Summary Proceedings

of the Fifty-Second Annual Meeting
of the Board of Governors

September 23–25, 1997

International Monetary Fund
Washington, D.C.
## CONTENTS

**Page**

<table>
<thead>
<tr>
<th>Introductory Note</th>
<th>vii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address by the Premier of the State Council of the People's Republic of China, <em>Li Peng</em></td>
<td>1</td>
</tr>
<tr>
<td>Address by the Chief Executive of the People's Republic of China, <em>Tung Chee-Hwa</em></td>
<td>6</td>
</tr>
<tr>
<td>Opening Address by the Chairman of the Boards of Governors, and Governor of the Bank and the Fund for the United Arab Emirates, <em>Mohammed K. Khirbash</em></td>
<td>9</td>
</tr>
<tr>
<td>Opening Address by the President of World Bank Group, <em>James D. Wolfensohn</em></td>
<td>15</td>
</tr>
<tr>
<td>Presentation of the Fifty-Second Annual Report by the Chairman of the Executive Board and Managing Director of the International Monetary Fund, <em>Michel Camdessus</em></td>
<td>26</td>
</tr>
<tr>
<td>Report to the Board of Governors of the International Monetary Fund by the Chairman of the Interim Committee of the Board of Governors on the International Monetary System, <em>Philippe Maystadt</em></td>
<td>34</td>
</tr>
<tr>
<td>Report to the Boards of Governors of the Bank and the Fund by the Chairman of the Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries (Development Committee), <em>Dris Jettou</em></td>
<td>37</td>
</tr>
</tbody>
</table>

**Statements by the Governors for**

<p>| Albania | 39 |
| Armenia | 42 |
| Australia | 44 |
| Austria | 47 |
| Bahamas, The* | 52 |
| Bangladesh | 55 |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>59</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>64</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>71</td>
</tr>
<tr>
<td>Cambodia</td>
<td>75</td>
</tr>
<tr>
<td>Canada</td>
<td>78</td>
</tr>
<tr>
<td>Chile*</td>
<td>82</td>
</tr>
<tr>
<td>China, People’s Republic of</td>
<td>87</td>
</tr>
<tr>
<td>Colombia*</td>
<td>90</td>
</tr>
<tr>
<td>Cyprus</td>
<td>94</td>
</tr>
<tr>
<td>Egypt*</td>
<td>96</td>
</tr>
<tr>
<td>Ethiopia*</td>
<td>102</td>
</tr>
<tr>
<td>Fiji</td>
<td>107</td>
</tr>
<tr>
<td>Finland*</td>
<td>110</td>
</tr>
<tr>
<td>France</td>
<td>113</td>
</tr>
<tr>
<td>Germany</td>
<td>117</td>
</tr>
<tr>
<td>Greece</td>
<td>119</td>
</tr>
<tr>
<td>Iceland*</td>
<td>122</td>
</tr>
<tr>
<td>India</td>
<td>125</td>
</tr>
<tr>
<td>Indonesia</td>
<td>128</td>
</tr>
<tr>
<td>Iran, Islamic Republic of</td>
<td>134</td>
</tr>
<tr>
<td>Iraq</td>
<td>138</td>
</tr>
<tr>
<td>Ireland</td>
<td>140</td>
</tr>
<tr>
<td>Israel</td>
<td>142</td>
</tr>
<tr>
<td>Italy</td>
<td>146</td>
</tr>
<tr>
<td>Japan</td>
<td>148</td>
</tr>
<tr>
<td>Korea</td>
<td>153</td>
</tr>
<tr>
<td>Lao People’s Democratic Republic</td>
<td>156</td>
</tr>
<tr>
<td>Libyan Arab Jamahiriya</td>
<td>159</td>
</tr>
<tr>
<td>Lithuania*</td>
<td>161</td>
</tr>
<tr>
<td>Luxembourg*</td>
<td>163</td>
</tr>
<tr>
<td>Malaysia</td>
<td>167</td>
</tr>
<tr>
<td>Malta</td>
<td>170</td>
</tr>
<tr>
<td>Mongolia</td>
<td>174</td>
</tr>
<tr>
<td>Myanmar</td>
<td>176</td>
</tr>
<tr>
<td>Nepal</td>
<td>179</td>
</tr>
<tr>
<td>Netherlands</td>
<td>181</td>
</tr>
<tr>
<td>New Zealand</td>
<td>183</td>
</tr>
<tr>
<td>Pakistan</td>
<td>191</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>195</td>
</tr>
<tr>
<td>Paraguay</td>
<td>201</td>
</tr>
<tr>
<td>Philippines</td>
<td>203</td>
</tr>
<tr>
<td>Poland</td>
<td>207</td>
</tr>
</tbody>
</table>

*Speaking on behalf of a group of countries.
Portugal ................................................................. 209
Russian Federation .................................................. 212
Samoa* ............................................................... 216
Spain ................................................................. 218
Sri Lanka ............................................................ 221
Swaziland ............................................................ 224
Switzerland .......................................................... 228
Tajikistan ............................................................ 231
Thailand ............................................................... 234
Tonga ................................................................. 238
Turkey ................................................................. 240
Ukraine ............................................................... 243
United Kingdom ..................................................... 245
United States ......................................................... 251
Vietnam .............................................................. 254

Concluding Remarks

Statements by

The Governor of the Fund for Austria,
Klaus Liebscher ..................................................... 257

The President of the World Bank Group,
James D. Wolfensohn .............................................. 258

The Chairman of the Executive Board and
Managing Director of the International Monetary Fund,
Michel Camdessus .................................................. 261

The Chairman of the Boards of Governors and Governor
of the Bank and the Fund for the United Arab Emirates,
Mohammed K. Khirbash ......................................... 264

DOCUMENTS AND RESOLUTIONS OF THE BOARD OF GOVERNORS

Schedule of Meetings .................................................. 269
Provisions Relating to the Conduct of the Meetings ............... 270
Agenda .................................................................. 271

Reports of the Joint Procedures Committee

Report II ............................................................... 272
Report III ............................................................. 273

Resolutions

52-1 Amendment of Section 5 of the By-Laws of the Fund .... 275

*Speaking on behalf of a group of countries.
52-2 Salary of the Managing Director .................................. 275
52-3 Direct Remuneration of Executive Directors
    and Their Alternates ........................................... 276
52-4 Special One-Time Allocation of SDRs—Proposed
    Fourth Amendment of the Articles of Agreement .......... 276
52-5 Financial Statements, Report on Audit, and
    Administrative and Capital Budgets ......................... 280
52-6 Appreciation .................................................. 280

Interim Committee of the Board of Governors on the
International Monetary System

Press Communiqué (September 21, 1997) ....................... 281
Statement of the Interim Committee on the Liberalization of
Capital Movements Under an Amendment of the Articles .... 285
Composition (as of September 21, 1997) ........................ 287

Joint Ministerial Committee of the Boards of Governors of the
Bank and the Fund on the Transfer of Real Resources to
Developing Countries (Development Committee)

Press Communiqué (September 22, 1997) ....................... 288
Composition (as of September 22, 1997) ........................ 291

Attendance

Members of Fund Delegations .................................... 292
Observers, Representatives of International
    Organizations, and Special Invitees ......................... 318

Executive Directors, Alternates, and Advisors ............... 322

List of Abbreviations .............................................. 323
INTRODUCTORY NOTE

The Fifty-Second Annual Meeting of the Board of Governors of the International Monetary Fund was held in Hong Kong, Special Administrative Region, from September 23 through September 25, 1997, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Mohammed K. Khirbash, Governor of the Bank and the Fund for the United Arab Emirates, served as Chairman.

These Proceedings include statements presented by Governors during the meetings, resolutions adopted by the Board of Governors of the Fund over the past year, reports, recommendations, or communiqués issued by the Committees of the Board of Governors at the time of the meetings, and other documents relating to the meetings.

Statements by the Governors are listed in alphabetical order by country on pages iii–v, and a list of abbreviations used in the statements and documents is given on page 323.

REINHARD MUNZBERG
Secretary
International Monetary Fund

Washington, D.C.
November 3, 1997
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ADDRESS BY THE PREMIER OF THE STATE COUNCIL OF THE PEOPLE’S REPUBLIC OF CHINA¹

Li Peng

Today, the 1997 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund open solemnly in the Hong Kong Special Administrative Region of the People’s Republic of China. On behalf of the Chinese government and people, I would like to extend our warm congratulations on the convocation of the Annual Meetings and our sincere welcome to all the delegates and honored guests. I am convinced that, with the concerted efforts of all of you, these meetings will yield rich results.

The Annual Meetings constitute the largest international conference held in Hong Kong since its return to the motherland and the first such meetings ever held in China. They are therefore of great significance for promoting mutual understanding, exchanges, and cooperation among various parties.

As a Chinese saying goes, “saying it once is better than hearing about it a hundred times.” Now that you are in Hong Kong, you can see with your own eyes that the Chinese government’s basic policies of “one country, two systems,” “Hong Kong people administering Hong Kong,” and “a high degree of autonomy” have been carried out in earnest, and the Special Administrative Region (SAR) government headed by Mr. Tung Chee-Hwa is operating normally and effectively in accordance with the “Basic Law.” We are confident that the SAR government and the Hong Kong people will do a good job in running and building Hong Kong. It can be predicted that Hong Kong’s future will be more splendid. Hong Kong, in its continued capacity as a free port and an international financial, trade, and shipping center will play an even more active role in strengthening the economic cooperation between China’s mainland and other countries in the world.

The just-concluded Fifteenth National Congress of the Chinese Communist Party was an extremely important meeting, held at the turn of the century. It was a meeting about building on the past and preparing for the future. The main message I bring to you today is that the Congress has identified the Deng Xiaoping Theory as our guiding ideology, after drawing upon the experience of the past two decades of reform, opening up, and a socialist modernization drive; that, in control of the situation, our

central collective leadership with President Jiang Zemin at the core is strong and enjoys the support of the whole party and the entire population; that China's political situation is stable; that the reform and opening-up policies will not only remain unchanged, but also continue to develop; and that the cause pioneered by Deng Xiaoping will not only go on, but make even greater progress.

The period from now to the end of the first decade of the next century, during which we must properly fulfill two tasks, is crucial for China's modernization. One task is to establish the complete structure of a socialist market economy, and the other is to maintain the sustained, rapid, and sound development of our national economy. It is expected that in the last few years of this century, the Chinese economy will maintain a growth rate of more than 8 percent, while inflation will be kept under 5 percent. In the first 10 years of the next century, the Chinese economy will continue to grow at about 7 percent. So, with effort for another three to four decades, that is, by the middle of the next century, China will achieve all-around modernization and become a prosperous, democratic, and culturally advanced socialist country. We must actively promote a fundamental shift in both the economic structure and the mode of economic growth, continue to deepen reform, and effect breakthroughs in the reform and transformation of state-owned enterprises and the diversification of the forms of public ownership. According to the latest statistics, since the reform and the opening up, Sino-foreign joint ventures, which represent a form of mixed economy, have made marked progress, as they now make up 20 percent of China's total GDP, including 7 percent from the public economic elements of these joint ventures. Generally speaking, the mixed economic sector enjoys advanced technologies, scientific management, and high economic returns. In the course of the development of the mixed economy, the public sector has also made progress. We will implement a policy of national rejuvenation through science and education and a strategy of sustainable development, and we will achieve coordinated socioeconomic development and overall social progress. These goals are magnificent and, with hard work, entirely achievable. This is because we have already found the road of development suited to China's national conditions; we have secured a stable social and political situation; we have acquired a solid material and technological base; and we are possessed of a large market and rich resources. And, finally, we have 1.2 billion industrious and talented people.

Unswervingly carrying out its policy of opening up, China will work energetically to embrace the world by continuing to improve its all-directional, multilayered, and extensive pattern of opening up. The economic development of China is closely linked with that of the world. A prosperous Chinese economy needs a substantial absorption of advanced technologies, capital, and management expertise from abroad. To meet the
needs under the new situation of reform, opening up, and economic development, the Chinese government has decided to further lower its tariff level by 26 percent in general and to adopt preferential policies on the access of new and high-tech equipment and practical advanced technologies to China. China's vast market and enormous growth potential will undoubtedly provide even more opportunities for its cooperation partners and instill vigor into global and regional economic development.

Mankind is about to enter the twenty-first century. Reviewing the past century, we see stupendous and far-reaching changes in the world scene. Having freed themselves from imperialist and colonialist domination and won national liberation and independence after centuries of foreign oppression and enslavement, developing countries find themselves now on the world stage with a completely new image and growing ranks. Thanks to their unremitting efforts of several decades, the overall strength of developing countries has increased remarkably, their international status has risen, and the prospects for their economic growth look promising. The rise of developing countries is a far-reaching event in the present-day world. It has smashed the monopoly on world affairs by a few countries and lent a powerful impetus to the movement toward a multipolar world.

We must not forget that 1.3 billion people in the developing world are still struggling in poverty. Economic disparities among countries are staggering as the gap between the rich and the poor continues to widen, and the unjust and inequitable international economic order still puts the interests of the developing countries in harm's way. If these problems remain unresolved, the developing countries cannot become developed, and neither can the existing developed countries sustain their growth. The world economy is an interrelated whole. As much as the developing countries need the developed countries, the developed countries cannot stand without the developing countries. To sustain their prosperity, the developed countries must have markets for their goods, outlets for their capital, and suppliers of the raw materials they need—for all of which they must look to the developing countries for answers. If the developing countries enjoy economic development and social stability, this will increase the capacity of the world market, create more commercial and job opportunities for all countries, and generate tremendous benefits. Conversely, if their economy is sluggish and society turbulent, there will be no peace and tranquility in the world. The prosperity and affluence of a small number of countries cannot last long on a foundation of poverty and backwardness of the majority countries. When we approach this issue, we must have in mind cross-century development and all of mankind.

Creating favorable conditions and helping developing countries achieve sustainable development is a shared responsibility of the international community and an important task of international financial institu-
tions. In this connection, I would like to set forth six propositions of principle as follows:

First, full attention should be given to the urgent development needs of the developing countries. Since the end of the cold war, some people have not regarded development as a crucial issue. This view fails to consider the whole picture. In fact, the question of development bears on the future destiny of the world, which calls for proper attention. If the international community wants to concentrate on developing the economy in a peaceful and tranquil environment, then it cannot afford to ignore the reasonable demands of the developing countries and must attend to their concerns over finance, debt, trade environment, and poverty issues. The international community, developed countries in particular, should take a long-term view and adopt effective measures to meet their pledges of providing monetary and technical assistance to the developing countries so as to make appropriate contributions to their development.

Second, extensive cooperation should be conducted on the basis of quality and mutual benefit. There are about 200 countries in the world, and all of them—big or small, rich or poor, strong or weak—are equal members of the international community. Trade discrimination and exchanges of unequal values in economic relations should be opposed. Such practices as bullying the weaker or less fortunate by dint of one's power or wealth should not go unchecked; still less should countries be allowed to impose sanctions against others, or threaten to do so, at every turn. The developing countries are equally entitled to participate in the decisions and rules affecting the international economy.

Third, the right of every country to independently choose its social system, mode of development, and lifestyle should be respected. Countries differ from one another in historical background, social system, level of development, cultural tradition, and value system. Such diversity is a fact of life that we must face squarely. Indeed, we can very well regard these differences as something favorable for greater cooperation and exchanges if we can pursue common ground while reserving differences and refrain from interfering in each other's internal affairs. In no circumstances should any country be allowed to impose its social system and ideology on others. Assistance has always been mutual. And economic assistance must not be attached to any political conditions.

Fourth, countries should learn from each other and complement each other with their respective advantages. Both the developed and the developing countries have their own strengths and advantages. The developed countries are advanced in science and technology and strong in financial capital, while the developing countries are rich in natural and human resources and large in market potential. The economic interdependence between the two groups is increasing steadily. Faced with such increasingly serious global issues as environment, poverty, debt, and refugees, the two
sides will find it hard to cope with the challenges unless they can learn from and complement each other and work together to bring about common prosperity.

Fifth, it is essential to choose a development road suited to one's own national conditions. True, developing countries need a favorable external environment in order to eliminate poverty and achieve economic takeoff. Yet in the final analysis, they must depend on their own efforts. Proceeding from their actual situation at home and in light of their needs and possibilities, the developing countries should work out effective domestic policies and actively conduct economic restructuring in response to shifting economic and technological trends in the world. At the same time, South-South cooperation in every field should be strengthened and North-South relations improved and further promoted.

Sixth, international cooperation in the financial field should be reinforced. Free flow of capital across national boundaries is a strong feature of the development of the world economy. It can facilitate absorption of capital by various countries but may also carry financial risks. Being prone to such risks, developing countries may also become easy targets for international financial speculation. Financial crises will do no country any good. The international community, international financial institutions included, should play a positive role in maintaining international financial stability.

The World Bank and the IMF, established half a century ago, have played a constructive role in promoting world economic growth, economic exchanges among countries, and economic and social progress of the developing countries. This we must affirm. At present, with the rapid advancement of science and technology and unprecedented expansion of economic cooperation, the world is moving toward multipolarity at an accelerated pace. The World Bank Group and the IMF, as the most influential multilateral financial institutions, will preserve their vigor and hold out a bright future only when they can undergo timely readjustments and reform in keeping with the new and shifting world situation and give expression to the reasonable demands of the developing countries.

Our world needs peace, countries want stability, the economy must develop, and society must make progress. This has become the trend of the times. Let us work together and make our due contribution to the lofty cause of world peace and development. In conclusion, I wish the Annual Meetings complete success.
ADDRESS BY THE CHIEF EXECUTIVE OF THE 
HONG KONG SPECIAL ADMINISTRATIVE REGION 
OF THE PEOPLE’S REPUBLIC OF CHINA¹

Tung Chee-Hwa

Premier Li, Chairman Khirbash, Mr. Wolfensohn, Mr. Camdessus, Ministers, Governors, guests, ladies, and gentlemen, I have much pleasure in welcoming you, distinguished officials and guests from around the world. We are honored that China is the host of the 1997 Annual Meetings of the World Bank Group and the International Monetary Fund and delighted that the Hong Kong Special Administrative Region (SAR) is to act as the host city to you.

Hosting the Annual Meetings this year has a special meaning for Hong Kong SAR. We have just witnessed, on July 1, 1997, our reunification with the People’s Republic of China. The presence of Premier Li and the distinguished guests of the international financial community signifies your strong support for Hong Kong SAR and underlines Hong Kong SAR’s status as a leading international financial center. These prestigious meetings also provide a unique opportunity for our visitors and friends from all over the world to witness firsthand the pride and confidence, and the continuing prosperity and stability, of Hong Kong SAR under the framework of “one country, two systems.”

July 1 has come and gone. We who live and work in Hong Kong SAR continue to work hard for an even more successful and prosperous future. All three branches of our political structure—the executive, the legislative, and the judiciary—have been functioning normally. There has been no change in our lifestyle, and our economy continues to grow. Indeed, recent surveys have shown that 78 percent of the Hong Kong people expressed confidence in Hong Kong SAR’s future.

Hong Kong SAR has achieved remarkable success in the past few decades. Because of our strategic position, Hong Kong SAR has benefited greatly by an increasingly open and global trade and financial system. Part of Hong Kong’s success is also as a result of our promotion of a free competitive environment, strict adherence to the rule of law, minimum bureaucracy, level playing field, and strong commitment against corruption—all provided and supported by an efficient civil service. Our conservative fiscal management and low and predictable tax structure have also contributed greatly to our stability and prosperity.

All the above-mentioned critical success factors for Hong Kong SAR have been enshrined in the Basic Law. The fundamental reason for our confidence is, of course, the old promises of our Basic Law. It is a comprehensive document that was drafted together by people from both Hong Kong SAR and mainland China after some four years of consultation and discussion. The Basic Law provides a constitutional framework for the Hong Kong Special Administrative Region. It institutionalizes the concept of “one country, two systems.” It clearly prescribes the social, economic, and political systems in Hong Kong SAR, which are different from those in mainland China. It protects the rights, freedom, and lifestyle of the Hong Kong people. The Basic Law guarantees the independence of our judiciary and, apart from foreign affairs and defense, it gives us full responsibility to manage our own affairs. It allows us complete financial autonomy and the independence of our monetary system. It establishes Hong Kong SAR as a separate customs territory and enables us to work directly with the international community to curb trade in strategic commodities, drugs, and illegal transshipments, and to protect intellectual property rights. The Basic Law has also established the framework for the democratic evolution of our political structure over the first 10 years, with my election as Chief Executive in December 1996 and the election for the first Legislature scheduled for May 1999. Development beyond the 10-year period will be determined by the views of the people of Hong Kong SAR at that time. The political evolution will continue with universal suffrage as the ultimate objective.

