency and financial markets. The prerequisite for an improved transfer of resources and a reduction of the debt burden of developing countries requires early action. We welcome the continuing consultations

undertaken at the summit but believe that the Fund and the Bank are also effective forums for such dialogues.

I urge the Fund and the Bank to monitor closely the developments of the discussions and, as a first step, introduce a cooperative dialogue, possibly through the Development and Interim Committees.

The growing threat of protectionism is another problem we cannot afford to ignore. Fair and free trade is vital to the sustained development of the world economy. Trade creates jobs, fosters growth, and raises social conditions. Any action that limits market access will only create tension and result in economic downturn. We therefore must make every effort to keep protectionist pressure in check and to bring down all artificial barriers that exist today. I urge the Development Committee to take up this issue in real substance and not merely to note the progress or the lack of it in the Uruguay Round.

As to the debt crisis, it is very disappointing that progress toward resolving this problem has been slow in coming. I welcome recent efforts by industrial countries and by the Fund and Bank to resolve this situation through debt consolidation, negotiations to restructure and reschedule debts, the launching of the enhanced structural adjustment facility, and the assistance provided to assist developing countries adjust their economies. . . .

At the same time, the International Monetary Fund must be in a position to support the efforts of individual nations that seek to adjust their economies to the changing world economic environment. A substantial increase in quotas would be of crucial importance in enabling the Fund to play an effective role in supporting members' adjustment efforts. I support at least a doubling of quotas. The early payment of overdue obligations to the Fund is also an essential condition for the maintenance of the Fund's active role and financial integrity.

With regard to the distribution of increases, tnere are, as we know, differing opinions. Some members favor maintenance of the status quo, while others prefer to see quota allotments reflective of the individual nations' respective position in the world economy. We should not allow these differences to mar the overall objective. Thus, I urge this gathering to take the middle path—that is, to opt for a 50:50 ratio between equiproportional and selective increases. And until a substantial increase comes into effect, it would be illogical to reduce access limits.

I welcome the establishment of the Multilateral Investment Guarantee Agency (MIGA). I am convinced that MIGA will play a crucial role in attracting much-needed direct foreign investment to developing countries. I congratulate Mr. Terasawa on his appointment as the first Executive Vice President of MIGA.

It is important to reiterate, however, that all these efforts to promote the welfare of the developing countries and to further world economic growth will

not bear fruit without a conducive environment. For the benefit of debtors and creditors, industrial and developing countries alike, it is of utmost importance that the industrial countries open their markets and coordinate their policies to promote lower interest rates and lessen exchange rate fluctuations. . . .

In closing, I wish to express my delegation's sincere appreciation to the Government and the people of the Federal Republic of Germany for their warm hospitality and the excellent arrangements made for these Meetings. I also wish to extend our warmest welcome to all at the 1991 Annual Meeting in Bangkok.

Statement by the Governor of the Bank for Austria

Ferdinand Lacina

First of all, let me express my most sincere thanks to our German hosts for the provision of the excellent facilities and the warm welcome extended to us.

Our deliberations are taking place in the context of a world economy that seems to have overcome, with remarkable ease and speed, the psychological and economic shocks of the October 1987 stock market crash. Indeed, with output in the industrial countries growing strongly, world trade booming, and inflation held to satisfactorily low levels, the actual course of economic development has surpassed the most optimistic forecasts. In Austria, for one, growth rates for 1988, originally forecast at 1.5 percent, have recently been revised upward to 3.5 percent, the fastest growth rate recorded in the last ten years.

However, we should not give in to complacency. Unemployment at the international level is still unacceptably high and does not show any change for the better. In contrast, in my country, unemployment is far below the Western European average, with the rate of unemployment even declining since autumn of last year.