Over the past two decades, Hong Kong SAR has transformed itself successfully from a manufacturing economy to a service economy. Today, more than 70 percent of our workforce is employed in the service sector, contributing to more than 80 percent of GDP. With a GDP per capita of $25,000, we are a leading international financial center.

Hong Kong SAR has achieved this status through the maintenance of sound economic policies. We are proud of our linked exchange rate regime, which remains unshakable despite turbulence in the region. Today we have over $85 billion in foreign exchange reserves, of which about $50 billion constitutes fiscal reserves, with no external debt. Our fiscal surplus this year will exceed 2 percent of GDP, our savings rate continues to exceed 30 percent, and in the past 10 years, we exported on average more than 5 percent of GDP in domestic savings.

These sound fundamentals underline our approach to our role regionally and globally. Hong Kong SAR’s linked exchange rate regime is the anchor of our monetary and financial stability. We do not intend to compete internationally on the basis of exchange rate adjustment. We compete equally and fairly in terms of private sector productivity and public sector efficiency. Our open markets, free trade, and sound finance are the hallmarks of Hong Kong SAR.
Hong Kong SAR has benefited greatly from its strategic position at the heart of the fastest-growing region in the world, an Asia that is increasingly more open to global trade and investments. Asia may be going through a period of consolidation, but I am confident that many of the countries that have suffered from the recent turmoil in the financial market will soon be on a rebound. The continuing rapid growth and development in many parts of Asia will bring new opportunities to Hong Kong SAR.

We are gathered here today for a common objective—international economic and monetary cooperation to achieve stable global development, prosperity, and stability. As an international financial center, Hong Kong SAR is a living symbol of that cooperation. Hong Kong SAR will play its role as a good neighbor in promoting monetary and economic cooperation in the region and internationally. This is clearly shown in our recent $1 billion participation in the Thai adjustment package, led by the IMF; in the New Arrangements to Borrow; and in our recent membership in the Bank for International Settlements and the World Trade Organization.

Hong Kong SAR has enjoyed great prosperity over the past two decades. The extraordinary economic success of mainland China over this period has been a particularly important driving force behind our success. The Fifteenth National Congress, which was recently concluded in Beijing, has reaffirmed and ensured the path of development for China for years to come. Indeed, as we move into the twenty-first century under visionary leadership, China will become more prosperous and more open, and China’s economy will become one of the largest in the world. Hong Kong SAR, with its access to, knowledge of, and expertise in the global financial market, and its position as the primary gateway to China, looks forward to both taking advantage of and contributing toward the development of our country. China’s emergence is one of the most important events in the twenty-first century. We in Hong Kong SAR are proud to play an important role in this historic time.
OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS, AND GOVERNOR OF THE BANK AND THE FUND FOR THE UNITED ARAB EMIRATES

Mohammed K. Khirbash

I am honored, on behalf of the United Arab Emirates, to chair these 1997 Annual Meetings of the World Bank Group and the International Monetary Fund. I would like to thank the government of China and the people of Hong Kong for their generous hospitality in this beautiful city in this historic year.

I am particularly honored to chair this year’s meetings, because I represent a member country that deeply believes in the Bretton Woods system and in effective international cooperation. My country, along with other Arab donor countries, has demonstrated a firm commitment to international cooperation by extending substantial aid, grants, and concessional assistance to developing countries.

We applaud the active role of the Bretton Woods institutions and other multilateral groups in helping to foster increased prosperity, which will improve standards of living worldwide, particularly for those living in poverty. Growth and prosperity are difficult to sustain without peace and stability. In this context, the advancement of the peace process in the Middle East constitutes an urgent international objective.

We meet in Hong Kong as we stand at the threshold of a new millennium. How will we make the transition to the twenty-first century? As Governors of the Bank and the Fund, we have a critical responsibility to ensure that the state of current events does not prevent us from preparing for the demands of the future. The Bretton Woods institutions have to adapt to rapidly changing circumstances. The same is true for our countries and economies.

The success of these two institutions is largely a function of their ability to bring about a remarkable degree of consensus and productive action. Debate among different views leads to better policies, better projects and programs, and, most important, better “results on the ground.” The world economic environment remains broadly favorable for the achievement of our objectives. Most countries are achieving growth, with increased attention to investing in people and with an increased concern for the environment.
The IMF’s projections show that world output will expand by 4.4 percent in both 1997 and 1998. The quality of this growth is sounder and more sustainable than it has been in a generation, largely as a result of sound economic and financial policymaking. Growth has been accompanied by low and declining inflation, thanks to prudent fiscal and monetary policies and more liberal trade policies. The continued vigorous and well-balanced economic performance of the United States, with low inflation and unemployment, and the improving growth prospects in Europe and Japan bode well for the continuity and sustainability of global growth.

Developing countries and economies in transition have become more active participants in global economic change. The accelerated integration of world markets for goods, services, and capital over the past decade has increased growth in many developing countries, albeit at significantly different rates. Overall economic performance in the Middle East and Africa has improved as a result of the acceleration of economic reforms. The fastest growing regions—South and East Asia and Latin America—are being incorporated into the international capital markets and trade system at the fastest pace, although many countries in other regions are lagging behind.

The countries best placed to benefit from globalization are those adapting to change and transforming their policies and structures to support more market-based, outward-oriented growth. Growth and integration are mutually reinforcing. Both depend, however, on the quality of policies and on the institutional and human capacity that support them. Many countries still lack the institutional and administrative capacity to formulate and implement the effective policies that are necessary in an increasingly integrated world economy.

The task ahead, for our countries and for the Bretton Woods institutions, is to accelerate our efforts to achieve sustained growth and harmonious development, so that all may share in the benefits of globalization.

The wide-ranging economic problems of our member countries will require various solutions. Let me take a moment to tell you how my country has prepared itself for participation in the global economy.

As the twentieth century draws to a close, the United Arab Emirates seeks to consolidate the policies that have enabled it to achieve high real annual GDP growth rates, which now average about 6 percent.

The United Arab Emirates adopted a growth strategy that focuses on substantial expansion of both upstream and downstream activities in the oil and gas sector while at the same time promoting activities directed toward diversification through consolidation of the country’s dynamic non-oil sector and promotion of higher levels of private sector investment. The government’s large investment in infrastructure, power generation, industrial parks, and free trade zones have already played a major part in attracting private sector investment in an increasing number of manufactur-
ing industries. At the heart of these policies lies a strong commitment to an open economic system, liberal trade and exchange policies, a stable currency, and low inflation.

This environment has proved conducive to the development of a private sector—which is active in a number of non-oil sectors—and to the creation of a modern and sound banking system. It has also provided the foundation for further economic diversification. Our development strategy has continued to emphasize education and health, as we recognize the importance of our human resources in sustaining growth.

The United Arab Emirates is now in a good position to meet the challenges ahead and will continue to implement its open economic policy. In so doing, it shares the benefits that should follow from recent trends of greater world economic integration.

The United Arab Emirates firmly believes in international cooperation and continuously supports the efforts of the developing countries. The United Arab Emirates has a long-standing policy of providing official development assistance to the developing countries in the form of grants and untied concessional loans. Such assistance amounted to Dh 90 billion by the end of 1996, which represents an annual average rate of about 3.5 percent GDP a year.

My central thought today is that all participants in the global economy must adapt to the changing realities of an increasingly interdependent world economy. Adaptability must be the hallmark of our work. This is not change for the sake of change. As we seek answers to new questions and as we evaluate our approaches to difficult problems, we are required to change in ways that increase efficiency, minimize costs, and bring increased benefits to our own people and the rest of the world. Many countries have come to recognize the important role of the private sector in contributing to the achievement of higher economic rates of growth.

The Bank and the Fund are becoming more effective and forward looking. Increasingly, they are working in a complementary fashion as they adapt to the changing needs of member countries. Let me highlight three areas where a strengthened common effort is making a significant difference: financial sector cooperation, governance, and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

Regarding financial sector cooperation, substantial progress has been made. Enhanced collaboration will ensure that financial sector problems are promptly identified and that each institution takes the lead in its areas of primary concern. In areas of mutual interest, duplication of activity should be avoided.

The ability of the Bank and the Fund to adapt to changing circumstances is evident in their approach to the issues of governance. Promoting transparency, accountability, and institutional capacity is critical to successful, sound, and equitable development. The Bank and the Fund are
increasingly able, within their areas of competence and respective mandates, to assist a growing number of member countries to tackle corruption and develop effective administrative and financial systems.

My fellow Governors, the Fund’s and the Bank’s role on issues related to governance should contribute to the achievement of effective development.

A concrete example of enhanced Bank-Fund cooperation is the HIPC Initiative, which is a striking development and a radical departure from past attempts to address the debt problems of these countries in a comprehensive fashion, including debt owed to multilateral institutions. We look forward to the continued expeditious implementation of this initiative and to further transfers of concessional resources to developing countries. We also applaud the leadership shown by the Bank and the Fund and the support of other creditors, such as the Paris Club.

As shareholders in the Bank and the Fund, we should be proud of what these international institutions, working on behalf of all their members, are able to do as they adapt to ever-changing needs and circumstances.

Under James Wolfensohn’s leadership, the World Bank Group—the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—is making significant progress on a number of fronts.

The World Bank has embarked on a comprehensive program of reform and renewal. The framework is embodied in the Strategic Compact between the Bank Group and its shareholders. The President will provide you with his view of the changes. I am sure I speak for all shareholders in expressing strong support for the fundamental objective of the Compact, which is to achieve greater effectiveness and efficiency in the Bank’s basic mission—to reduce poverty—by delivering better products and services to its clients. Now that the Compact has been endorsed by the Bank’s shareholders, the Bank must continue to move toward its quick implementation, for it is only then that shareholders will witness the real benefits. The Bank’s Executive Directors will be monitoring developments closely, which should also provide opportunities for mid-course corrections when necessary.

We are also pleased to see that the Bank is adapting to the increasing number of countries seeking support for post-conflict reconstruction. This forms a growing part of the Bank’s work, much of which entails rebuilding infrastructure, but which also prompts economic adjustment and recovery to address social sector needs and to build capacity.

Supporting private sector development is a large part of the Bank’s overall strategy to promote sustainable growth, reduce poverty, and integrate countries in the global economy. The Bank is encouraging greater coordination at the policy, country, sector, and project levels and is im-
proving outreach and partnerships with the international business community. The initiative known as “Extending IFC’s Reach” encourages private investment in selected countries where difficult conditions have constrained the IFC’s activities and programs.

The MIGA’s considerable success in promoting foreign direct investment is making an important contribution to development. The MIGA’s portfolio has grown rapidly, as is evident in its continuous stream of applications. We welcome the consensus that was reached regarding MIGA’s capital increase.

Turning to the IMF, Governors will join me in welcoming the initiatives taken by the Fund, under the leadership of Michel Camdessus, to strengthen its effectiveness in the aftermath of the Mexican crisis of 1994. These included strengthened surveillance and more effective financial support to member countries. The events of recent months affecting Thailand and other countries have tested the Fund’s ability to provide quick assistance to members in need. I am sure that Governors will join me in commending the Fund’s rapid and decisive assistance to Thailand and the Philippines. Nevertheless, the Fund must further improve its ability to serve its members. It must also constantly adapt to a changing world.

I welcome the Fund’s work on issues related to capital movements. The growth of international capital markets is bringing major benefits to member countries, but recent events in Asia have again shown the dangers. The challenge facing the Fund is to help members maximize the gains while managing and minimizing the associated risks. It can best do this by fostering the liberalization of capital movements in ways that are consistent with a sound international financial system. I hope that Governors will join me in encouraging the IMF’s Executive Board to make rapid progress toward an appropriate amendment of the Articles of Agreement.

Governors will also join me in welcoming the breakthrough in the negotiations for a new allocation of SDRs and for an increase in quotas under the Eleventh General Review. With respect to the SDR allocation, the resolution that is before the Governors for adoption during these Annual Meetings represents a reasonable compromise: it equalizes the ratios of quotas and SDRs for all members and addresses the issue of equity for those member countries that have not participated in previous allocations. I encourage Governors to adopt this resolution. With agreement now having been reached in the IMF’s Executive Board on the quota increase, we hope that procedures will soon be put in place to allow the new quotas to become effective as soon as possible. With strengthened resources and new initiatives, we will expect the Fund to play its role with increased effectiveness in the period ahead.

We live in a dynamic world in which the need for adaptability to change within a sound framework is paramount for success. This is true for each of our individual countries and for the two institutions that are re-
sponsible for ensuring international monetary stability and promoting eco-
nomic development.

In conclusion, I would like to recite a verse from the Holy Koran:

“Mankind! We created
You from a single (pair)
Of a male and a female,
And made you into
Nations and tribes, that
Ye may know each other.
(Not that ye may despise
Each other). Verily
The most honored of you
In the sight of God
Is (he who is) the most
Righteous of you.
And God has full knowledge
And is well acquainted
(With all things).”

I now declare the Fifty-Second Annual Meetings of the World Bank
Group and the International Monetary Fund open.
OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP

James D. Wolfensohn

The Challenge of Inclusion

I am very pleased to welcome you to these Annual Meetings of the World Bank Group and the International Monetary Fund. I am also delighted to be in Hong Kong. This beautiful and bustling city, which I have visited regularly for 40 years, exemplifies the openness, dynamism, and optimism of so much of Asia today. So does our meeting here in this magnificent conference center, where everything has been done impeccably. I would like to express my thanks to our hosts, the government of China.

China’s success has been truly remarkable. Less than a generation ago, 8 in 10 Chinese eked out an existence by tilling the soil for less than $1 a day. One adult in three could neither read nor write. Since then, 200 million people have been lifted out of absolute poverty, and illiteracy has fallen to less than 1 in 10 people. China is our largest borrower, one of our most valued shareholders, and home to more than one-fourth of our clients. I am delighted that our partnership continues to strengthen.

Mr. Chairman, this is the third time that I address you as President of the World Bank Group—the third time I have the opportunity to express my deep gratitude to my friend Michel Camdessus, whose collaboration over the past two-and-a-half years has been so invaluable to me. We work ever more closely together, and I continue to benefit from his great experience and judgment.

From the beginning, one of my priorities has been to take the pulse of development firsthand. I have now visited almost 60 countries. I have met with governments, parliamentarians, and members of the private sector. I have talked with national and international nongovernmental organizations (NGOs) on subjects ranging from women’s issues to the environment, from health to the impact of macroeconomic reform.

Wherever I go, I continue to be impressed by the people we serve—by their strength, their energy, and their enterprise—even in the most abject conditions; by the hundreds of thousands disadvantaged by war; by the millions of children without families condemned to live on the streets; by the disabled shut out from any kind of social support; and by the plight of the poorest.

1 September 23, 1997.
Today our clients number 4.7 billion people in more than 100 countries. Three billion live on less than $2 a day. One billion three hundred million live on less than $1 a day. One hundred million go hungry every day; one hundred and fifty million never even get the chance to go to school.

But whether they live on the plains or in the valleys, whether they live in slums or isolated villages, whether they speak Hindi, Swahili, or Uzbek, they have one thing in common: They do not want charity. They want a chance. They do not want solutions imposed from without. They want the opportunity to build from within. They do not want my culture or yours. They want their own. They want a future enriched by the inheritance of their past.

I have learned that people are the same wherever they are—here in this room and across the world. We all want the best for our children and our families. We all want peace and economic and physical security. We all want to live in a supportive community. We all want personal dignity.

This was vividly brought home to me six months ago, when I visited a large water and sanitation project that the Bank is supporting in the favelas in Brazil. The project, which is now self-sustaining, brings together the local community, the private sector, and NGOs.

With my host, the Vice-Governor of the State of Rio, I went from one makeshift home to the next, talking with the women who live there and who used to carry the water on their shoulders from the bottom of the hillside to their dwellings at the top. One after the other, they proudly showed me their running water and flushed their toilets and told me how the project had transformed their lives.

And as I walked around, more and more of the women came up to me displaying pieces of paper showing charges and receipts for 5 or 7 cruzeiros a month. I watched and listened to this until the Vice-Governor said, “What they’re showing you, Jim, is that this is the first time in their lives that their names and addresses have appeared on an official notice. This is the first time their existence has been officially recognized. This is the first time that they have been included in society. With that receipt they can get credit to purchase goods; with that receipt their names and addresses have appeared on an official notice.”

As I walked back down the hill from that favela, I realized that this is what the challenge of development is all about—inclusion. Bringing people into society who have never been part of it before. This is why the World Bank Group exists. This is why we are all here today: to help make it happen for people.

The State of Development Circa 1997

Where are we in terms of “making it happen” in 1997? In many ways, this is the best of times for developing countries: Output grew last year by
5.6 percent—the highest rate in 20 years. Foreign direct investment exceeded $100 billion—the most ever; private capital flows now total $245 billion—five times official development assistance. And developing countries are projected to enjoy continued strong growth over the next 10 years.

Social indicators are also improving. Life expectancy has risen more in the past 40 years than in the previous 4,000. And freedom is blossoming. Today nearly two in three countries use open elections to choose their national leadership, and 5 billion people live in a market economy—up from 1 billion, 10 years ago.

There is also much good news regionally: Reform programs in Eastern European and Central Asian countries continue to advance, and prospects for accession to the European Union now look promising for several countries in the region. There is real progress in sub-Saharan Africa, with new leadership and better economic policies. There was GDP growth of 4.5 percent in 1996, up from 2 percent two years ago.

In the Middle East and North Africa, despite political problems, efforts continue to boost regional trade and investment, improve competitiveness, and expand economic opportunity. In Latin America—countries have emerged from the "tequila crisis," with their earlier gains against hyperinflation fully intact.

In East Asia, despite recent turbulence in financial markets, we still expect long-term growth and poverty reduction to be strong. In South Asia, home to 35 percent of the developing world’s poor, growth rates over the past several years have approached 6 percent.

This all adds up to much to celebrate, but there is also much to lament. Yes the glass is half full, but it is also half empty. Too many people are not enjoying the fruits of success: here in East Asia, where, despite the "miracle," inequities between rural and urban areas and between the skilled and the unskilled are becoming more widespread; in the countries of the former Soviet Union, where the old and the unemployed have become more vulnerable amidst the turbulence caused by the transition from command to market economies; and in parts of Latin America, where problems of land-ownership, crime, drug-related violence, unequal access to education and health care, and enormous disparities in income hinder progress and threaten stability in many of the world’s poorest countries, where population growth continues to run ahead of economic growth, eroding living standards. The deeper tragedy is that the glass is almost totally empty for too many. Indeed, for too many, it is the worst of times, as huge disparities persist across and within countries.

In too many countries, the poorest 10 percent of the population has less than 1 percent of the income, while the richest 20 percent enjoy over half. In too many countries, girls are still only half as likely as boys to go to school. In too many countries, children are impaired from birth because...
of malnutrition, inadequate health care, and little or no access to early childhood development programs. In too many countries, ethnic minorities face discrimination and fear for their lives at the hands of ethnic majorities.

What we are seeing in the world today is the tragedy of exclusion.

The Challenge Ahead

Our goal must be to reduce these disparities across and within countries, to bring more and more people into the economic mainstream, and to promote equitable access to the benefits of development regardless of nationality, race, or gender. This—the challenge of inclusion—is the key development challenge of our time.

You, I, and all of us in this room—the privileged of the developing and the developed world—can choose to ignore it. We can focus only on the successes. We can live with a little more crime, a few more wars, air that is a little bit dirtier. We can insulate ourselves from whole sections of the world for whom crisis is real and daily but to the rest of us is largely invisible.

However, we must recognize that we are living with a time bomb, and unless we take action now, it could explode in our children’s faces. If we do not act, in 30 years the inequities will be greater. With population growing at 80 million a year, instead of 3 billion living on less than $2 a day, the figure could be as high as 5 billion. In 30 years, the quality of our environment will be worse. Instead of 4 percent of tropical forests lost since Rio, it could be 24 percent. In 30 years, the number of conflicts may be higher. Already we live in a world that last year alone saw 26 interstate wars and 23 million refugees. One does not have to spend long in Bosnia and Hercegovina, or Gaza, or the lakes district in Africa to know that without economic hope, we will not have peace. Without equity, we will not have global stability. Without a better sense of social justice, our cities will not be safe and our societies will not be stable. Without inclusion, too many of us will be condemned to live separate, armed, and frightened lives.

Whether you broach it from the social, economic, or moral perspective, this is a challenge we cannot afford to ignore. There are not two worlds; there is one world. We breathe the same air. We degrade the same environment. We share the same financial system. We have the same health problems. AIDS is not a problem that stops at borders. Crime does not stop at borders. Drugs do not stop at borders. Terrorism, war, and famine do not stop at borders. Economics is fundamentally changing the relationships between the rich and the poor nations. Over the next 25 years, growth in China, India, Indonesia, Brazil, and Russia will likely redraw the economic map of the world, as the share in global output of the developing and transition economies doubles. Today these countries rep-
resent 50 percent of the world population but only 8 percent of the GDP. Their share in world trade is one-fourth of the European Union’s. By the year 2020, their share in world trade could be 50 percent more than that of Europe.

We share the same world, and we share the same challenge. The fight against poverty is the fight for peace, security, and growth for us all.

How then do we proceed? This much we know: no country has been successful in reducing poverty without sustained economic growth. Those countries that have been most successful—including most notably many here in East Asia—have also invested heavily in their people, have put in place the right policy fundamentals, and have not discriminated against their rural sectors. The results have been dramatic: large private capital inflows, rapid growth, and substantial poverty reduction.

The message for countries is clear: educate your people; ensure their health; give them a voice and justice, financial systems that work, and sound economic policies; and they will respond, save, and attract the investment—both domestic and foreign—needed to raise living standards and fuel development.

However, another message is also emerging from recent developments. We have seen in recent months how financial markets are demanding greater information disclosure and making swift judgments about the quality and sustainability of government policies based on that information. We have seen that, without sound organization and supervision, a financial system can falter, with the poor hurt most. We have seen how corruption flourishes in the dark, how it prevents growth and social equity, and how it creates the basis for social and political instability.

We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the sunshine of public scrutiny—not simply to please the markets, but to build the broad social consensus without which even the best-conceived economic strategies will ultimately fail.

The Development Community

How can we in the broader development community be most effective in helping with the enormous task ahead?

It is clear that the scale of the challenge is simply too great to be handled by any single one of us. Nor will we get the job done if we work at cross-purposes or pursue rivalries that should have been laid to rest long since. Name-calling between civil society and multilateral development institutions must stop. We should encourage criticism, but we should also recognize that we share a common goal, and we need each other. Partnership, I am convinced, must be a cornerstone of our efforts, and it must rest on four pillars.
First and foremost, the government and the people of developing countries must be in the driver’s seat—exercising choice and setting their own objectives for themselves. Development requires too much sustained political will to be externally imposed. It cannot be donor-driven. However, what we as a development community can do is help countries by providing financing, but even more important, by providing knowledge and lessons learned about the challenges and how to address them. We must learn to let go. We must accept that the projects we fund are not donor projects or World Bank projects—they are Costa Rican projects, or Bangladeshi projects, or Chinese projects. Development projects and programs must be fully owned by local stakeholders if they are to succeed. We must listen to those stakeholders.

Second, our partnerships must be inclusive—involving bilaterals and multilaterals, the UN, the European Union, regional organizations, the World Trade Organization, labor organizations, NGOs, foundations, and the private sector. With each of us playing to our respective strengths, we can leverage up the entire development effort.

Third, we should offer our assistance to all countries in need, but we must be selective in how we use our resources. There is no escaping the hard fact that more people will be lifted out of poverty if we concentrate our assistance on countries with good policies than if we allocate it irrespective of the policies pursued. Recent studies confirm what we already knew intuitively—that in a good policy environment, development assistance improves growth prospects and social conditions, but in a poor policy environment, it can actually retard progress, by reducing the need for change and by creating dependency.

I want to be very clear on this point: I am not espousing some Darwinian theory of development, whereby we discard the unfit by the wayside; quite the contrary. Our goal is to support the fit, and to help make the unfit fit. This is all about inclusion.

In Africa, for example, a new generation of leaders deserves our strongest possible support for the tough decisions they are taking; they have vast needs and a growing capacity to use donor funds well in addressing them. We must be there for them. It is an economic and a moral imperative.

However, where aid cannot be effective because of bad policy, corruption, or weak governance, we need to think of new ways to help the people—not the old technical-assistance approaches of the past that relied too heavily on foreign consultants, but helping countries help themselves by building their own capacity to design and implement their own development.

Finally, all of us in the development community must look at our strategies anew. We need that quantum leap that will allow us to make a real dent in poverty. We need to scale up and to think beyond individual
donor-financed projects to larger country-led national strategies, and beyond that, to regional strategies and systemic reform.

We need approaches that can be replicated and customized to local circumstances—not one agricultural project here or one group of schools there, but rural and educational country strategies that can help the Oaxacas and the Chiapas of this world as well as the Mexico Cities.

We need to hit hard on the key pressure points for change—social and human development, rural and environmental development, and financial and private sector development. Moreover, we need to remember that educating girls and supporting opportunities for women—health, education, and employment—are crucial to balanced development.

In the struggle for inclusion, this all adds up to a changed bottom line for the development community. We must think about results—about how to get the biggest development return from our scarce resources. We must think sustainability—about how to have enduring development impact. We must think equity—about how to include the disadvantaged. We must focus not on the easy projects, but on the difficult—in northeast Brazil, in the Gangetic Plain in India, and in the horn of Africa. Projects there will be riskier, yes. But success will be worth all the more in terms of including more people in the benefits of development—and giving more people the chance of a better life.

The World Bank Group

How is the Bank Group responding to the challenge of inclusion? Last year, I said that if the Group were to be more effective, it needed to change—to get closer to our clients' real needs, to focus on quality, and to be more accountable for the results of our work. This year, I want to tell you that it is happening. Not only is the Bank changing, but also the need for change is now fully accepted. I know—and you know—that the Bank has tried to change before, but there has never been this level of commitment and consensus. We are building on the mission statement articulated by my predecessor, Lew Preston, whose untimely death made it impossible for him to implement his plans.

Earlier this year, we launched an action program—the Strategic Compact—to renew our values and commitment to development, and to improve the Bank's effectiveness. I believe the Compact is historic. Not because there is agreement on every paragraph of the document, but because staff, management, and shareholders—with terrific support from our Executive Directors—are now united on the future direction of the institution.

While we still have a long way to go, and while change is painful—and some people are undoubtedly feeling that pain—implementation is well under way. I really believe that this time we can succeed. And we will succeed because of our truly remarkable and dedicated staff. I do not be-
lieve a better development team exists, nor one with more experience in fighting poverty.

However, the Compact is not primarily about our organization and internal change. It is about our clients and meeting their needs more effectively. To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, 18 of our 48 Country Directors with decision-making authority will be based in the countries they serve—compared with only 3 last year.

We have speeded up our response time and introduced new products, such as the Single Currency Loan and loans for innovative projects of $5 million or less that can be implemented very quickly.

Working with Michel Camdessus and our colleagues in the IMF—as well as with many other partners—we have prepared debt-reduction packages worth about $5 billion, for six heavily indebted countries under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). That is not bad for an effort that did not even have a name 18 months ago. And we are moving speedily ahead to help other HIPC countries.

The New Bank is committed to quality. We have put in place reinvigorated country management teams, with 150 new managers selected over the past six months—and rigorous training and professional development programs have been introduced for all staff. The International Finance Corporation (IFC) has also made major changes in management and is decentralizing to the field.

We have improved the quality of our portfolio, and, as a result, our disbursements reached a record level last year of $20 billion. The quality of all our work is being enhanced by the progress we have made toward becoming a "Knowledge Bank." We have created networks to share knowledge across all regions and all major sectors of development. Our Economic Development Institute is playing a leading role in this area. Last June, in Toronto, working with the Canadian government and many other sponsors, the institute brought together participants from over 100 countries, for the first Global Knowledge conference.

My goal is to make the World Bank the first port of call when people need knowledge on development. By the year 2000, we will have in place a global communications system with computer links, videoconferencing, and interactive classrooms, affording our clients all around the world full access to our information bases—the end of geography as we at the Bank have known it.

We are also promoting increased accountability throughout the Bank Group. We have developed a corporate scorecard to measure our performance. We are closely monitoring compliance with our policies and continuing to work to improve the inspection process by making it more transparent and effective. Moreover, we are designing new personnel policies that explicitly link staff performance to pay and promotion.
We are also emphasizing accountability in the dialogue with our clients. Last year I highlighted the importance of tackling the cancer of corruption. Since then, we have issued new guidelines to staff on how to deal with corruption—including ensuring that our own processes meet the highest standards of transparency and propriety. We have also begun working with the first half-dozen of our member countries to develop anticorruption programs.

My bottom line on corruption is simple: if a government is unwilling to take action despite the fact that the country’s development objectives are undermined by corruption, then the Bank Group must curtail its level of support to that country. Corruption, by definition, is exclusive; it promotes the interests of the few over the many. We must fight it wherever we find it.

However, key to meeting the challenge of inclusion is ensuring not only that we do things right, but also that we do the right things. Earlier, I mentioned the strategic pressure points of change. Let me say a few words about what we are doing in each of these areas.

First, in the area of human and social development, we are mainstreaming social issues—including support for the important role of indigenous culture—into our country assistance strategies, so that we can better reach ethnic minorities, households headed by women, and other excluded groups. We are participating in programs designed by local communities to address pervasive needs—such as the EDUCO basic literacy program in El Salvador and the District Primary Education Program in India—and these programs are being replicated by other countries. We are increasing our support for capacity building—particularly the comprehensive program initiated by the African countries last year.

Second, regarding sustainable development, in the rural sector, which is home to more than 70 percent of the world’s poor, we have completed a major rethinking of our strategy. Lending is now up after many years of decline, supporting innovative programs such as the new market-based approach to land reform in Brazil. We are also supporting our clients’ efforts to address the brown environmental issues—clean water and adequate sanitation—that are so often neglected but are so important for the quality of the poor’s everyday lives. In addition, through the Global Environment Facility, the Global Carbon Initiative, and a new partnership with the World Wildlife Fund to protect the world’s forests, we are continuing to advance the global environmental agenda.

Third, with regard to the private sector, we are capitalizing on the synergies between the Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA) and coordinating our activities under a single client-focused service “window.” Across the Bank Group, we are building up our work on regulatory, legal, and judicial reform designed to help create environments that will attract foreign and domestic private capital. We
are using IBRD guarantees to help support policy changes and mitigate risk, and we are expanding the International Development Association’s (IDA) product line to help poor countries develop their private sectors and become full participants in the global economy. Meanwhile, IFC is working in 110 countries, and in more sectors, employing more financial products than ever before. Last year saw $6.7 billion in new approvals in 276 projects. Its Extending the Reach Program is targeting 33 countries and regions that have received very little private sector investment. Again, the goal is clear: to bring more and more marginalized economies into the global marketplace. The Multilateral Investment Guarantee Agency, too, is playing an active and enhanced role. Last year it issued a record 70 guarantee contracts for projects in 25 developing countries, including 11 countries where it has not worked before. I am delighted that yesterday the Development Committee agreed to an increase in MIGA’s capital that will allow it to continue to grow.

My fourth “pressure point” is the financial sector—brought sharply into focus by recent events in this region. Here, too, we are scaling up our work in coordination with the IMF and the regional development banks for the simple reason that when the financial sector fails, it is the poor who suffer most. It is the poor who pay the highest price when investment and access to credit dry up, when workers are laid off, and when budgets and services are cut back to cover losses.

However, success in the financial sector requires much more than the announcement of new policies or financial packages pulled together when crisis hits. This is why we are expanding our capacity for banking and financial system restructuring, not just for the middle-income countries, but taking on the larger task of financial sector development in low-income countries. For those countries, home to the world’s 3 billion poorest people, IDA remains the key instrument for addressing the challenge of inclusion. I will be coming back to you in due course to seek your support for the twelfth replenishment of IDA.

Conclusion

I believe we have made considerable progress in putting our own house in order in preparation for the challenges of the new millennium. The year 1997 has been one of significant achievement. We must push ahead with this process. We must ensure that we deliver next year’s work program, that we strengthen the project pipeline and increase the resources going directly to the front line. And we must implement our recently completed cost-effectiveness review.

But the time has also come to get back to the dream, the dream of inclusive development. We stand at a unique moment in history when we have a chance to make that dream a reality. Today we have unprecedented
consensus on the policies that need to be put in place for sustainable and poverty reducing growth. Today we have clear and unambiguous evidence of the economic and social linkages between the developing and the industrialized worlds. Today we face a future where unless we take action our children will be condemned to live in a degrading environment and a less secure world. All we need today is the determination to focus on tomorrow and the courage to do it now.

As a development community we face a critical choice. We can continue business as usual, focusing on a project here, a project there, all too often running behind the poverty curve. We can continue making international agreements that we ignore. We can continue engaging in turf battles, competing for the moral high ground.

Or we can decide to make a real difference. However, to do that, we need to raise our sights. We need to forge partnerships to maximize our leverage and our use of scarce resources. We need to scale up our efforts and hit hard in those areas where our development impact can be greatest.

We at the Bank Group are ready to do our part, but we cannot succeed alone. Only if we work together will we make a dent. Only if we collectively change our attitude will we make that quantum leap. Only if, in board rooms, ministries, and city squares across the globe, we begin to recognize that ultimately we will not have sustainable prosperity unless we have inclusion, will we make it happen.

Let me end where I began: in that favela in Brazil. What I saw in the faces of the women there, I have also seen on the faces of women in India showing me passbooks for savings accounts. I have seen it on the faces of rural cave dwellers in China being offered new productive land. I have seen it on the faces of villagers in Uganda, able for the first time to send their children to school because of the private profit they can now make through rural extension schemes.

The look in these peoples’ eyes is not a look of hopelessness. It is a look of pride, of self-esteem, of inclusion. These are people who have a sense of themselves, who have a sense of tradition, who have a sense of family. All they need is a chance.

Each one of us in this room must take personal responsibility for making sure they get that chance. We can do it. For the sake of our children, we must do it. Working together, we will do it.
Mr. Chairman, Governors, ladies and gentlemen. I would like to join Jim Wolfensohn in welcoming you here and in expressing our thanks to the government of China and the people of Hong Kong for their warm, their generous, their splendid hospitality. What better opportunity could we have to see for ourselves the potential for Hong Kong to become an even more prosperous place, an even more dynamic center for the benefit of all of Southeast Asia within the framework of “one country, two systems”? 

Mr. Chairman, our global environment this year is generally favorable. Indeed, many positive trends have been confirmed during the past 12 months. Global inflation remains subdued, and countries appear more committed to price stability than at any other time in the post-war era. Fiscal deficits are being reduced in many countries—a good omen for interest rates, investment, and financial stability. And exchange rates among the major currencies appear to be consistent with economic fundamentals. Thanks in large part to these strong fundamentals and continued progress on structural reform, the world economy grew by 4 percent last year, and is projected to expand by 4 1/4 percent this year and next. In fact, this trend could continue for several years to come.

We can also applaud further progress toward Economic and Monetary Union in Europe and signs of better policies and stronger growth in many developing and transition economies. Indeed, average growth in transition economies is likely to be significantly positive this year, for the first time during this decade.

But as favorable as the overall outlook is, we do not need to look very far to find problems that stand in the way of our objective, namely, high-quality growth. By this, I mean growth that is sustainable, that results in a permanent reduction in poverty and greater equality of economic opportunity, and that is respectful of the environment and the rich diversity of national cultures and traditions. What are some of these problems? In parts
of Europe, malfunctioning labor markets; in parts of Asia and Latin America, but not exclusively there, fragile banking systems and persistent inequalities in economic opportunity. In all too many countries in the world, poor governance and inefficient use of public resources perpetuate poverty and impede human development. And we must not overlook the risk that inflation may pick up again in the economies where output is pressing upon capacity.

What we see in all these contrasting developments is a new globalized world economy continuously unfolding with new opportunities, new risks, and new requirements—all of them clearly illustrated by the recent turbulence in this part of the world. Let me focus my remarks on these global trends, beginning with these last events since they are so present in all of our minds.

Crisis in Southeast Asia

How did the events in Southeast Asia unfold as they did, against the background of more than a decade of outstanding economic performance?

Certainly, there were early signs of emerging macroeconomic problems, including a loss of external competitiveness. And these problems, in turn, exposed underlying weaknesses in the domestic economy, among them: a fragile and overexposed financial system, lagging industrial diversification, an inflated property market, and high levels of corporate debt. In our dialogue with the authorities over the past 18 months, we expressed our diagnosis, and we pressed for urgent measures.

Markets also expressed their disquiet. During 1996, the baht came under intermittent pressure. This year, the pressure increased, as doubts about the sustainability of policies grew. Finally, in the absence of a sufficiently comprehensive set of measures, the crisis broke. Meanwhile, the market’s anxieties spread to other countries in the region.

I will say no more about the history of this crisis. Rather, let me put on record a tribute to Finance Minister Thanong and Governor Chaiyawat, who, confronted with a very deteriorated situation, had the courage to launch, in a very few weeks, a bold and comprehensive program that goes to the heart of market concerns about large external deficits and troubled financial institutions. Thanks to their efforts, the budget is moving back into surplus and a comprehensive restructuring of the financial sector is getting under way. Naturally, it will take time and forceful action by the authorities to restore market confidence. But I fully expect confidence to strengthen as the adjustment program is implemented.

In the meantime, the Philippines has taken necessary measures and extended its program with the IMF under which remarkable progress had already been achieved. Indonesia has substantially strengthened its policy stance in continuous dialogue with us. Malaysia is also adapting its al-
ready solid macro policies. In all of these countries, and in the supportive cultural context of strong Asian values, the authorities are relying increasingly on measures to strengthen economic fundamentals, rather than on controls. Hence, my confidence that markets will soon recover and that, after this period of adjustment, these economies will emerge stronger than before. If I had only one message to leave with you today, it would be this: these economies will emerge stronger.

What are we to make of these events? Well, we now have evidence that the IMF’s procedures put in place after the Mexican crisis work, as they were expected to. In keeping with our efforts to strengthen surveillance, the staff’s analysis of this region’s problems was timely and on the mark. And once IMF assistance was requested, the Board’s emergency procedures allowed a program to be put in place in record time. The Fund’s assistance, in turn, catalyzed financial support from the region in an amount that, even by conservative estimates, is commensurate with the dimensions of the problem.

And yet, this crisis remains disturbing. Why? First, because the crisis was foreseen and preventable, but still struck with full force. Second, because one country’s problems have not only cost its own economy dearly, but also, through contagion effects, imposed high costs on others. And more basically, because we all perceive the need to adapt further, in one way or another, to the new globalized context. This new context requires from each of us an even more acute, an even more far-reaching, sense of responsibility and solidarity. So, let us turn to what these entail.

Responsibility

Responsibility! Let me mention three aspects of it. First, vis-à-vis the market, responsibility involves maintaining the proper perspective about the benefits of private capital flows. Certainly, there are risks in tapping global markets: sometimes they react too late, and sometimes they overreact. No country—I repeat, no country—is immune to these risks. But let us not forget that markets also provide tremendous opportunities to accelerate growth and development, as Southeast Asia itself so vividly shows. Thus, the lesson to be drawn from recent developments is not about the risks of globalization—and still less about demonizing the markets—but rather about the importance of exercising good citizenship when tapping them. Indeed, countries cannot compete for the blessings of the global capital markets and refuse their disciplines. Hence, the importance of pursuing sound policies that give markets confidence, of respecting the signals they provide, and of maintaining transparent and market-friendly policies so that they can do their job.