The large external imbalances in the world are receding rather slowly. The restoration of equilibria in the external accounts would be greatly helped by adequate fiscal policies. The new multilateral trade round has been launched in a positive spirit and is indeed the most comprehensive one in the history of the General Agreement on Tariffs and Trade (GATT). Nevertheless, little progress has been made in the efforts to reverse protectionism. Unfortunately, recent trade legislation in the United States points in a different direction.

The industrial countries have the obligation to create an environment conducive to exports and growth in the developing countries. Adequate policies by industrial countries to increase employment and to substantially reduce external imbalances seem to be a necessary condition not only for the

industrial countries but also for the establishment of a framework for solving developing countries' problems—in particular, the debt problem.

For most debtor countries, and especially the heavily indebted developing countries, the underlying situation has hardly changed. Growth, incomes, imports, and employment remain depressed by the large debt overhangs that require these countries to restrain demand in order to generate the trade surpluses needed to service debt. After fiscal and monetary retrenchment has dragged on for years without tangible improvements in living standards and growth prospects, the continued pursuit of adjustment policies is meeting with increasing fatigue. Under these circumstances, the adjustment programs of some major debtor countries have deviated substantially from their intended course of restoring sound financial policies and fundamentally reforming economic structures.

An additional problem arises from the reluctance of commercial banks to contribute to the financing of indebted countries. The fall in the market value of claims on debtor countries has posed a major barrier for continuing the concerted lending approach. In this situation, the Fund and the World Bank have to assume a more vigorous role than in the past in providing, as well as mobilizing, financing from other sources. Adjustment lending should be made available to the countries concerned according to economic circumstances. In order to ensure the quality of the World Bank portfolio, regional concentration of adjustment lending should be avoided.

The opportunities for mobilizing funds from sources other than development assistance will increase with the quality of policies pursued by debtor countries. I therefore urge the Bretton Woods institutions to assist in the formulation of programs that take into account the political and social circumstances of the countries concerned.

The role of the Fund and the Bank in designing such policies is an essential part in the restoration of these countries' creditworthiness. To this end, cooperation between the Fund and the Bank has to be intensified further. The Bretton Woods institutions have to regularly review the adequacy of their role, policy advice, and financing, and react in time to new developments. Here, the introduction of the compensatory and contingency financing facility will help prevent adjustment from being thrown off track by unforeseen swings in key economic factors.

Some headway has been made on the debt issue. The variety of dishes under the menu approach has been increased with longer repayment periods and the offering and application of new, technically innovative instruments and debt-reduction schemes. We also appreciate and support new initiatives by the Paris Club.

This brings me to the problems of low-income countries, which, in many respects, are distinct from those of middle-income countries. While in the

past, some low-income countries were considered eligible for financing at commercial terms, we have to recognize now that, for a number of years, most of these countries will need substantial financial support on very concessional terms. The debt problem of these countries will undoubtedly require a generous approach of all parties involved.

In this context, let me congratulate the Fund and the Bank for their initiatives regarding these countries. Policy framework papers have contributed to better Fund-Bank cooperation but also to a better understanding of the low-income countries' problems by donors and creditors, thereby increasing the coordination as well as the financing of adjustment and economic reform. In the light of this positive experience, the use of policy framework papers would seem advisable for middle-income developing countries too.

The adoption of the enhanced structural adjustment facility (ESAF) has added a new dimension to Fund policies. Like other countries, Austria has committed itself to contribute to this new facility. Let me commend particularly Mr. Camdessus for finalizing this innovative financing instrument within such a short period of time. I regret, however, that some industrial countries have not yet committed funds to ESAF. The lack of such vital support might also weaken the collaborative efforts to settle the arrears to the Fund. . . .

Let me turn now to poverty, the major threat to our future. We have to combat poverty not only for human considerations but for social, environmental, and economic reasons as well. For too long it has been assumed that economic growth would be sufficient to improve the plight of the poor. Unfortunately, these hopes have not materialized. It has become clear that poverty can be only attacked with specific measures. The Fund and the Bank should support special programs for this war against poverty.