Second, vis-à-vis national policies, responsibility involves avoiding macroeconomic imbalances and correcting them when they arise. It also
means making cost-effective use of public resources, explaining to citi-
zens when and why policy changes are required, and taking the difficult
steps to sustain growth in a timely manner. Constant refrain of the IMF?
Of course! But may I suggest that it should also be the rallying cry of all
those who value high-quality growth, particularly those who defend the
poor. For indeed, it is the poor who are most likely to lose their livelihoods
during economic downturns and who are least able to protect the real
value of their incomes and savings during periods of high inflation. Thus,
helping countries achieve monetary and macroeconomic stability—to-
gether with the necessary structural reforms—remains the IMF’s major
order of business.

The third aspect of national responsibility is to get policy priorities
right. This is an obligation for each country in the world that benefits all
of the others. Here in Asia it means that countries must give priority to the
pressing business of strengthening current account positions and ensuring
financial sector soundness, rather than to spurring growth prematurely.

In Europe, in its momentous journey toward EMU, it means giving at
least as much attention to the urgent tasks of reforming social security sys-
tems and labor and product markets, as to the precise decimals around the
fiscal consolidation targets.

Getting the priorities right also means that efforts to press on with
macroeconomic adjustment must not delay other reforms that will en-
hance growth, that will make human development priority number one,
and that will ensure that growth benefits are widely shared—this equity
in the distribution of income on which Jim has so eloquently insisted. We
know very well that achieving all of this requires not only macroeco-
nomic stabilization, but also a range of broader reforms—a “second gen-
eration” of reform—to strengthen banking systems, allow labor markets
to function better, create a more favorable climate for long-term invest-
ment, and level the playing field for private sector initiative. These re-
forms are not the icing on the cake, but essential ingredients in achieving
sustained, high-quality growth. This is why the IMF has focused increas-
ingly on a broader reform agenda, aspects of which may have caught your
attention.

- You have heard that the IMF is now raising issues of income dis-
  tribution in its ongoing dialogue with member countries and em-
  phasizing the need for greater equality of economic opportunity.
  All true.

- You have heard that the IMF is speaking out more forcefully
  against unproductive spending, especially in countries with press-
  ing social needs. And you have heard of instances in which mem-
  bers have decided to postpone military and other expenditures in
  favor of increased spending on education and health. All true.
• You have heard that the IMF has issued new guidelines on how it will deal with issues of governance and that, in some cases, our financial support has been interrupted or delayed due to concerns about corruption, accountability, and transparency. All true.

• You have heard that the IMF is helping its members increase the transparency of their economic policies and that we see this as a way to give policymakers more incentive to pursue sound policies, as a way to diminish opportunities for corruption, and as a way to make countries less vulnerable to the brutal reaction of markets when economic problems are eventually revealed, as they always are. Yes, all true.

• You have heard that, building on the work of the Basle Committee, the World Bank, and others, the Fund has developed a framework for financial sector stability, which will help the IMF disseminate a set of internationally recognized best practices in the financial area. All true.

• Finally, you may have noticed that, far from being discouraged by recent events in Southeast Asia, the IMF is all the more motivated to continue work on an amendment to the Articles of Agreement that will allow the Fund to promote freedom of capital movements. This, too, is all true.

Let me elaborate on this last point. I know you could ask us: “When you have such financial turbulence on your doorstep, is this the right time?” Yes, we believe it is!

Freedom has its risks. But are they greater than those of complex administrative rules and capricious changes in their design?

Freedom has its risks. But is there any more fertile field for development and prosperity?

Freedom has its risks! Let us go then for an orderly liberalization of capital movements. Certainly, the point is not to make a sacrifice on the altar of fashion. The point is not to encourage countries to remove capital controls prematurely, nor to prevent them from using capital controls on a temporary basis, when justified. Rather, the objective is to foster the smooth operation of international capital markets and encourage countries to remove controls in a way that supports the drive toward sustainable macroeconomic policies, strong monetary and financial sectors, and lasting liberalization.

In a nutshell, we are striving toward a multilateral and nondiscriminatory system that provides the necessary safeguards and proper transitional arrangements. The Fund would, of course, continue to exercise surveillance and stand ready to provide advice, technical assistance, and, when appropriate, financial support for countries’ adjustment efforts. We now have abundant evidence of the benefits of steady progress toward the
freedom of capital movements and the prudence it requires. Let us now add this promising chapter to the work of our founding fathers. This certainly would have been part and parcel of their response to the challenges of today.

Responsibility is all of these things, including this cautious, but decisive, step toward liberalization. But responsibility must go hand-in-hand with solidarity.

**Solidarity**

What then are the requirements for international solidarity in this new global context?

Contagion effects can be so rapid, so overwhelming, so unfair to countries with sound policies that, no doubt, the first tenet of a charter for world solidarity is to “keep your house in order.” The bigger the economy, the stronger the requirement. But no country is exempt from this responsibility to other countries. And no country should accept the risk of going down in history as one that triggered a domino effect.

But solidarity calls for more. There are many instances in which national efforts are likely to be more successful when bolstered with international support. And there are many challenges that exceed the capacity of individual countries to resolve alone. To cite one critical example, in spite of significant progress on economic reform, many of the poorest nations still do not attract enough foreign investment. For them, foreign aid is crucial.

I will not dwell today on what I have so frequently repeated about the responsibility of industrial countries to help minimize the social and cultural costs of integration into the global economy; to open their markets, especially to products in which the poorest countries have a comparative advantage; to prosecute their nationals for taking part in corrupt practices in foreign countries; to recognize that their ODA budgets are one of the best investments in building a more secure and prosperous world; to refrain from promoting unproductive military expenditure through aggressive sales strategies; and to provide the mutual assurances that obviate the need for wasteful military buildups. Let me only pay tribute here to the Latin American presidents who, in their Declaracion de Asuncion, reiterated their decision to keep their region free from arms races—a goal that would be advanced, of course, by increasing the transparency of military spending and, thus, enhancing mutual trust.

In this globalized world economy, solidarity also calls for countries to complement IMF surveillance by joining voluntarily with their neighbors in mutual surveillance on a regional basis. The idea is to develop a “club spirit” among neighbors through which they can encourage one another to pursue sound policies. Indeed, a healthy dose of peer pressure could be a most valuable contribution to stability.
Such a tradition is most firmly established in Europe, where regional surveillance and peer pressure have produced an impressive degree of macroeconomic convergence. The Group of Seven also practices mutual surveillance. In Asia, there are signs of growing regional cooperation—through regional groups and the region's rapid and sizable financial support for Thailand’s adjustment program. This cooperation would be even more effective if it were supplemented with regional dialogue to ensure that the policies of individual countries are supportive of stable markets and high-quality growth throughout the region. To be effective, such regional surveillance has to be based on a sound analysis of the economic situation. The management and staff of the IMF are ready to contribute to regional surveillance to the best of their analytical and technical abilities. Supporting regional surveillance could be one of the important tasks of our Tokyo office, which we will inaugurate in December.

Of course, this suggestion does not detract from your responsibility to help the IMF discharge its ever growing, ever more complex central responsibilities. You know what this means, and you already do a lot by demonstrating on so many occasions your unfailing trust in our institution, by facilitating our surveillance work, and by reinforcing significantly the financial means available for us to discharge our systemic responsibilities.

The agreements on quotas and SDRs reached over the past few days demonstrate once again your tremendous confidence in and support for this institution. The membership has reached two critical decisions: one, to recommend an increase in IMF quotas by 45 percent, that is, nearly $90 billion; and, two, to recommend, through an amendment to the Articles of Agreement on which you will be voting this afternoon, a doubling of the amount of SDRs allocated so that all members can receive an equitable share of SDRs in relation to their quotas. Thanks to these agreements, along with the New Arrangements to Borrow, or NAB, that were agreed upon earlier this year, the Fund will be in a much stronger position to carry out its systemic role in this increasingly demanding global economy. We pledge to do our utmost to justify your confidence.

But there is another area where greater solidarity is needed. Of course, I mean Africa. You know how close to our hearts and minds this continent is. Earlier in this decade, sub-Saharan Africa was drifting toward the abyss of misery and marginalization after five consecutive years of negative per capita income growth. Now, thanks to the courage of leaders implementing adjustment and reform policies in the framework of ESAF-supported programs, this trend is being reversed, and the region is now in the third consecutive year of positive per capita growth. Indeed, average annual growth in sub-Saharan Africa reached 4½ percent last year and is expected to remain close to that level over the medium term.

Heavily indebted poor countries and the least developed countries performed still better. Each group recorded average growth of 5 percent
last year, levels they, too, are expected to maintain over the medium term. However, we must do more and better. Not only is there a most pressing human problem at stake, there is also a systemic interest in preventing marginalization of the poorest and providing them with a powerful boost toward an early, safe, and full integration into the globalized economy. Thus, it is indispensable to have a level of ESAF resources that is commensurate with its essential, continuing role and the Fund's contribution to the HIPC Initiative.

Meanwhile, progress under the HIPC Initiative has continued, with about $1.5 billion committed for Bolivia, Burkina Faso, and Uganda. In addition, six other countries have been identified for debt reduction. We must support these efforts by finalizing the implementation of the compromise arrangement we adopted in September last year. I am certain that I can count on the support of all of you and on an extra bilateral effort before the end of this year to optimize the indispensable financing package.

Trust and financing are essential, but there is more that you can do to help us equip the world for its future. Let me mention only one challenge on the horizon: the evolution of the international monetary system into a tripolar system dominated by the dollar, the euro, and the yen. With macroeconomic policies within these currency blocs likely to be determined largely by domestic policy considerations, factors contributing to world exchange rate stability will have to be kept permanently under review—both for the sake of these three major currencies and to promote a satisfactory exchange rate environment for countries outside these blocs. Here we will need your support and your renewed commitment to the multilateral approach. A new reflection on the best ways to facilitate effective international policy cooperation is needed, along with a strong center for international surveillance, multilateral consultation, and monetary collaboration, a role that the IMF is mandated to fulfill by the very first words of Article I of its Articles of Agreement. We are still some way from achieving this last aspect of international solidarity. But it is a goal that has gained in importance and that the membership, together with the Fund, should now have high on its agenda.

During these few days in Hong Kong—this most exciting place—you have provided the Fund with a major new mandate and substantially strengthened its financial basis. You could not have given a more eloquent demonstration of your trust in the capacity of the Fund to serve the common good. Let me express my heartfelt thanks for that.

Since we move abroad every three years, in the year 2000 we will meet in Prague, the historic capital of the Czech Republic. By that time, we will have traveled farther on the promising paths of freedom, good governance, and solidarity. Surely we will have met the unexpected along the way, but you know that we will continue to do all that we can to be well equipped and not be caught off guard.
One thing of which I am pretty certain is that the country where we will be meeting—and a number of others between Vladivostok and Bratislava—will, by that time, be well advanced in their journeys toward modernity and cooperative, orderly market economies. With that, the Fund will have basically completed a very special task you entrusted to us. But new challenges will appear and, with them, new tasks: accompanying the countries of this part of the world from their “miracle times” to their maturity; supporting Africa as it builds on recent progress to achieve stronger, more sustainable, and higher quality growth; assisting many other countries in their “second generation” of reforms; adapting the international monetary system to the launching of the euro; and the list may be longer. We look forward to all these tasks with confidence. We know that the IMF can count on your support. We know that we will continue to join forces in making the most of the opportunities of our times.

REPORT TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND BY THE CHAIRMAN OF THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS ON THE INTERNATIONAL MONETARY SYSTEM

Philippe Maystadt

I am pleased to have this opportunity to report to the Governors, in my capacity as Chairman of the Interim Committee, on the work of the Committee during the past year, and on the significant steps that have been taken toward adding a new chapter to the Bretton Woods agreement.

The Decisions on SDRs and Quotas

At its meeting in Washington last April, the Committee requested the Fund’s Executive Board to complete its work on the Eleventh Review of Quotas and on an amendment of the Articles to allow for a special one-time allocation of SDRs, and to report to the Committee at its Hong Kong meeting. On Sunday the Committee warmly welcomed the agreements reached by the Executive Board on these two important issues.

The Committee has recommended the adoption by the Board of Governors of the proposed Resolution on a one-time special allocation of SDRs at the 1997 Annual Meetings. The amendment will provide all members with an equitable share of cumulative SDR allocations, including those countries that have never received allocations of SDRs since they joined the Fund. It also will double the amount of allocated SDRs of 21.4 billion.
The importance of the agreement on the Eleventh General Review of Quotas must also be underlined. This agreement, which will result in an increase of 45 percent in total quotas and a distribution of quota shares that better reflects the relative strength of members’ economies, will allow the Fund to consolidate its financial base relative to the size of the world economy and will also permit prompt and decisive action when needed. The recent market turbulence in Asia, and the Fund’s response to it, supports the view that it is in the interest of the international community to have a financially strong Fund. To effect the agreed quota increase, the Committee has requested that the Executive Board submit a proposed Resolution for the approval of the Board of Governors before the end of this year.

Neither of these agreements would have been possible without the “spirit of compromise” that has prevailed among all members, from developing to industrial countries. Nor could they have been reached without the endless efforts of the Fund’s Managing Director, who never lost faith in the merits of a new allocation of SDRs. Together with the agreement reached last spring on the New Arrangements to Borrow, the decisions on quotas and SDRs will place the Fund in a better position to fulfill its mission into the next century.

The “Hong Kong Statement” on the Liberalization of Capital Movements

At its spring meeting, the Committee agreed that the Fund has a central role to play in promoting the orderly liberalization of capital movements and agreed that the Fund’s Articles of Agreement should be amended to give the Fund an explicit mandate and extend its jurisdiction to capital movements. The “Hong Kong Statement” adopted on Sunday provides the Executive Board and the staff of the Fund with the principles that should guide their future work on such amendment. Therefore, two points should be emphasized. The first is that freedom of capital movements is a desirable and worthy objective. In a global environment, it facilitates the flow of savings to their most effective uses and improves access to foreign capital, thus fostering growth and welfare. The second point is that, for these benefits to be realized, capital account liberalization should proceed in an orderly manner. Under the envisaged amendment, the Fund will have the task of assisting countries in making progress with the liberalization of capital movements at an appropriate pace, with adequate transitional arrangements and flexible approval policies.

A strengthening of the Fund’s role along this path will help maximize the gains from liberalization and limit the risks associated with capital flows. This new mandate will contribute to the stability of the international financial system and the successful integration of member countries into the global economy.
Substantial progress has already been made by the Executive Board on designing the envisaged amendment. The matter is technical and complex, and the Committee requested the Executive Board to accord high priority to completing its work and submitting a report and a proposed draft amendment to the Board of Governors.

*The World Economic Outlook and Lessons from the Recent Events in Asia*

At its meeting on Sunday, September 21, 1997, the Committee noted the favorable outlook for the continued expansion of world output and trade, and set out in its Communique the reasons underlying this optimistic assessment as well as the range of potential risks and fragilities that will require vigilance.

The Communique also presents the Committee's conclusions on the implications and preliminary lessons from the recent developments in Asian financial markets. Three points should be emphasized. First, recent events have again underscored the importance for policymakers in all countries to ensure the internal consistency of macroeconomic policies, to strengthen financial systems, and to avoid excessive external deficits; rising capital flows may also require some adaptation of exchange arrangements to changing circumstances. Second, all members commended the Fund for its prompt and effective response to the events in Asia and welcomed the support provided by the region. Third, it was agreed to review the issues involved in the prevention of crises, particularly those related to strengthening the disclosure of information and to confidence building through openness and accountability. Moreover, the Committee requested the Executive Board to examine what further lessons could be drawn for the Fund's work and to report these findings to the Committee at its next meeting.

*Strengthened Fund Surveillance*

Much has been accomplished in the past year to strengthen Fund surveillance. In this context, the Committee welcomed the recent adoption of guidelines regarding governance issues in the work of the Fund as well as the ongoing efforts to enhance the soundness of financial systems, notably the establishment of core principles of effective banking supervision developed by the Basle Committee in conjunction with the supervisory authorities in a number of emerging market economies. It also noted that the transparency of the Fund's surveillance process has been enhanced through the recent introduction of press information notices on Article IV consultation discussions.
The HIPC Initiative

I would like to conclude my statement on the HIPC Initiative. The Committee welcomed the pace of its implementation. I am indeed pleased to report that between March and September 1997, the Executive Boards of the Fund and the Bank reached agreement on debt-relief packages for Bolivia, Burkina Faso, and Uganda, while preliminary discussions have been completed on the eligibility for assistance of Côte d’Ivoire, Guyana, and Mozambique. This means that real progress on debt relief is effectively under way.

Still, the Committee noted that, in light of the bilateral pledges received or in prospect, and the need to continue making commitments under the HIPC Initiative, further steps to secure the timely funding of this initiative would have to be considered soon. This will be required because the problem of unsustainable debt can be solved only if the HIPC Initiative’s principle of achieving debt sustainability is matched by the willingness of all creditors to share equitably the burden of cost of the initiative. My hope is that the spirit of compromise and goodwill that has prevailed so far in Hong Kong will convince members who have not yet offered bilateral contributions to do so.

I want to conclude by expressing my satisfaction with the progress achieved during the past year, which will allow the Fund to help its members adapt to and benefit from the changes in the global economy.

Report to the Boards of Governors of the Bank and the Fund by the Chairman of the Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries (Development Committee)

Driss Jettou

As Chairman of the Development Committee, I am pleased to report to you on the Committee’s work over the past 12 months. I have, of course, only just become Chairman of the Committee. I am honored to have been selected by the Committee to succeed my predecessor as Finance Minister of Morocco, Mohamed Kabbaj. Minister Kabbaj served as Chairman for nearly three years, including at the April meeting this year. After the next meeting, the Chairmanship will rotate to another region.

My predecessor concentrated on three major points in his report last year. I believe these same three points deserve reemphasis on this occasion.
First, the Committee has been able to foster the close collaboration of the World Bank and the IMF on issues of importance to member governments. The HIPC Initiative gained its start in the Development Committee. It has been pursued with great vigor by Mr. Wolfensohn and Mr. Camdessus, and it has now become an established feature of international efforts to foster growth in the poorest, heavily indebted countries.

In April the Committee gave an additional encouragement to early implementation of the initiative. Yesterday we learned of major progress made by the Bank and the IMF Boards in starting six eligible very poor countries on the path of overall debt sustainability. While there are still funding issues to be confronted, the cooperation shown by the international community to make this common effort a success has been truly remarkable.

Yesterday, the Committee also broke new ground by discussing, for the first time, how to help countries combat corruption and improve governance. The Bank and the IMF have substantially expanded their attention to these issues. In doing so, they have joined with governments, international and regional organizations, and many nongovernmental organizations to confront these major impediments to development effectiveness, increased private sector activity, and economic growth. Our communiqué emphasizes that this is a global problem affecting all countries. The communiqué also reflects the broad support that now exists at the ministerial level for this more active role by the Bank and the IMF. Of even greater significance is the willingness of governments to accept the primary responsibility for ensuring that corrupt practices are reduced.

The Committee also discussed enhanced Bank and IMF collaboration in strengthening members’ financial sectors. Recent developments have highlighted how important this subject is to our members. The opportunity for ministers, representing the entire membership, to review the issues informally with Mr. Camdessus and Mr. Wolfensohn was extremely valuable for all concerned.

The second point stressed by Chairman Kabbaj last year was the importance of improved procedures to the effective functioning of the Committee. The basic approach adopted last year has been followed again this year, with continued success.

The third point in last year’s report was to note that the Committee has been able to focus its attention on a number of other key development issues as well.

In April the Committee heard from Minister Kaijuka of Uganda on the important subject of capacity building in Africa; yesterday we were honored by Vice Premier Zhu Rongji, who spoke on China’s dynamic development experience.

The increasing importance of private sector development has been a central feature of the past two meetings. Yesterday, the Committee welcomed the World Bank Group’s action program to encourage increased pri-
vate participation in infrastructure. This initiative was proposed initially by a member of the Committee, Japan’s Finance Minister. It has now become a focal point for strengthened Bank Group support for the private sector.

Moreover, the Committee has been seeking an early solution to the capital needs of the Multilateral Investment Guarantee Agency (MIGA). In this area there has been considerable progress. Yesterday ministers agreed on the components and timing of a $1 billion capital increase. This represents a major step forward. It will relieve MIGA’s short-term financial constraints and provide it with a sustainable capital structure for the medium to long term.

The Committee has, of course, been concerned since its inception with the transfer of resources. The MIGA and infrastructure discussions have focused on how to enhance the effective use of private flows. Committee discussions of the Bank’s Strategic Compact have reinforced Mr. Wolfensohn’s efforts to strengthen the Bank’s human and financial resources. Last spring, ministers had a good discussion of the World Bank’s net income situation.

In April the Committee discussed how to strengthen support for development cooperation. This concerns the future of concessional flows for poor countries—including, of course, the International Development Association and the Enhanced Structural Adjustment Facility. This issue is intended as a building block for a possible future discussion in the Committee examining the prospects for multilateral concessional flows.

Next spring we will consider reports from the heads of the multilateral development banks (MDB) on implementation of the reforms proposed 18 months ago by the Development Committee’s MDB Task Force.

The Development Committee is, I believe, playing an important role on behalf of the entire Bank and IMF membership. It provides a semianual action-forcing event that spurs the institutions to act. It is a forum in which the members have an important opportunity to provide valuable advice to the institutions, and to one another, in a direct and timely fashion.

I will do everything I can to help continue the Committee to move in this direction.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ALBANIA

Fatos Nano

First I would like to express my thanks for this opportunity to outline the new Albanian government’s policy for the framework of the post-
conflict rehabilitation that we have prepared in collaboration with specialists from the IMF and the World Bank. Both institutions have played a crucial role in Albania since 1992, and we place a high value on these ongoing contributions.

The tragic period through which our country has passed since the beginning of this year requires little comment from me. The sequence of events—from the collapse of the so-called pyramid investment schemes to the near anarchy that cost the lives of more than 1,500 people—is well known to you all. Our vision for the future of Albania commits us to look forward, while addressing the legacy of economic and social chaos that we inherited from the past.

The priority of the new government must be to complete the restoration of public order. This began with the arrival of the multinational forces participating in Operation Alba and is now being carried on by the country’s security forces. At the same time, we are continuing the reestablishment and future development of democratic institutions, which we see as vital foundations for the stability of our emerging market economy.

An integral part of the restoration of law and order will be the ongoing reorganization of Albania’s national police and security forces, as well as the appointment of appropriately qualified judicial authorities. The process of creating a professional, nonpartisan civil service—which we recognize will take time—has already commenced. In addition, Albania’s parliament has already taken legislative steps to guarantee the freedom of the media by abrogating a controversial press law.

Turning to the macroeconomic sphere, the government’s priority will be to achieve stabilization and to begin the process of bringing inflation—which reached 28 percent during the first half of 1997—under control. This will be achieved through a combination of sound macroeconomic policies and broader structural reforms. In support of these aims, we have prepared a program that includes immediate action to contain the country’s fiscal deficit, place the remaining assets of the pyramid schemes under administrative control prior to an orderly liquidation, and press ahead with essential structural reforms, including the development of a well-regulated private sector banking system.

Following the implementation of this program, which will be supported by the IMF’s six-month Emergency Assistance Program and by other multilateral and bilateral donors, it is our intention to move forward with a comprehensive strategy of economic adjustment and reform that will allow sustainable growth. Specifically, the new government will take such steps as may be necessary to maintain public order, while aiming to raise revenue collection from taxation and custom duties. At the same time we are committed to reducing all non-essential expenditure, supported by the Bank of Albania, which will maintain tight monetary and flexible exchange rate policies.
The Albanian government's fiscal policy will aim to impose strict limitations on the budget deficit, which will be less than 16 percent of GDP in 1997 and 12 percent next year, while ensuring that public order is maintained and a basic level of social security is provided for the most vulnerable segments of society. A critical factor in achieving these objectives will be external support for the budget, although steps will be taken to ensure that this does not add to inflationary pressure.

The government is also committed to increasing revenue through more efficient tax collection and by implementing a new package of revenue reforms. A central feature of this package will be an increase in the uniform rate of the value-added tax from 12.5 percent to 20 percent from October 1. Other measures will include increasing the excise duty on tobacco products and alcohol, raising the level of personal income taxes, and ending import tax exemptions by the end of this year. In addition, in order to avoid distortions of administered prices, the value-added tax will be added as a surcharge to these.

Domestically financed expenditure will also be reduced by a range of measures, including a reduction of 10–15 percent in the number of civil service employees by the end of 1998. However, it is planned to maintain spending on health and education at the levels already budgeted. Long-term reform will be supported by public expenditure review, which could be undertaken with the assistance of the World Bank.

External sector policies will focus on strengthening Albania's balance of payments position. It is anticipated that these will include increased receipts from exports and tourism, while a high priority will be given to encouraging foreign direct investment. The government is also fully committed to progressing toward accession to the World Trade Organization.

The government is strongly committed to the privatization of remaining state-owned enterprises. Those small and medium-sized enterprises still in state ownership will be privatized. A final cutoff date for the filing of restitution claims by previous owners or their heirs will be imposed.

Strategic investors will be actively sought for mining enterprises and utilities. We are aiming to bring the national telecommunications company, PTT, to the point of sale during 1998, while Albpetrol will also be prepared for privatization. The water and electricity industries will either be fully privatized or the services contracted out. A regulatory system will also be established for these industries.

I have today outlined the new government's program for immediate and near-term rehabilitation. While it is undeniable that the civil conflict earlier this year proved a severe setback to the country's economic, institutional, and social development, I believe that with the support of the international financial institutions and the wider donor community, Albania can make significant progress toward achieving economic and fiscal stability, leading to sustainable economic growth in the near future.
I would like to express my gratitude to the Chinese and Hong Kong authorities for their outstanding efforts in mobilizing the Annual Meetings of the IMF and the World Bank. I wish them prosperity and success in the future implementation of the formula “one country, two systems.”

Armenia is a small country, with a well-known history and very impressive traditions, on which the newly created independent state was based. We announced political democracy, economic liberalization, and social safety as three main elements of our policy. Armenia was very successful in implementing its economic reform program, and the transition process in Armenia is known as a “success story” in both the Fund and the Bank. We took ambitious decisions on the privatization of land and state-owned enterprises, on price liberalization and macroeconomic developments aimed at inflation of less than 10 percent a year and at GDP growth above 6 percent, and on an increase in gross international reserves up to three months of imports. We have created a fully liberal regime for current account and capital account transactions. We strongly support the extension of the Fund’s mandate to capital account liberalization, because we strongly believe that there is a link between the country’s capital market on the one hand, and its macroeconomic stability and the solvency of its financial institutions on the other hand.

We strongly support the joint statement of the President of the World Bank and the Managing Director of the IMF on the institutions’ collaboration in strengthening financial systems, which is extremely important to ensure that emerging financial sector problems in all countries are promptly identified, as the more problems are recognized, the more non-emerging the markets will become.

And here Armenia with its short experience can also show an example of a “success story.” By implementing prudential regulations and the standards of the Basle Committee, we have developed high-quality supervision of the commercial banks by the central bank, which, in accordance with the newly created legislation, is strongly independent and has sole responsibility for conducting monetary policy and banking supervision. With these achievements in the supervision area, Armenia has become the leader of the Transcaucasus and Middle Asia regional group of banking supervisors under the auspices of the Basle Committee. We are very happy with the outstanding opportunity to share the experiences of each country involved in the activities of the group. In this regard we welcome the IMF and the World Bank’s increased attention to financial sector issues and their cooperation with the Basle Committee.
Through trade system liberalization and floating exchange rate regime implementation, we accepted Article VIII of the IMF Articles of Agreement, and we intend to improve our external position through the reduction of current account and overall balance of payments deficits. Armenia has pursued a liberal trade policy based on an open import regime with a low uniform import tariff and avoidance of quantitative restrictions on imports and exports.

We are currently applying for membership in the World Trade Organization, and we believe that we will be accepted at the beginning of 1998 and will again be among the first countries in transition to join.

We also welcome the World Bank’s efforts in developing the regional cooperation, which in our case is becoming hopeful. Armenia’s forced economic isolation has been significantly eased by the recovery of the Georgian economy and substantial volume of trade with Iran. We hope that our existing informal trade with our other neighbors, the Azerbaijan Republic and Turkey, will soon be turned into official commercial, trade, and financial transactions.

It goes without saying that our achievements are strictly connected with the cooperation developed with both the IMF and the World Bank. It refers not only to the substantial amount of financial assistance, but also to the outstanding efforts given by experts in the technical assistance area.

We were very successful in the implementation of programs under the Systemic Transformation Facility, the Stand-By Arrangement, and the Enhanced Structural Adjustment Facility with the IMF, supported by direct budget financing by the World Bank within the framework of Structural Adjustment and Rehabilitation Credits. Now, as we are predicting for the 1998 budget a substantial increase in our tax revenues by improving tax and customs administrations, we are very close to concluding that Armenia has already passed the rehabilitation part of the transition and has entered into the development era. In this particular context, we welcome the agreement on the quota increase and the IMF Executive Board’s decision on a special SDR allocation that would effectively raise our ability to borrow for the development purposes. Of course, some clarifications in the quota calculation principles are needed, and we will work on this issue with the Fund staff.

We appreciate the World Bank Directors’ decision to start IBRD lending to Armenia, which will accelerate and enhance the sustained economic growth achieved in past years and help the basically privatized economy to grow further. A number of major enterprises are being offered for privatization by the end of this year through international tender. We will continue the same policy next year of having an ambitious program of the infrastructure sector of the economy.

And here I would like to emphasize the importance of the International Finance Corporation and the Multilateral Investment Guarantee
Agency in providing support for investors and I encourage them to expand their activities in our country. I am sure that building upon Armenia’s strong macroeconomic and structural reform record, these institutions could be more responsive to the country’s pressing investment needs.

We appreciate the efforts of the World Bank Directors for the establishment of Development Grant Facility within the framework of the Institutional Development Fund. I think that these facilities could improve the real sector developments in newly independent states. We support Board discussions on the development of domestic capital markets and increasing privately financed infrastructure projects. I would like also to emphasize the ongoing importance of the Bank’s remaining involved in public infrastructure projects, which are considered as priorities in Armenia.

As for the prospects for 1998, we considered our highly educated labor force to be one of the major factors contributing to the country’s future economic growth. In this regard the government intends to make the reforms of the education and health sectors priorities in its overall economic reform program. As the domestic savings remain notably low, Armenia will continue to require substantial external capital flows.

In conclusion, I would like to assure you that Armenia will continue its strong reform performance, which, with the appropriate support of international financial institutions, will bring a sustainable economic growth and substantial improvements in the living standards of the people.

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

Peter Costello

I thank the people and government of the Hong Kong Special Administrative Region for their warm and generous hospitality in hosting these meetings. This has been an historic year for Hong Kong. I am especially pleased that this year’s Annual Meetings are being held here, at the heart of the most dynamic region in the world economy.

Asian Economic Growth

It is now widely recognized that the dynamism of the region over the past decade has been based on sound fundamentals:

• high savings financing high investment in people and infrastructure;
• a focus on exports and world trade; and
• good fiscal and macroeconomic settings.
A key factor in the recent turbulence in financial markets in the region has been concern over macroeconomic settings. Provided the fundamentals are restored and maintained, there is a sound basis for strong growth well into the future. Nevertheless, the recent experience underlines the point that good policy requires continuing effort. Good policy never takes a holiday. Sound financial systems are particularly important. Financial supervision must be flexible, so that it can respond to new challenges. As economies open to global financial markets in order to draw upon international capital flows, appropriate policy and prudential frameworks become more important, requiring more sophistication, more transparency, and more disclosure. This lesson is as relevant to developed countries as to the emerging market economies.

And when problems do emerge, we must be ready to respond. Australia was pleased to participate in the support arrangements recently put in place for Thailand. Our contribution to that package reflects our commitment to the region and the importance we attach to regional stability and growth. I would like to take this opportunity to thank the Fund for the key role that it played in assisting Thailand. We are confident that the IMF-supported program, fully implemented, will restore confidence and economic stability and reestablish a firm foundation for strong medium-term growth. We look to their authorities to advance its implementation.

The Fund and the multilateral development banks have an indispensable role to play in facilitating adjustment in member economies facing severe structural problems. This was evident in Latin America in the late 1970s and early 1980s, and more recently in Mexico and now in Thailand. The Fund could be assisted in this task by arrangements for enhanced regional consultation and cooperation between finance ministries and central banks. This could promote the early identification of problems and reinforce the willingness of countries to take necessary corrective actions at an early stage; it could also facilitate the speedy arrangement of financial support, as occurred in Thailand. We consider that furthering cooperation would be of assistance in the region.

Economic Policy in Australia

Many speakers at these meetings have spoken about the importance of sound macroeconomic policies and structural reforms for sustained growth and improved living standards. I am pleased to say that Australian economic policy is directed firmly at these objectives. Over the last 18 months, our government has introduced far-reaching economic reforms, which will reinforce Australia's strong and sustainable growth.

Monetary policy is now based on a compact with the central bank in which we have agreed to a target range for underlying inflation of 2–3 percent over the course of the cycle. Through the year to the June quarter of
1997, underlying inflation was only 1.7 percent, while for the 1997–98 financial year we expect it to remain at the bottom of the target range.

We are undertaking rapid fiscal consolidation and will have a budget surplus next year. That will be achieved without the proceeds from the privatization of government business enterprises, which will go to retire debt. Under current plans, commonwealth general government debt will fall from just under 20 percent of GDP in 1995–96 to close to 10 percent of GDP around the turn of the century.

We have been no less active in structural reforms. All aspects of regulation, at all levels of government, are being reviewed to ensure that they do not hinder competition and market mechanisms. I have announced a complete overhaul of the Australian financial system, including the establishment of a single prudential regulatory authority for all financial institutions. This recognizes the increasing integration of financial markets as the services and products of different institutions increasingly overlap and merge. I am also undertaking a major review of all aspects of corporate law to reduce unnecessary regulation and improve the economic focus of our corporate regulation. Australia is now at the leading edge of reform in these areas.

Mr. Camdessus, I applaud your call to the European countries to deal with unemployment through reform of their labor markets. Such reform is also essential in my country and is being pursued. Structural reform to the rigidities in the labor market is the answer to high structural unemployment.

There is no doubt that economic reform is difficult. The temptation to delay undertaking necessary changes that impose short-term costs is understandable. However, such responses can make the ultimate reform task larger and more difficult and thereby impose substantial long-term costs on the community.

Fund and Bank Activities

Over the past 12 months, we have seen considerable progress on several major initiatives involving the Fund and the Bank. The Initiative for Heavily Indebted Poor Countries has been implemented and is now operational. Agreement has been reached on the Eleventh General Review of Quotas and on a special allocation of SDRs. Moreover, the Development Committee agreed on September 22 to an increase in the capital of the Multilateral Investment Guarantee Agency. These are substantial achievements. The World Bank has also progressed in its broad reform agenda.

New Arrangements to Borrow

A particular achievement since last year’s meeting is the agreement on the New Arrangements to Borrow (NAB) for the Fund. Australia is
pleased to have played an active role in the negotiation of this new facility. I delivered Australia’s adherence to the Managing Director when we met last Saturday and was pleased to chair the informal gathering of the group yesterday. I urge those countries that have not yet completed their processes for adherence to do so quickly, so that the NAB may come into operation at an early date. It will enhance the Fund’s access to resources in a crisis and thus enable it to play a full role in handling such situations.

**World Bank Reform**

I welcome the progress that the Bank has made on its reform agenda. Six months ago, the Executive Board endorsed the Strategic Compact. Australia has been a strong advocate of reform in the Bank to improve its efficiency and effectiveness. Implementation of the Strategic Compact is an important step in this direction.

An organization responsible for promoting reform must lead by example in its own internal management. I congratulate the President for the great progress he has made on this front. He will have our support in doing what is necessary to ensure that this key area of the Compact remains firmly on track.

More generally, the various measures identified in last year’s report by the Multilateral Development Bank Task Force need to be pursued actively, including coordinated efforts among the five banks to develop consistent evaluation standards. The World Bank has much to contribute to this process, but there is also much that it can learn from the experience of the other institutions. I look forward to the progress report from the five banks at the next Development Committee meeting.

We in Australia are very strong supporters of the Fund and the Bank. We are pleased with the leadership shown by Michel Camdessus and Jim Wolfensohn. We wish both institutions another successful year.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR AUSTRIA**

**Wolfgang Ruttenstorfer**

Europe’s economy and economic policies have entered an important stage in two respects. First, economic wisdom strongly suggests that good economic fundamentals should translate into healthy growth. Second, the run-up to the third stage of monetary union has reached an important, albeit sensitive, point.
Inflation is slowing further from an already low level, and indicators of economic sentiment have recently reached a record level for the last seven years. However, growth is picking up less forcefully than inflation is coming down, and employment shows a disappointing performance, despite the fact that the European Union (EU) member states are taking steps to enhance the employability and skills of workers and the unemployed and to improve the functioning of labor markets.

The Austrian economy is broadly following the mainstream of European economic indicators. Trade-offs between these indicators, however, differ slightly compared with our European neighbors. In spite of lower-than-average GDP growth, unemployment is not increasing; however, there are no benign effects of sizable fiscal consolidation on interest rates. The latter phenomenon does not indicate a credibility problem for Austrian policy but points to an overall nominal interest rate floor represented by that of Germany, probably caused by the still diverging business cycles of the world’s biggest industrial countries. Fortunately, exchange rates in the EU have recently adjusted themselves to equilibrium levels. Thus, in 1997 the competitive position of Austrian manufacturing has improved by some 5 percentage points compared with the level prevailing after the 1995 exchange rate turbulence in Europe. This gives us confidence for growing exports, a traditional prerequisite for an upswing in Austria.

Two factors make the current upswing less employment friendly than in the past. First, enterprises continue to invest in labor-saving technologies. Second, profits do not translate into domestic real investment to the degree that they previously did. The latter phenomenon has become more important in recent years, not only because of the growing internationalization of business, but also as a reaction to an unhealthy tax competition. We thus require a higher degree of international cooperation to overcome vicious downward spirals of tax competition.

At present, domestic policy priorities continue to center on further consolidating our public budgets, including reforms to maintain the viability of our public pension system in the long run; on solving labor market problems; on liberalizing energy and telecommunication sectors; and on encouraging the restructuring of our economy, especially capital markets, in the face of globalizing economic competition. While this policy mix successfully ensures that both budget consolidation and growth and employment targets can be balanced, it does not leave space for traditional expansionary policies. These issues highlight the need for our governments to also restructure the state as we know it today. To ensure its viability in the future, we will have to reduce activities across a certain range in order to focus on core activities.

Our consolidation strategy—amounting to savings of 4 percent from an implicit deficit of 7 percent, to less than 3 percent of GDP, which in 1996 was successfully implemented with a two-year budget—will be pur-
sued further. In July 1997, the government decided on a budget package that covers two years, that is, 1998 and 1999. The early announcement of a consolidation of another 1 percent of GDP shows that the fulfillment of the Maastricht stability criteria is sustainable.

I am convinced that Austria will be in the first group of participants. This conviction is shared by the financial markets. The latter suggests a relatively large number of participants in European Economic and Monetary Union (EMU), despite the fact that meeting the fiscal criteria for a number of countries might still depend on the resurgence of growth this fall. Earlier concerns about a trade-off of price stability in the euro zone and the number of participants seem to have disappeared in light of the surprising convergence of inflation rates in Europe. Still, Austria’s population needs to be convinced to take on the euro as a means of payment and as a store of wealth, despite its readiness to accept and undertake tough fiscal consolidation.

At the international level, the Fund for some time has been trying to find instruments to deal with the consequences of the increasing globalization of economies and financial markets. A whole new series of policy initiatives has been developed or can be considered as work in progress. Some of these policy responses, like the expanded supplemental lines of credit available to the IMF in the form of the New Arrangements to Borrow (NAB), have reached the stage of legislative approval in several countries. Austria will be among the NAB lenders and is likely to complete, this fall, the legal steps needed for its participation in this international financial safety scheme.