In its development policy, Austria has traditionally aimed at poverty alleviation and therefore appreciates the increased attention the Fund and the Bank are paying to this problem. Realistically speaking, the new approach to combat poverty will require increased staff input on the side of the World Bank.

We all know that poverty leads not only to human but also to environmental degradation. Mere complaints about devastation of nature in the Third World and about excessive exploitation of natural resources do not get us very far if we are not willing to actively support and implement measures aimed at eliminating poverty. The environmental problems and the means to tackle them in low-income countries are different from those of most industrial countries. It is the quest of Third World countries for economic development and for repaying their debts that leads to a situation that the industrial countries are complaining about. We should be aware that it is not only to the benefit of people in developing countries to maintain a sound natural environment but to the benefit of all of us. In the first instance, the solution to this problem can be

eased by giving a fair chance to people in developing countries. Furthermore, in allocating development assistance, we therefore have to pay more attention to projects in this sector. I urge the Bank to include environmental aspects in its project design and also to act as a promoter of specific projects aiming at environmental improvement.

Finally, let me come to a crucial point, the financial strength of the Bretton Woods institutions. In this period of reduced financing from commercial banks, we have to strengthen the multilateral institutions by providing them with adequate financial resources. Postponement of the Ninth Quota Review is as wrong a sign as delaying the approval of the World Bank's capital increase. Austria supports a substantial increase in Fund quotas and also believes that a new allocation of SDRs is warranted. Austria has already signed her shares in the general capital increase of the World Bank. Considering the increasing number of countries that need concessional funds, we also favor a substantial replenishment of the International Development Association (IDA), which may help in reversing the direction of the flow of funds between First and Third World countries.

In concluding, I want to stress the need for adequate financial support for developing countries undergoing adjustment. This support should be adequate not only to maintain economic activity during the adjustment period but also sufficient to finance the investments necessary to ensure sound economic development and to improve living standards.

Statement by the Governor of the Bank for Bangladesh

A.K. Khandker

Let me start by joining my fellow Governors in congratulating you, Mr. Chairman, on your election as Co-Chairman of the Joint Annual Meetings. We are meeting in the historic and beautiful city of Berlin (West). On this occasion, I would like to express my appreciation to the Government of the Federal Republic of Germany and the people of Berlin (West) for their warm hospitality and excellent arrangements made for these meetings, and more so to the spirit of Berlin, so eloquently espoused by its governing mayor.

I come from Bangladesh, a low-income country in South Asia with 105 million people. As you are well aware, the country is prone to natural disasters—floods and cyclones visit us almost every year causing widespread damages to human lives, crops, properties, and infrastructures. Our development efforts are throttled by natural disasters. Last year, we had a devastating flood, the worst in the last few decades, causing untold human suffering and material losses.

Before the country could fully recover, we were affected by history's worst flood. Three fourths of the country was under water, more than 40 million people lost their homes, and crop loss has been estimated at 3 million tons. Damage to infrastructures was so severe and extensive that providing food, medicine, and drinking water to the flood-stricken people itself became a task of gigantic magnitude.

We have embarked on a massive relief and rehabilitation program. On this occasion, I would like to express our deep gratitude to the international community for its understanding and generous help in our efforts. But in such a situation our needs are enormous, and we hope that in our subsequent efforts to implement the massive rehabilitation program, continued and enhanced cooperation from the international community will be forthcoming. In Bangladesh, the frequent visitations of devastating floods call for serious examination of the problem and entail extensive flood protection measures and water management on a regional basis.

There is now a recognition of the close link between poverty, environmental degradation, and long-term sustainable development. It will be too much for the struggling millions in the delta to recurrently bear the scourge. In the solution of this serious problem, we hope that the World Bank will play its deservingly significant and important role. Here, I refer to the very inspiring and thought-provoking observations made by Chancellor Kohl. He said, and I cannot but quote him, for I have no better words: "It would be a Pyrrhic victory if increased prosperity could be gained at the expense of destroying our vitally essential environment." Let these words and all that he said in this regard set the pattern for development in the coming decades and influence and guide our programs for development.