Other critical components of the Fund’s policy response, like the Special Data Dissemination Standard to ensure timely and reliable provision of financial and economic information to the public, have been agreed to by the membership. Besides improving the availability and quality of data, the Fund’s policy dialogue has become more transparent and open, as can be seen in the publication of its Article IV policy recommendations in the form of press information notices (the so-called PINs). The new emergency mechanisms established by the IMF following the Mexico crisis have been utilized while assisting Thailand and appear to have worked well.

Nonetheless, more needs to be done. The recent crisis in Southeast Asia’s financial markets has underscored the critical importance of a sound financial system and the need for the Fund to pay more attention to financial sector issues that are capable of threatening macroeconomic stability.

Despite the strengthening of the Fund’s surveillance role resulting from Mexican crisis-induced innovations in the Fund’s policy instruments, the limitations of surveillance and the need for further improvements have become visible. It turns out that the information provided by member countries has been neither sufficiently comprehensive nor suffi-
ciently reliable. Countries have ignored the Fund’s warnings about problems with their balance of payments and financial sectors and have not heeded the policy recommendations of various organizations of the international financial community. The national and regional costs of such neglect have been high.

However, restricting capital movements is the wrong response to the financial turmoil in some emerging market economies. In my view, the declaration of the Interim Committee on the liberalization of capital movements under an amendment of the Articles of Agreement draws the right policy conclusions. While dealing with such problems of financial market crises as contagion effects and herd behavior, we need to recognize the growing importance of private capital flows for financing investment and growth in the world economy. It is necessary to maximize its benefits through an orderly process of capital account liberalization as envisaged in the planned amendment of the Articles, combined with policies promoting the development of sound financial systems. These, of course, are necessary but not sufficient conditions.

We welcome the recent agreement on the basic features of the Eleventh General Review of Quotas. This quota increase will permit both the strengthening of the Fund’s resources and the correcting of the under-representation of some countries in terms of their quotas. It will thereby enable the Fund to continue to fulfill its mandate in the international monetary system. Like a number of other countries, Austria will receive a special quota increase that will help to narrow the imbalance between its relative position in the world economy and its capital share in the IMF. This is a step in the right direction, but further adjustment will need to be made in the future.

We welcome the consensus on amending the Articles of Agreement to permit a special one-time allocation of SDRs. This long overdue agreement will double the present amount of SDRs and equalize the SDR-to-quota ratio of all members at 29.3 percent. This will allow the transition countries in my constituency to fully participate in the Fund’s SDR Department.

With regard to the heavily indebted poor countries, I should say that I am gratified that the first six cases of debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) have come to the Boards of the Bretton Woods institutions, thereby testing the practicality of the HIPC Initiative approach. This success, together with the recent publication of the guidelines of the Bretton Woods institutions on governance—put in place to prevent misuse of public national and international funds and improve the management of public resources—breaks important new ground in development assistance.

The HIPC Initiative demonstrates how much satisfactory net income results are needed. Multilateral relief, with equitable contributions from
all—also major—participants, needs to be supplemented by unilateral ac-
tion. Therefore, Austria has decided—in an additional effort to its Paris
Club contributions—to write off an amount of up to $130 million in out-
standing loans to 11 mostly sub-Saharan countries. In addition to that,
Austria contributes to the Multilateral Debt Fund for Uganda, and similar
activities are planned for Mozambique. We welcome the fact that the
World Bank and the IMF are doing their best to implement expeditiously
the debt initiative, and we support the IBRD net income contribution.

While there are positive developments in these areas, the ongoing de-
cline in bilateral official development finance puts an increased respon-
sibility on the multilateral development banks. In this context, we welcome
the World Bank’s strategy to emphasize the role of the private sector in the
development process and to support its stronger involvement. Providing
financial and technical assistance to support this process will have an im-
portant leverage effect, thus supplementing or, wherever possible, even re-
placing traditional official development aid. Yet, as we know from our
own experience, it is of great importance to set prudent framework condi-
tions that guarantee satisfactory results for all stakeholders. The World
Bank Group, with its outstanding and outreaching capacities, carries a
major responsibility in this respect.

The high priority given to corruption and governance is crucial for
economic and social development and also important in the context of
stronger private sector involvement, where both the World Bank Group
and the IMF play a major role in developing appropriate responses. The
World Bank must, as a corollary, reinforce its support in capacity building
and in establishing the necessary framework conditions in client countries.
In our view, it is the Bank’s responsibility to react appropriately if cor-
ruptive symptoms undermine its lending and nonlending activities. We are
looking forward to the elaboration of operational rules and procedures in
this respect, not least to safeguard the reputation of the Bank as an effec-
tive development institution.

Stronger involvement by the private sector in the development
process will not render the World Bank superfluous. Even if clients’ de-
mand for loans is flat, and there is ample headroom, the Bank’s income dy-
namics require a rethinking of its role and thus perhaps new strategies. We
recognize that, at the same time, there are many interests and claims on the
Bank’s income and expenses and on its net income. To safeguard the ef-
fectiveness of the World Bank as the major multilateral financial institution
in the long run, priorities will have to be set on the basis of profound analy-
sis and discussions, which will not be an easy task. A number of strategies
that are, in principle, sensible would entail major shifts in the Bank’s role,
structure, personnel composition, and income level and composition.

Finally, I am pleased to have signed the MIGA Convention in April
1997 on the occasion of my first attendance at a Development Committee
meeting. The Austrian Instrument of Ratification was transmitted to the headquarters of the World Bank Group on September 10, 1997. The MIGA provides an extremely effective instrument for greater private sector involvement in the development process. The MIGA's capital constraints result not least from its successful work and the rapid expansion of its guarantee volume. This very positive development not only demonstrates the confidence of private investors in the economic development in borrowing countries, but also contributes to the relief of aid finance for the benefit of countries and projects that really need it.

It is our opinion that this positive development must not be hampered by capital constraints. We therefore support a quick solution for adapting MIGA's capital base to the demand for guarantees, and we are ready to contribute our share.

In concluding, let me say that the present global challenges are making themselves felt in each and every country. Those who are trying to actively manage this change will succeed. Those who merely attempt to stem the tide will fail. Looking at the Bretton Woods institutions, I am convinced that, although in different manners, they are at the forefront of those who are actively managing change and helping the tides of change to move forward in an orderly manner.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE BAHAMAS

William C. Allen

I have the honor to speak on behalf of the Caribbean Community and Common Market (CARICOM), namely, Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and my own country, The Bahamas.

I join my colleagues in expressing appreciation of the excellent arrangements made for these meetings by the Chinese government, especially to the people of the Special Administrative Region of Hong Kong. This beautiful city reflects the dedication and commitment of its people, whose achievements we admire.

We are pleased with the progress made on the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and fully endorse the proposals of the United Kingdom as spelled out in the Mauritius Mandate. Since March 1997, the Executive Boards of the Bank and the Fund have reviewed the eligibility of seven countries for relief, and decisions have
been made in three cases. The Boards have also discussed preliminary HIPC documents for three other countries, and we are especially pleased to note that Guyana was included. We fully anticipate a favorable decision on our sister CARICOM state when this matter is formally considered.

We in the CARICOM are conscious of the responsibility of burden sharing. Almost all CARICOM countries have therefore indicated that they will contribute financing to the HIPC Initiative and the enlarged Enhanced Structural Adjustment Facility (ESAF). We hope, however, that developing countries that have provided debt relief under the Paris Club will not be called upon again to bear a disproportionate share of the burden, especially in situations where further concessions will be through a reduction in the foreign reserves of their central banks.

As for quotas and the SDR allocation, my fellow Governors from CARICOM welcome the agreement and hope that the formula for its distribution will not reduce the voting power of small states. We also welcome the agreement reached to provide all members with an equitable share of cumulative SDR allocations through a one-time special allocation of SDR 21.4 billion.

As regards an amendment of the Articles of Agreement, we are taking careful note of the ongoing upheaval in the economies and currency markets of Southeast Asian countries. There are valuable lessons for us in the Caribbean to learn from these events.

As you are aware, most of the CARICOM countries have fixed exchange rate regimes. We have argued that, given the openness and small size of our economies, and given that we are price takers for most exports, exchange rate stability is a key to maintaining low inflation and investor confidence. We are aware that this stability requires prudent fiscal and monetary policies and sound incomes policies. As a result of our adherence to such policies, most of the countries in CARICOM are enjoying relative exchange rate stability, without an erosion of external competitiveness. But, as experience in Southeast Asia shows, even with the most careful adherence to appropriate policies, few economies can withstand highly volatile capital flows.

The globalization of capital markets has been a reality for some time, and it is appropriate that the Fund should recognize and respond to this in a fundamental way. We are therefore prepared to support an amendment of the Articles of the IMF to make the promotion of capital account liberalization a "specific purpose" of the Fund, once such an amendment contains adequate safeguards that recognize the vulnerability of small open economies and that allow countries to take measures to protect themselves against destabilizing capital movements. In moving ahead, we also wish to stress that close and special attention be paid to the need for technical assistance for developing countries. We would not wish to move to capital account convertibility without paying due regard to the soundness of
the banking system and to financial sector reforms in general. We should learn from experiences in Southeast Asia and from experience much closer to home. In this regard, we look forward to the Fund’s review of financial liberalization in program countries.

We in CARICOM have, for a long time, been aware of the positive effect of good governance on economic growth, development, and improvement of the quality of life for our citizens. We therefore welcome the guidelines of the Bank and the Fund on governance and corruption, which are consistent with our commitment to good governance. Following them will help us protect and enhance our image for probity in business. This image is extremely valuable, given the importance of international business and financial services in a number of our economies.

The definition of governance is broad and includes transparency in government operations; promotion of an enabling environment for private sector activity, which requires a proper and adequate judicial system; and easily accessible, current, and high-quality economic information. Countries in our region intend to participate in the Fund’s General Data Dissemination System (GDDS), but will continue for some time to require technical assistance with our data systems to reach the GDDS guidelines on quality, timeliness, and periodicity of our statistics. In addition, we welcome the publication of press information notices (PINs) and note that, since their introduction earlier this year, PINs have already been issued for Belize, Dominica, and St. Kitts and Nevis.

We fully support the Bank’s effort to refocus its development agenda as set out in the Strategic Compact, and we are pleased with the success recorded so far. We are also aware that there could be some unexpected and undesirable outcomes as a result of the drive for budget savings. We hope, however, that the Bank will not be forced to curtail its activities in support of the Caribbean Group for Cooperation in Economic Development (CGCED); after the efforts by both the Bank and the region to expand the membership and improve the functioning of the CGCED, such action would be a setback.

As regards disbursement, the countries on whose behalf I speak have, for some time now, been making net repayments to the international financial institutions. This situation has its roots in the sometimes cumbersome and often time-consuming approval and disbursement procedures for investment lending and in the concentration on lending for adjustment in the previous decade.

We need to change this if we are to reverse the net flow of resources out of the region. We are prepared to work within the procurement guidelines, which have been modified from time to time to take account of special circumstances, but apparently this is not enough. Assistance with institution building to improve performance at all points of the project cycle—from identification through to appraisal and on to implementation —
will, in our view, become one of the most important aspects of our partnership with the Bank over the next five years or so. Perhaps the new investment instruments—such as the Learning and Innovation Loan and the Adaptable Program Loan developed by the Bank, which we heartily welcome—together with resources from the Institutional Development Fund, and participation in the human resource development effort by the Bank can be combined to identify and solve the problems that prevent speedy and effective implementation of projects.

We congratulate the International Finance Corporation on its program to become more active in the region. We will work together to ensure the success of its efforts.

As regards the World Trade Organization (WTO) and the Caribbean, in the Caribbean, the pursuit of stable macroeconomic conditions remains paramount, despite an increasingly difficult external environment, as protected markets for bananas and other traditional commodities are under challenge. This has been exacerbated in recent times by the adverse WTO ruling concerning bananas. The implementation of the WTO ruling will lead to the collapse of the banana industry, with disastrous economic and social consequences for the region, particularly the Windward Islands. The ruling also provides a shorter transition period than that which had been envisaged under Lomé. The industry has been implementing a restructuring program aimed at reduced costs and improved productivity that will require both time and assistance in combating the attendant external shocks.

To conclude, the challenge of expanding output while diversifying and liberalizing our economies from monocrop industries, mainly agriculture or tourism combined with a fast-growing labor force, is the key to long-run economic potential in the region. In this vein, efforts to restructure public sector management, state-owned enterprises, labor markets, and financial systems are being vigorously promoted and deserve the full support of the international community.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BANGLADESH

Shah A.M.S. Kibria

It is an honor for me to address this august gathering today. First, let me thank the Bank and Fund authorities for organizing this meeting and the administration of Hong Kong for the excellent arrangements. It is appropriate that this meeting, the first international event of note to be held
since the return of Hong Kong to China, should take place in Hong Kong, which, together with the neighboring regions of China, represents one of the world’s most remarkable examples of accelerated investment and growth in the past few decades. There are many useful lessons to be learned here, as close economic relationships become closer, and as the transition leads to even broader global perspectives rather than a shift toward inward-looking economic strategies.

The structure of the world economy is going through a fundamental transformation, as many national economies are undergoing major structural changes and going through a process of rapid integration with the world economy. In a world that has accepted the primacy of market principles in economic management, the Bretton Woods institutions are called upon to play a crucial role in assisting the process of transition and integration while mitigating the disruptions that inevitably accompany such a major restructuring of economies.

Globalization and liberalization are the two defining characteristics of the current economic transformation. The two are very closely linked, as the successful liberalization of economies prepares them for the rigors of global competition and fully exploits that most powerful engine of prosperity, free trade. What has been most disconcerting for many countries, such as my own, has been the extent to which the difficult process of liberalization has not been supported by the hoped-for degree of globalization. As a consequence, our domestic industries have been subjected to intense competitive pressures, as anticipated, but the accompanying structural shift toward our export sectors has been slower than expected as we find that many external barriers to our export growth remain in place.

If we are all to reap the benefits of globalization and liberalization, it is essential to ensure a level playing field. The major international agencies must maintain an evenhanded approach in this regard, and must work toward the elimination of all trade barriers. Without such efforts, the relative latecomers to the international marketplace, which includes many developing countries and the economies in transition, will find that the adoption of liberalization policies and export-oriented economic strategies do not yield the expected results in terms of growth and development, and yet entail considerable adjustment costs and risks to macroeconomic stability.

The overall trend in flows of official development assistance (ODA) remains a source of concern. Despite the increased requirements of the economies in transition, the total pool of ODA resources has not expanded in real terms. This is sometimes argued to be of little concern, given the dramatic rises in private capital flows. This view ignores the reality of international capital markets, where lending concentrations often exceed the levels warranted by economic fundamentals. Low-income countries, excluding China and India, receive only 3.4 percent of total private capital flows to the developing countries, and the vast majority of developing
countries receive very little private capital. For many countries the availability of ODA will remain a major determinant of their ability to undertake vital long-term public investments in social and economic infrastructure and in human capital. These investments are not only essential to ensuring a balanced and equitable pattern of growth; they also help to create an economic environment that can attract a larger share of the rising global flows of foreign financing and direct investment. Contrary to our expectation and need, the FY 1997 commitments of the International Development Association (IDA) declined by 33 percent to $4.6 billion from $6.9 billion, which indicates continued low disbursement in the coming years. Disbursement, however, was only marginally higher than the previous year.

The recent growth in private capital flows to developing countries has certainly been dramatic. In 1996 these flows exceeded $265 billion, which is about six times as large as the total at the beginning of the decade, and about five times the level of ODA. The surge in private capital movements presents important new opportunities for the developing countries willing to adapt to the new milieu. Clearly, maintaining stable macroeconomic conditions and a prudent stance of financial policies will be essential to attract significant levels of external private capital. This is particularly important for direct foreign investment, where resources must be committed for a considerable period of time.

With heightened capital mobility, the possibility of destabilizing speculation cannot be dismissed lightly. This is particularly true where short-term capital accounts for a large share of total private capital inflows. Wherever financial markets are thin and supervision and monitoring are weak, there is a danger that sharp movements in external private capital, which are not always driven by economic fundamentals, may pose serious risks to the economic stability of individual countries. Indeed, given the apparent "contagion" effects observed in the recent currency market turmoil in Southeast Asia, the problem can quickly assume systemic proportions. The inability of national or even regional initiatives to deal with such systemic problems have become increasingly apparent, but international efforts remain rather ad hoc in nature. The Bank and the Fund, which are already involved in advising governments as to how to deal with the pressures arising from the more integrated global markets, should play a more significant role in developing an effective international framework to deal with the problems stemming from volatile private international capital flows.

The present government of Bangladesh came to office just 15 months ago, following free and fair elections held under a neutral nonparty caretaker government. The elections were hailed all around the world as a major step toward establishing democratic rights and accountability in Bangladesh. Within a relatively short period, the government of Prime
Minister Sheikh Hasina has taken bold measures to enhance the quality of governance and to improve economic performance. Financial policies have been geared toward the maintenance of macroeconomic stability, while important steps have been taken to deal with structural weaknesses that have hampered the achievement of faster growth necessary to reduce poverty in Bangladesh. The budget deficit and external current account deficits as a percentage of GDP have narrowed, GDP growth has risen to 5.7 percent, while inflation remains moderate at an annual rate of less than 5 percent.

Important initiatives have been taken in a number of areas to support the government’s economic strategy based on promoting export-oriented, private-sector led growth. These measures include the following reforms:

- opening up the infrastructure sector to private foreign investment. With the assistance of the World Bank, a Private Sector Infrastructure Development Fund has recently been set up to facilitate funding of such investments;
- establishing new energy plants under build-operate-transfer arrangements;
- revamping the bankruptcy laws to improve loan recovery and strengthen the banking sector;
- initiating reforms of the banking sector and the capital markets, with the support of the World Bank and the Asian Development Bank;
- accelerating the privatization of state enterprises, with the appointment of a private sector businessman to head the Privatization Board;
- undertaking extensive reforms of the legal system to modernize and speed up legal processes to support the expansion of private sector investment and commerce;
- setting up an Administrative Reforms Commission;
- passing legislation to set up effective local government institutions in line with a broader strategy of decentralization to improve service delivery and accountability; and
- strengthening parliamentary institutions by improving the committee system.

We believe that all these initiatives will help create the conditions and institutions for more efficient, transparent governance, and help promote the expansion of domestic and foreign investment and private economic activity in Bangladesh.

Finally, reforms are easy to talk about but difficult to implement. For a complex and difficult reform program to succeed, it is vital that a na-
tional consensus on basic issues is developed to support it. Reforms are associated with gains and losses to groups in each country and across countries, and may thus require compensation to those adversely affected by the adjustment process, except of course those losing rent-seeking opportunities based on distorted structures of trade and production. The process of consensus building and negotiation is a necessarily time-consuming process in a democratic system in which the government has no wish to ride roughshod over the will of the people. The Bank and the Fund need to remain sensitive to these issues in order to ensure the progress of structural reforms, and so should the industrial countries, the major contributors to the resources of these institutions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BELGIUM

Philippe Maystadt

Over the past two years, considerable effort has been made to ensure that the IMF's activities truly reflect the process of economic globalization. Three examples will suffice:

• the establishment of a Special Data Dissemination Standard for member countries that have access or are seeking access to capital markets;

• the implementation of the New Arrangements to Borrow (NAB); the NAB is an important adjunct to the IMF's resources in the sense that it will help the Fund meet the special needs that countries face in global markets; and

• the establishment of a special procedure—the emergency financing mechanism—to give the IMF a rapid response capability in the event of serious financial crises.

The Three Historic Agreements Achieved in Hong Kong

However, the three major agreements reached in Hong Kong over the last few days—namely, the agreements on special drawing rights (SDRs), quotas, and liberalization of capital movements—are of equal importance for the IMF, IMF member countries, and the international financial system. In fact:

• the agreement with respect to SDRs is good news for countries in transition, which will now be able to obtain SDRs to which they
had never before been entitled; moreover, the SDR agreement reaffirms the international community’s commitment to maintain an international reserve asset that could prove highly beneficial in the event of a crisis within the international monetary system;

• the agreement on raising the IMF’s quotas should increase the IMF’s available capital by approximately $90 billion (BF 3,400 billion approximately); that is a truly substantial sum, which, while reflecting the growing power of markets, was also necessary if the IMF was to carry on performing its special role well into the next century;

• no less important is the agreement on an amendment of the Articles of Agreement of the IMF, which will enable the Fund to pursue the liberalization of capital movements. In fact, today’s world is dominated less by flows of goods and services than by flows of capital. The IMF should therefore be equipped with the legal authority it needs in order to provide IMF members, to a greater extent than in the past, with sound advice on capital account liberalization and to engage in constructive dialogue with member countries in a way that reflects the contrasting circumstances encountered within each country.

There are two additional reasons why we support the principle of an amendment.

First, with its new mandate, the IMF may be expected to devote further resources to studying capital movements in order to enhance the credibility of its recommendations by ensuring that the latter are predicated upon the Fund’s capacity to explain and anticipate the numerous factors involved in the functioning of financial markets. This mastery of the subject—which the Fund must still acquire—will in turn allow the organization to enhance its stature, strengthen its surveillance of capital movements, and thus help maximize the benefits and minimize the risks of capital account liberalization.

Second, by allowing sovereignty over capital account restrictions to be transferred from member countries to the IMF, the amendment of the Fund agreement will strengthen the authority of what is, after all, a global institution within an area in which member countries had for practical purposes given up a good deal of their sovereignty already. This is a step in the right direction, because one way of responding to the risks of globalization is to treat official institutions accordingly, in other words, to give them a global dimension. Our goal should be to have official international institutions that are equipped to pursue the adoption and implementation of globalized strategies whenever it becomes clear, according to the principle of subsidiarity, that only global solutions will suffice to deal with such problems effectively.

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One cannot overstate the importance of the challenges involved. That is why the authorities of member countries—including those responsible for supervising and regulating financial markets, such as the Commission bancaire et financière in Belgium—should seek to explore the full range of consequences liable to result from the envisaged amendment, and if necessary, to propose appropriate measures to address the various practical issues still unresolved. It is also incumbent upon the IMF to launch a campaign of education and outreach so that, in the wake of the consensus achieved within the Interim Committee, a similar consensus can be forged among all parties affected by the agreement, including the private sector.

I would now like to touch upon three issues that I am confident will continue to figure prominently in the activities of the Bretton Woods institutions; I am referring to the work performed by the IMF and the World Bank in the developing countries, the HIPC Initiative, and the introduction of the euro.

Requirements for Achieving Meaningful Poverty Reduction

The challenges of development are as immense as ever, hence, the need for ongoing efforts to identify ways to enhance the effectiveness of IMF and World Bank operations. It is with these thoughts in mind that I would like to make a couple of observations.

• First, I believe that growth cannot be sustained over the long term unless it is based on promoting private sector activity; this is essential if economies are to have the flexibility and dynamism they need in order to become fully integrated into the global economy. From this perspective, the Bretton Woods institutions still have much work to do if they are to stimulate foreign direct investment in the countries of sub-Saharan Africa, which continues to languish at about $2 billion a year (compared with a figure of $100 billion for all developing countries in 1997). I therefore welcome the renewed efforts of the International Finance Corporation (IFC) to give more support to the private sector in African countries. In light of the improving prospects for the countries of sub-Saharan Africa, it should be possible for the IFC to approve a larger number of projects than in 1996 (only 26).

• Second, we must make more of an effort to ensure that both the authorities and the general public in the countries concerned can gain a clearer understanding of the general philosophy underlying the adjustment and reform policies recommended by the World Bank and the IMF. That is particularly true of the IMF; Mr. Camdessus, you will forgive me for expressing my opinion so candidly in this matter. Such efforts are essential if we are to garner maximum sup-
port from local populations, for in the absence of such support, adjustment policies have scant prospect of success over the long term. Undoubtedly, the guidelines recently adopted by the management and Executive Boards of the Bank and Fund, as well as by the Interim Committee, should be most helpful in facilitating dialogue with the countries concerned and forging a broad-based consensus around the required reforms. For example, I would emphasize the focus on maintaining social cohesion, respect for the rule of law, and human resource development that is a notable feature of the Interim Committee Declaration on Partnership for Sustainable Global Growth. However, in order to succeed, the new guidelines adopted "at the top of the pyramid"—if I might be permitted the expression—must also become institutionalized at all levels of the Fund and the Bank.

Belgium's Support for the Initiative for Heavily Indebted Poor Countries (HIPC Initiative)

I would now like to discuss the HIPC Initiative.

Encouraging progress has been achieved since the HIPC Initiative was adopted one year ago. Firm decisions have already been taken with respect to Bolivia, Burkina Faso, and Uganda, and three other countries are expected to follow suit; namely, Côte d'Ivoire, Guyana, and Mozambique. I share Chancellor Brown's view that all eligible countries should be able to join the initiative by the year 2000, because, of course, the initiative is open to all heavily indebted poor countries that are prepared to adopt or implement a reform and adjustment program supported by the IMF and World Bank.

This means that all creditors that have committed themselves to contributing to the funding for the initiative should reaffirm their commitment by providing the necessary resources in a timely fashion.

Rest assured that if last year's agreement were not followed through, it would become very difficult for the Bretton Woods institutions to launch any future initiatives entailing the use of substantial resources. In fact, no agreement on such initiatives will be possible unless everyone is convinced that all member countries will participate on the basis of their capacity to contribute, in the spirit of cooperation and partnership that multilateral institutions will have to demonstrate if they are to face the challenges of the future.

It is with such thoughts in mind that I shall propose a twofold contribution from Belgium for the funding of the HIPC Initiative:

- I shall first propose a contribution of SDR 44 million (i.e., approximately Belgian francs 2.2 billion), through the continued holding
of the National Bank of Belgium's existing deposits held with the IMF, and through the recycling of Belgium's reserves in the Special Contingent Account 2; this amount corresponds to 3.4 percent of the required total bilateral contributions (SDR 1.3 billion); this percentage corresponds to Belgium's share in the total quotas of the industrial countries.

• I then propose that Belgium make a contribution in 1998 to the HIPC Trust Fund, created by the World Bank to serve indebted poor countries; I will ask for this contribution to be earmarked for the African Development Bank (ADB) in order to help the ADB to participate in the initiative.

The Required Reforms in the Wake of a New Currency: The Euro

In conclusion, I would like to offer some observations on the subject of European Economic and Monetary Union (EMU) and the establishment of the euro on January 1, 1999.

Recent doubts as to whether the euro project might have to be shelved, as encountered in last year's discussions, have been dispelled.

However, there are those who still question whether the introduction of the euro will bring about any fundamental changes in international economic relations, primarily because the insider countries are supposed to retain a good deal of autonomy in the conduct of their economic policies.

To all those who would downplay the importance of the euro, let me say that I am firmly convinced of the following:

• the introduction of the euro bids fair to become a watershed event in monetary history, the most important of its kind since the abolition of the Bretton Woods system of fixed parities;

• the advent of the euro will have an impact on the structure of international monetary relations, particularly with respect to the Group of Seven and the IMF itself;

• with its emergence as an international reserve currency, the euro will become a key focal point for a number of countries, and this, I am convinced, will ultimately promote further debate on the changes needed in the machinery of the international financial system.

Under the circumstances, I believe that we should move expeditiously to prepare the remaining European and international decisions required to lay the full groundwork for the introduction of the euro in view of its consequences at the internal and external level.

It is clear that these consequences will be largely dependent on the economic policies pursued within the euro zone and on the relative effi-
ciency with which such policies are coordinated. This is true for the participating countries, but it is also true for the rest of the world—albeit to a lesser degree—inasmuch as the economic policies coordinated within the EMU framework are bound to have an impact on non-EMU countries. In this way, the implementation of the EMU may make the international monetary system more symmetrical, thereby ensuring that the benefits expected to result from the cooperation among the various “poles” can be more uniformly distributed.

As indicated recently by Governor Verplaetse, a decisive factor will be the EMU’s capacity to define a “policy mix” capable of ensuring internal stability while passing muster at the international level.

There is no reason to doubt the anti-inflationary resolve of the future European Central Bank (ECB). Indeed, I am convinced that the ECB will move swiftly to establish its credentials in this matter and to underscore its focus on price stability.

Fiscal policy will remain the prerogative of member states, even though they have accepted a common framework pursuant to the Stability Pact, designed to ensure the maintenance of fiscal discipline. Accordingly, the recent efforts to bring down public deficits will not have been wasted.

It follows that the EMU policy mix may represent a significant departure from times past, when a comparatively strict monetary policy was supposed to compensate for the deficiencies of fiscal and/or wage policies. A more balanced policy mix ought to contribute toward enhancing the outlook for growth within the European economy.

For all of these reasons, I am convinced that the euro will be an intrinsically sound and stable currency. However, the exchange rate for the new currency will not be determined solely by the policy mix within the euro zone itself; it will also depend on its position vis-à-vis that of its major partners. Economic policies in the United States and Japan will obviously continue to be important for the overall economic system, highlighting the advisability of the tripolar cooperation that Mr. Camdessus mentioned yesterday at the end of his statement.

STATEMENT BY THE GOVERNOR OF THE FUND FOR BOSNIA AND HERZEGOVINA

Monojlo Coric

According to the Dayton Agreement, Bosnia and Herzegovina is within its internationally recognized borders. It consists of two entities—the Federation of Bosnia and Herzegovina and the Republika Srpska. For
the time being, the Council of Ministers of Bosnia and Herzegovina has very limited authority. Its composition is nationally balanced, ensuring the equity of all nations from Bosnia and Herzegovina.

The state institutions of Bosnia and Herzegovina are in charge of the following fundamental economic responsibilities: monetary policy is carried out by the central bank, which was established on August 11, 1997 and acts as the currency board, and is responsible for foreign debt management and payment, and foreign trade and customs policy. Other economic functions are mainly under the purview of the two entities.

It is very important that a stable peace has been sustained during the past 21 months. This has created the basic premise for the September elections held last year, as well as for the local elections held 10 days ago, by means of which we finalized the process of establishing the democratic institutions at all levels of authority.

Despite some obstacles and delays, the institutions of Bosnia and Herzegovina have become operational; namely, these are the presidency of Bosnia and Herzegovina, the Parliamentary Assembly of Bosnia and Herzegovina, the Council of Ministers, and the recently established central bank.

In June 1997, a package of laws was adopted, among which the most important ones are the law on the central bank of Bosnia and Herzegovina, the law on the budget of Bosnia and Herzegovina, and laws on foreign trade, customs tariffs, and external debt.

Industrial production, market supply of goods, stabilized prices, salaries, and other indicators of economic progress in the Federation of Bosnia and Herzegovina point to constant improvement, and certain progress—although to a lesser extent—has been registered in the Republika Srpska. It is estimated that the GDP rate in 1996 was 50 percent, but owing to the slow inflow of international assistance, this increase in GDP will be much lower in 1997.

Immediately after signing the Dayton Agreement, Bosnia and Herzegovina became a member of the IMF, and it later became a member of both the World Bank and the European Bank for Reconstruction and Development. The economy has been devastated by the war, which has practically ruined the import capacity of the country. From a country that had a continuity in payment surplus before the war, Bosnia and Herzegovina has become a country with very high deficits on its current accounts. These deficits are mainly covered by the donations of the international community. Donors assistance has been mobilized to meet the needs of reconstruction, with three donor conferences organized by the World Bank and the European Union held in December 1995, March 1996, and July 1997, respectively.

A total program for the period of three to four years amounts to $5.1 billion. We received promises for 1996 in the amount of $1.8 billion,
but as of now only two-thirds of the commitments have been realized. The Donors Conference for 1997 was held with a delay—we expected commitments in the amount of $1.4 billion, but the amount finally promised was $1.1 billion. Bosnia and Herzegovina expects that the promises from 1996 will continue to be implemented and that the commitments for this year will begin to be realized.

The World Bank stands as a very efficient partner of Bosnia and Herzegovina, both in providing technical assistance, organization, and mobilization of assistance from a large group of international donors and in approving a number of programs for reconstruction (18 programs) that have been successfully realized on the field. These programs cover almost all sectors—the economy, infrastructure, education, health, housing, and pensions—and include support for macroeconomic policy reforms.

Bosnia and Herzegovina has taken part of the former Yugoslavia’s external debt to international financial institutions, and it has started to service this debt regularly. Both entities have carried out a solid fiscal policy. The entities finance public expenditures by relying on the collection of their own revenues and trying to avoid borrowing of the domestic sector. It is very important to pay attention to constantly increasing these revenues, which results from an increase in economic activities and more efficient work on the part of tax and customs administration. These revenues are not enough to fully finance extreme needs, especially those in the social sector.

For three years, monetary policy has been carried out by applying the currency board arrangement or by using foreign currencies. Monetary institutions have mainly avoided credit to the banking and private sector. An increase in money during this period has been based on the inflow of foreign exchange currencies, either from the current inflows or from international assistance.

The creation and work of the Central Bank of Bosnia and Herzegovina have been an important success. The Parliamentary Assembly of Bosnia and Herzegovina adopted the Central Bank of Bosnia and Herzegovina Law on June 20. That law establishes the functions and governance architecture of the Central Bank of Bosnia and Herzegovina.

The central bank is responsible for issuing the currency and monetary policy in Bosnia and Herzegovina. The central bank’s discretion in policy-making is very limited for the first six years, as it will operate as a currency board; that is, domestic money (the konvertibilna marka) can only be issued in exchange for foreign exchange—in practice, the deutsche mark.

A corollary to this statement is that the central bank cannot grant credit to anyone. This is a desirable feature for three reasons.

- It guarantees that inflationary monetary expansion will not occur again.
• It avoids the frequent need for politically sensitive decisions on monetary management.
• It strengthens the credibility of the new institution and supports public confidence in the new domestic currency.

The governance structure of the central bank involves, at the top, the Governing Board, which is in charge of board policymaking decisions but without executive responsibilities. The Governing Board is headed by the Governor—during the first six years, a foreigner appointed by the IMF in consultation with the presidency of Bosnia and Herzegovina. The Dayton Accord spells out these details as well as others concerning the voting procedures within the Governing Board. The Governor is also the Chief Executive Officer, and in this capacity he is aided by three Vice-Governors appointed by the Governing Board. Internal controls are carried out by a General Comptroller and three Deputy Comptrollers similarly appointed by the Governing Board. The operations of the central bank are to be carried out by a head office, which is located in Sarajevo and Pale, and by main units of the central bank located in Sarajevo, Mostar, and Pale. The Head Office consists of the Office of the Governor, the Office of the Comptroller General, and three functional departments—banking services, administration and finance services, and research. These departments perform a coordination role with respect to the activities of the three main units. They also carry out some decentralized functions, such as executing the directives of the Governing Board with reference to the investment of foreign reserves, or provide statistical analyses of economic data and balance of payment projections.

Without getting into too much detail, the general picture is that the Central Bank of Bosnia and Herzegovina has a decentralized approach to discharging its functions. This strategy is both workable and realistic in light of the current situation in Bosnia and Herzegovina.

Of course, the Central Bank of Bosnia and Herzegovina has jurisdiction only in konvertibilna marka transactions, for example it sets—remunerated—reserve requirements against konvertibilna marka deposits in the banking system. Other foreign currencies continue to be used in Bosnia and Herzegovina, although the presidency of Bosnia and Herzegovina and the governments of the two entities—the Federation of Bosnia and Herzegovina and the Republika Srpska—will take active steps to encourage the use of konvertibilna marka, for example, in the state and entity budgets.

Unlike other central banks, the Central Bank of Bosnia and Herzegovina is not directly involved in banking supervision, which is the responsibility of the entity-level banking agencies. The Central Bank of Bosnia and Herzegovina Law does, however, call for a coordination role of the central bank to ensure a harmonized supervision framework throughout Bosnia and Herzegovina.
The Central Bank of Bosnia and Herzegovina stands ready to convert on demand konvertibilna marka for the deutsche mark, and vice versa, at a one-for-one fixed rate. Thus, the exchange rate regime of Bosnia and Herzegovina is completely liberal: there is guaranteed, unrestricted convertibility of the konvertibilna marka for both current account (which equals exports, imports, transfers, and interest payments) and capital account (which equals foreign investment and debt-servicing) transactions.

The Central Bank of Bosnia and Herzegovina started operations on a limited scale on August 11, 1997, as required by the law. In this initial phase, the Central Bank of Bosnia and Herzegovina has taken over from the previous central bank, the National Bank of Bosnia and Herzegovina all—and only—the monetary liabilities that the law allowed it to take over, namely, Bosnian dinars in circulation and deposits of commercial banks at the National Bank of Bosnia and Herzegovina. These have all been converted into the new monetary unit, the konvertibilna marka, and are fully backed by liquid the deutsche mark assets. The National Bank of Bosnia and Herzegovina and the NBRS have ceased to act as central banks.

Banks that used to do business in Bosnian dinars now transact in konvertibilna marka, and settlements among them occur daily in the books of the Central Bank of Bosnia and Herzegovina. This has required substantial coordination with the Payment Bureau in what was the Bosnian dinar area. A main unit has also been opened in Pale, and the research department of the central bank—which is located there—is in the process of becoming operational.

What Remains to Be Done

Among the many tasks ahead to improve the operations of the Central Bank of Bosnia and Herzegovina, three stand out. The first is that the geographical area where konvertibilna marka transactions are routine must be enlarged. This requires passing appropriate legislation to allow such transactions, which are not permitted under the current payment system law, and establishing the main unit in Mostar. Both tasks have a political dimension that renders them complicated—but not impossible.

Second, while the konvertibilna marka exists for now only as a means of noncash payment—as electronic money—we need to introduce banknotes. These notes will be called kupons and will bear different entity design variants, one for each entity, although they will be legal tender throughout Bosnia and Herzegovina. The choice of the design has been a complicated political issue in the hands of the presidency of Bosnia and Herzegovina. Some progress is being made on this front and a resolution may be near.

Finally, the National Bank of Bosnia and Herzegovina will have to be liquidated. This will require bold action on the part of the Federation, as
in the past the national bank has acted as a federation central bank—to a limited extent—a provider of credit to public institutions in part of the Federation. Similarly, the NBRS transformation into a different financial institution—mostly specializing in Yugoslav dinar transactions—will have to be completed.

**Conclusions**

The fact that the Central Bank of Bosnia and Herzegovina has been established successfully is a remarkable accomplishment. It has required the cooperation of all parties involved, and it shows that such cooperation is possible.

As the central bank expands its range of operations, the benefits of the new monetary regime will appear. It is expected that trade will be promoted both internationally and between the entities. This will be a key factor in promoting economic recovery and lasting peace.

Peace is a definite goal of Bosnia and Herzegovina, and with the support of the international community we are ready to build and keep peace on a long-term basis. At the same time, Bosnia and Herzegovina is fully aware that peacekeeping is directly dependent on its successful economic recovery and prosperity. The chances for economic recovery and for opening new roads leading to prosperity depend on:

- the efficient building—without delay—of an economic system based on transition to a market economy, a rapid process of privatization, and the creation of an atmosphere conducive to private investment;
- more efficient and rapid work by the institutions of both Bosnia and Herzegovina and the two entities as well as their mutual cooperation in the process of realizing a comprehensive economic program; and
- the scope and dynamics of international economic assistance and private investment.

The key problem in Bosnia and Herzegovina is employment, which can be solved only through economic reconstruction and economic growth. Therefore, the basic medium-term strategy in economics has to be based on stable macroeconomic policies, implementation and functioning of public and market institutions, structural reforms, and the reconstruction of housing and infrastructure.

Solid ground for such a strategy exists in using a fixed exchange rate and a currency board arrangement; exercising financial discipline, primarily in preventing the state, entities, and other levels of the authority
from borrowing from the domestic sector; and continuing to receive international assistance on a broad basis and under good conditions.

The real increase in GDP for 1997 is estimated at 35 percent. Available domestic resources, supported by the international community and private foreign capital investment, especially to small and medium-sized enterprises, will have a dominant role in the realization of program goals. The Central Bank of Bosnia and Herzegovina will soon become fully operational, and we believe that it will be able to issue the new domestic currency. Further strengthening of financial institutions will continue, which will help to make a sustainable financial policy. Social protection for the most vulnerable categories and the creation of appropriate social programs are a high priority and will be a special concern of the entity governments.