The financial year 1988 marked some notable achievements in both Bretton Woods institutions. . . . On the Fund side, the enhanced structural adjustment facility for the low-income countries came into existence. I congratulate Mr. Conable and Mr. Camdessus for their leadership and sagacity and the member countries for their understanding and cooperation in attaining these accomplishments.

The world economic outlook over the medium term does not hold much promise for us. The world economy still faces uncertainties and major problems. Growth in the industrial countries showed some improvement in 1988, but it is threatened by their serious fiscal and external imbalances; in the developing countries, it was uneven and continued to be inadequate, due to the low level of financial flows, heavy debt burdens, considerably weakened commodity prices, mounting protectionism in the industrial countries, and sluggish demand for their exports. Concerted actions for strengthening macroeconomic policy coordination by the industrial countries is an imperative to having the world economy achieve the relatively higher growth scenario projected in the World Development Report for 1988.

The debt issue still hangs heavy on the developing countries. For highly indebted middle-income countries, a new innovative approach encompassing interest rate reduction, debt-equity swaps, the transfer of market discounts to debtor countries, and the provision of new money will be necessary. In spite of some new initiatives, the debt burdens of the low-income countries are still untenable. We are encouraged by several donors' proposals to reduce the debt burdens of the low-income countries. We endorse the recommendations of the Group of Twenty-Four Ministers for extending debt relief to low-income countries and for debt reconstruction by multilateral financial institutions.

The most critical issue confronting us today is the flow of financial aid to the developing countries. Since the debt crisis has emerged there has been a marked contraction of flows. This is disquieting. The President of the World Bank, in his report to the Development Committee, rightly expressed his concerns about the inadequacy of resource flows, and called upon national governments, international institutions, and private banks to increase substantially the total flows for resumption of growth and development.

The official development assistance (ODA) flows on which the low-income countries are heavily dependent also declined as a proportion of gross domestic product (GDP) of donor countries. In real terms, ODA fell by 5.4 percent in 1987 over 1986 levels, although some donor countries have significantly increased their assistance. A substantial increase of ODA flows is necessary for the resumption of growth and the alleviation of poverty, particularly in the least-developed countries. This has been recognized by the Task Force on Concessional Flows, which called on the developed countries to redouble their efforts as a matter of urgency to reach the internationally agreed target of 0.7 percent of their GNP.

The resurgence of protectionism in the developed countries, mainly through nontariff barriers, is of serious concern for us. It is gradually intensifying and expanding to new areas, hindering the growth prospects of the developing countries—it is costing them more than the amount of resources they receive as ODA. The developing countries have liberalized their trade and industrial regimes as part of the structural adjustment and economic reforms undertaken on the advice of the Bank and the Fund, only to find that their exports have limited access to the industrial markets. We look forward for the current round of the General Agreement on Tariffs and Trade (GATT) negotiations for a liberal international trade environment. . . .

We welcome the establishment of the Fund's enhanced structural adjustment facility, but the programs will be helpful only when there is a reorientation of conditionality favoring growth-oriented adjustment and performance criteria set in a flexible manner. The agreement on the Ninth General Review of Quotas has already been delayed; a new SDR allocation is still pending. We endorse the recommendations of the Group of Twenty-Four Ministers that a doubling of quotas and new SDR allocations of $30 billion will improve the

international monetary system and enhance the capacity of the Fund to support adjustment and growth. . . .

The present global economic environment is a challenge for both the industrial and the developing countries. We may refuse to respond, but this will only be at the risk of global economic instability, stagnation, and widespread poverty in the developing countries. This is neither desirable nor in the interest of any one of us. Only understanding and cooperation among all of us can make the global economic environment congenial for development and growth. Let me conclude with an optimistic note: we shall jointly respond and face the challenge. Let this be the message of Berlin.