In the beginning, macroeconomic structural reforms will be directed at customs tariffs and the further liberalization of trade, restructuring, and the privatization of enterprises and banks—on which certain legislature has already been adopted, while some of the laws—on education, health, pension system reform, and so on—have been submitted to the parliament for consideration and adoption.

During the coming months, we will continue our very successful cooperation with the IMF and World Bank staff, as well as with other institutions, aimed at working out and finalizing the comprehensive program of macroeconomics reforms that are necessary for the process of transition into a market economy.

We expect that we will soon be able to have an IMF arrangement, probably a Stand-By Arrangement, to support our economic program. The arrangement could be transformed into one under the Enhanced Structural Adjustment Facility in the first half of 1998 if the implementation of the Stand-By Arrangement goes well.

The needs for reconstruction, a social program, and the transition to market economy have to be consistent with monetary and foreign exchange policy (a currency board arrangement). All the budgets must be balanced, relying only on their own, regular revenues, without domestic borrowing. Fiscal policy should be a function of reconstruction and employment. Fiscal reform (fiscal federalism) and further strengthening of tax and customs administration are needed in the entities.

The budget of Bosnia and Herzegovina has been adopted in the amount of DM 136 million. The amount of DM 45 million will be allocated to meet the needs of administration, and DM 91 million is meant to service the external debt.

The entities are in charge of financing the administration proportionally, that is, two-thirds will be financed by the Federation, and one-third will be financed by the Republika Srpska. Furthermore, foreign debt servicing will be allocated to the entities, applying the criteria of the final
user. An office in the relevant ministry is in charge of external debt management.

The essential problem of the state budget is that the state of Bosnia and Herzegovina is responsible for its international obligations, and the whole fiscal capacity, according to the current fiscal arrangement, is within the entities. We have been considering this problem, together with the international financial institutions and in line with the Dayton treaty, in an attempt to find a possible way of ensuring regular revenues for the budget of Bosnia and Herzegovina.

The fiscal system in the Federation of Bosnia and Herzegovina and the Republika Srpska is relatively well organized. The institutions of the fiscal sector have been established and function in an acceptable way; the elements of the dual system have been liquidated; and the revenues that belong to the different levels of authorities have been separated. Expenditures have also been separated, with a clear distinction as to what is financed out of each budget, regardless of whether that financing refers to administration expenditures, health financing, financing of education, or social programs.

In this context, special attention should be paid to controlling the entry and exit of goods at crossing borders, fighting against a “gray” economy and corruption, and putting all public financial courses under strict control.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BOSNIA AND HERZEGOVINA

Hasan Muratovic

Please allow me to greet all of you, on behalf of the Council of Ministers of Bosnia and Herzegovina, and to thank you for all that you have done and are doing through the various forms of assistance that the international community, many of your governments, and many of you, personally, are providing to Bosnia and Herzegovina.

The government of Bosnia and Herzegovina closely follows the development of the new initiatives in the World Bank and the International Monetary Fund. We especially support the efforts of the President, Mr. Wolfensohn, to further the reforms under way in the World Bank. We are pleased with the first reports on the successful implementation of these reforms. We consider that, for borrowing member countries, it is of great importance to continue to work intensively on further decentralization of the World Bank. Decentralization improves the staff’s understanding of our
problems and speeds up the implementation of projects. The exceptional performance of the Bank’s Bosnia team in helping us with our problems is surely a model for other parts of the Bank.

Please allow me to inform you of several aspects of the ongoing and future reconstruction and development of Bosnia and Herzegovina, a country that suffered so much in the war. We cannot imagine the reconstruction of our country without international assistance and, in particular, the assistance of the Bretton Woods institutions, which provide such leadership to the rest of the world.

On the political front, it is my pleasure to inform you that just 10 days ago we had the first postwar local elections in Bosnia and Herzegovina, underlining clearly the democratic basis of our society.

Since the general elections, which were held last year, the most important task for us has been to create institutions at the state level and now, following the elections, at the local level as well. The establishment and work of the common institutions during this year has not been in line with the needs and expectations. However, with the assistance and friendly pressure of the international community, a number of institutions that are the foundations of Bosnia and Herzegovina have been established. The Parliament, Presidency, Council of Ministers, Joint Military Commission, Constitutional Court, and Central Bank of Bosnia and Herzegovina have been established. The parliament of Bosnia and Herzegovina has adopted a package of laws that are the framework of the economic system of the country: laws on the central bank, on customs policy, on customs tariffs, on foreign trade, and on external debt. A new domestic currency, the convertible mark (konvertibilna marka), has been introduced, and this currency is being used for noncash transactions in the payments system, covering some 80 percent of all monetary transfers.

In spite of political problems, we have also achieved a good start in the reconstruction of the country. As a result, the economic growth of Bosnia and Herzegovina in 1996, according to IMF and World Bank data, was as high as 50 percent, which is 15 percent more than expected.

We are pleased with the basic elements of the country assistance strategy recently adopted by the World Bank’s Executive Directors, with increased International Development Association funds, which is the result of the successful implementation of previous projects. This strategy will allow the continuation of the technical-expert assistance of the World Bank in the consolidation and transition of the economy.

During this year, some of the first International Finance Corporation (IFC) projects are about to be realized in Bosnia and Herzegovina, and we have been preparing the first Multilateral Investment Guarantee Agency (MIGA) projects.

Finally, we have successfully concluded negotiations with the London Club on the rescheduling of our commercial debts.
All of these achievements have been made in close cooperation with the World Bank, the IMF, the European Union, and the Office of the High Representative, and with the enormous assistance of the U.S. Treasury. We would like to express our gratitude for their assistance. We owe our gratitude to the representatives of these organizations and bilateral donors in the field. I would like to use this opportunity to express our special gratitude to Mr. Wolfensohn for his personal commitment to and support for the reconstruction of Bosnia and Herzegovina.

There is no doubt that, of all donors, the World Bank has played the biggest role regarding the concept and implementation of the economic reconstruction, and for this impressive work we are profoundly grateful.

Unlike the Federation of Bosnia and Herzegovina, the Republika Srpska has received a smaller portion of assistance. The latest analysis shows that, at the beginning of this year, there was increased interest by donors in investing in Republika Srpska, so that the amount of assistance received could be multiplied in 1997. A number of projects—the realization of which is jeopardized by the present political crisis—are in the process of preparation.

Regardless of the good results achieved so far, the reconstruction needs of the country are still very high. At the moment, unemployment in the country is about 50 percent, while 60 percent of the population is dependent on humanitarian aid. For the housing sector, 85 percent of the accommodation capacity has to be reconstructed. Only 10 percent of the industrial capacity is utilized, and a number of companies cannot renew their production owing to a shortage of working capital. Two years after the cessation of war activities, Sarajevo still does not have its heating issue resolved, and water supply is restricted to only four hours a day. Regardless of the fact that repatriation is a priority, only 7 percent of refugees have managed to repatriate. Many things remain to be done, but the first priority is still housing and employment.

It is encouraging that in July 1997, albeit with a major delay, the Third Donors Conference for the Reconstruction of Bosnia and Herzegovina was held, the results of which are satisfactory. It is important for the donors and creditors to speed up the realization of their commitments. We believe that important progress in the implementation can be achieved by cofinancing the World Bank projects, using already established and extremely efficient organizations. As we are aware of the difficult economic situation in Republika Srpska, we understand donors’ interest in economically supporting this part of Bosnia and Herzegovina to a larger extent than was the case last year. We support the attitude of the World Bank, despite the fact that it is not a political institution, in taking into account the level of cooperation of a certain area in the implementation of the Dayton Peace Agreement, while selecting the locations of realization of projects in Bosnia and Herzegovina. In that way, the World Bank escapes the dan-
ger of ruining the efforts of the rest of the international community in its implementation.

At all levels, Bosnia and Herzegovina’s authorities have expressed their readiness for the future economic reforms. In both of the entities, the preparations for starting the process of privatization and banking system reform are under way. Although investment needs for physical and social infrastructure are still very high, we welcome the intention of the World Bank to increase, to a certain extent, its investments in projects aimed at providing support for economic reforms this year.

Unfortunately, although the majority of a future Stand-By Arrangement has been agreed upon with the IMF, the arrangement has not been signed yet. Commitments made during the conference last year have not been fulfilled. We have counted on the promised arrangement and on strong support from the International Finance Corporation. Because of the delay in connection with the Stand-By Arrangement with the IMF, we have not been able to begin our negotiations with the Paris Club and Bosnia and Herzegovina’s arrears continue to accumulate. A number of other activities are affected by the arrangement with the IMF. We find the damage resulting from any further effects would be enormous, and much bigger than the expected benefits from these conditions; thus, we propose that the IMF arrangements for Bosnia and Herzegovina be realized without any further delays. We can assure you that we will work on the realization of the set conditions to the best of our ability.

We would urge the IMF to show more flexibility, so that we may have a Stand-By Arrangement and arrangement under the Enhanced Structural Adjustment Facility as soon as possible. Otherwise, all of the positive results that the international community has achieved for the economic reconstruction of Bosnia and Herzegovina could be jeopardized.

In the future, it will be necessary to have assistance in repaying Bosnia and Herzegovina’s foreign debts. Regarding the total debt, of which a certain amount goes toward interest accumulated during the war, we have been considering the new possibilities for debt reduction with the World Bank. We need additional support in order to realize this aim.

We have been following closely the efforts of the World Bank and the IMF, aimed at securing a wide platform for fighting against corruption, which is a global problem, common to both developing and developed countries. We offer our strong support for these efforts. We find the guidelines for fighting against corruption recently adopted by the World Bank Board to be very useful. Last year, because we wished to ensure transparency in the realization of the foreign assistance, we established, in cooperation with the World Bank, the Agency for the Control of Supplies and Monitoring. For the time being, this agency is operational only in the territory of the Federation of Bosnia and Herzegovina, and we think that it is an imperative to establish this agency in Republika Srpska as well. We
are proud that this agency, which consists of domestic and foreign consultants, has not found any cases of misuse during its work. In connection with this plan, we will continue our cooperation with the World Bank, to which we express our gratitude for its assistance in this field. Regarding the problem of corruption in the world, doubts and accusations having to do with corruption are very often the result of the political manipulations that almost always follow election campaigns. Political motives for accusations must be eliminated. Financial institutions and beneficiaries have to protect their reputations against frequent malicious accusations.

Allow me to propose that the World Bank and the IMF, together with the credit beneficiaries, create a fund for each project, on an obligatory basis, to monitor and control the implementation of the project. This will ensure that the credits will be used for their expressed purpose and that the reputation of creditors and beneficiaries will be protected.

Please allow me to express the desire of the Council of Ministers and all the citizens of Bosnia and Herzegovina to rely, as soon as possible, on their own resources in the country's economic development, and to lessen the extent of international assistance. We are fully aware that, in aiming for that goal, we have to bear the majority of the burden. As far as we are concerned, we are ready to realize the programs of economic reforms for which we still need significant international assistance and a substantial reduction of all debts.

Before I come to an end of my statement, allow me to express my congratulations to Cambodia and Turkmenistan for their membership in the IFC, and to Panama and the Dominican Republic for their membership in MIGA, and to wish them the most successful cooperation with these financial institutions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR CAMBODIA

Keat Chhon

As always it is a great honor and privilege to represent Cambodia at this august annual gathering of leaders and experts who shape and guide the world economy. I bring to you all greetings from the government and the people of Cambodia.

Our meeting here is of great significance to the world at large, as we are poised on the threshold of a new millennium that will dawn on us a mere three years from now. In the past 50 years since the coming into being of the two great multilateral financial institutions whose annual meetings we attend today, the world has witnessed many major changes
and shifts. We have been able to adapt to these changes and challenges and devise instruments and mechanisms to steer effectively in the interest of stability and orderly growth. The challenges today are no less; indeed they seem to be new, more, and increasingly complex. We have witnessed just in the last three months how fragile and fickle the prolonged strong economic growth in this region has been. We have noted how much damage could be caused by speculative greed, shattering the dreams of the honest many, plunging governments and future generations into deep debt, and devastating the prospects for quick economic rebound and for employment opportunities. Eternal vigil is the price we have to pay in the future. And our two mighty financial institutions should set up warning signposts along the way through their annual reports and consultations with each country. We will no doubt discuss these matters here in this auditorium and in the lobbies around it. Cambodia, which is still an infant economy, will take lessons from here for adaptation at home.

In Cambodia, we are saddened by the events forced upon us in July 1997. As we have repeatedly explained, not taking any action at that time to nip in the bud the anarchic forces that were being let loose in our society, through clandestine dealings with outlawed genocidal elements by irresponsible politicians, would have meant plunging the country into a prolonged period of civil commotion and instability. Furthermore, it would have dealt a death blow to gains in democracy and freedom.

Since the removal of the anarchic elements, which by its nature was violent, and its immediate aftermath, Cambodia has sprung back quickly to normalcy. Rule of law, as well as law and order, has been fully restored, and security prevails in the country except in remote pockets on external borders where the rebels are active. In a transparent, clear, and fully free manner, new leadership has been elected and installed for the major coalition partner. The letter and spirit of our constitution, framed on the basis of the 1991 Paris Accords, have therefore been fully and openly observed and preserved. We have actively encouraged and assisted independent organizations to conduct full investigations into all complaints of human rights violations. We shall do all we can to bring culprits to justice. While no society can fully prevent crime, the test of its determination to protect people lies in its openness to criticism and complaints and the speed and energy with which it would address such complaints. We are doing just that. We are also determined to hold free and fair general elections and have already announced the date for the same, May 23, 1998. We are enacting necessary legislation to ensure a transparent process of elections under independent monitoring. International observers are most welcome to see for themselves all aspects of our electoral process. We have encouraged everyone, albeit a small minority, who left the country to come back to participate in the democratic process. We have repeatedly assured full protection to them within the legal framework. On the socioeconomic
front, our new leadership has repeatedly assured that the progressive and proactive policies of the past would continue along with improving transparency and accountability of public governance.

We are somewhat surprised and saddened that, since these events and despite the decisive and quick action with which we have restored normalcy, freedom, and stability, some of our important external partners have either overtly, or without saying so, or in contrast with what they have said publicly, begun to slow down their support for the rehabilitation and development programs in the country, which are designed to serve the people at large. Development cooperation has to be a long-term commitment and should not be affected by misconceived perception of temporary events of a political nature, especially when the overall political framework, commitments, and promise for the future remain unchanged as in Cambodia today. Such setbacks to development cooperation undermines mutual confidence, affects the people at large, and retards progress, which alone is the bedrock for political pluralism and the many freedoms human beings cherish.

Let me now turn to the role of multilateral financial institutions in Cambodia. We are very grateful for the excellent assistance so far provided by both the IMF and the World Bank in financial, technical, and advisory terms. We look forward to continuing and strengthening the understanding that exists between the government and the two institutions. At the same time, I would like to emphasize that development is long term, and the delays and reductions in aid now imposed on us due to one-sided perceptions among some of our external partners would necessarily set the development clock back and make the development process that much more expensive and difficult to resume. Even when “domestic preoccupations” in some countries affect their will and ability to provide support to development elsewhere, it is vital and important that multilateral financial institutions like the IMF and the World Bank remain neutral and objective and act clearly professionally. They should desist from being drawn into a new post-cold war economic trap that some countries would like to set up based on misconceived political perceptions. These institutions should continue to provide support to Cambodia as before, even as they do in countries that are far less open and transparent even within our region. They should not slow down the process of their support. If they do, their proclaimed goals to reduce poverty would soon start sounding hollow.

I close with a plea that each country be allowed space and time to come up with solutions to its problems, be they political, social, or economic, as long as the chosen course is within the parameters of the basic principles of democracy, rule of law, and human rights that are universally agreed upon and are adhered to as in Cambodia. Let not the preconceived notions about the details of how a recipient country should govern itself be the guiding criteria for development support.
Let me begin by expressing my appreciation to the government of the People's Republic of China for its impressive efforts in hosting this event and the warm hospitality that has been extended to all of us during these meetings.

The Canadian Picture

The macroeconomic policy framework that we have adopted in Canada—which focuses on putting the public finances on a sound basis and keeping inflation low—is now clearly paying off in the form of stronger growth and improved job creation. The Canadian economy expanded at a robust annual rate of 4.3 percent in the first half of 1997. This represents a significant strengthening in the pace of activity from the rate of 1.5 percent in 1996. Moreover, these recent numbers have prompted the IMF to raise its forecast of Canada's growth for 1997 as a whole to 3.7 percent.

Stronger growth is also translating into healthy job creation. The Canadian economy generated more than 260,000 jobs in the six months to the end of August, pushing the unemployment rate down to 9 percent. This performance suggests that Canada is poised to shortly attain the 300,000 jobs expected by private sector forecasters at the time of the February budget. Moreover, there is every indication that improved labor market conditions are helping to create a "virtuous circle" in which stronger employment growth leads to increased confidence that, in turn, results in continued overall growth.

The decline in interest rates and rise in confidence, which have contributed most directly to stronger growth, have been made possible by the remarkable progress that has been achieved by Canada's federal and provincial governments in reducing their deficits. Our financial requirements—a measure of the government's cash flow position—were in a surplus in fiscal 1996–97 for the first time in over 15 years. On this basis, Canada's budgetary performance is the best among all the Group of Seven countries.

The World Economy

Turning to the international picture, the outlook for the world economy, on the whole, continues to be promising. Output, trade, and employment prospects have improved over the past year and further robust gains
are expected next year. Moreover, the remarkable degree of policy convergence around the world—in particular, the strong commitment to low inflation and fiscal consolidation—suggests that current global expansion will likely be sustained. Nevertheless, risks remain. Our best protection against these risks, however, lies in the continued pursuit of sound domestic policies, international cooperation, and global integration as set out in last year’s Declaration on Partnership for Sustainable Global Growth.

While the recent turmoil in Southeast Asian equity and exchange markets has highlighted the risks associated with global capital flows, we must not lose sight of the fact that these also convey critical benefits. An open and liberal system of capital movements improves the allocation of financial resources and can contribute significantly to global economic growth.

**Institutional Achievements and Challenges**

As we are all aware, the Fund has been actively promoting the orderly liberalization of capital flows for some time now. Broadening the IMF’s authority to formally establish this activity as part of its mandate is long overdue. For this reason, I support an amendment to the Articles of Agreement, which would make the promotion of capital account liberalization a “specific purpose” of the IMF.

In the coming months, however, substantial work must still be done to determine the precise scope of the IMF’s jurisdiction, as well as appropriate transitional provisions and approval policies. Close cooperation with other international institutions, such as the World Bank, the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization, is essential to ensure that the IMF’s jurisdiction is consistent with the work of these institutions. In our view, such cooperation would appear to exclude IMF involvement in inward direct investment, which is under discussion in these other institutions.

Turning to other IMF issues, I am pleased with the recent agreement on an IMF quota increase. I also welcome the agreement on a special one-time SDR allocation. This agreement will ensure that all members receive equitable treatment under all previous SDR allocations.

I would also underline the importance that we attach to recent progress to broaden the eligibility criteria and substantially increase the size of the Initiative for the Heavily Indebted Poor Countries. These changes will allow an even greater number of countries to benefit from this exceptional assistance. The next challenge is to ensure that this initiative is adequately funded. For our part, I am pleased to announce that Canada will convert its share of the second Special Contingency Account (SCA-2) refund into an unconditional grant of about SDR 12 million to support this initiative. For its part, the IMF needs an early discussion of the need to better “optimize” the use of its resources. It is also important
that we encourage the Bank and the IMF to continue their efforts to press ahead in aggressively implementing this initiative.

I have also been impressed with Mr. Wolfensohn's efforts to bring about fundamental reforms in the World Bank through the "Strategic Compact." The progress report reviewing the concrete measures that have been undertaken in the first six months to improve the Bank's development effectiveness confirms that real change is taking place. Indeed, the Bank's commitment to reform is very much in keeping with the principles enunciated in the Development Assistance Committee strategy "Shaping the Twenty-First Century," which Canada has supported wholeheartedly. The Bank's efforts to more fully engage developing countries in partnership—to work more collaboratively with these countries as well as other donors—will be strengthened through initiatives, such as the decentralization of country programs, which are already under way.

**Strengthening Good Governance**

Let me also briefly comment on the recent work, which the Bank and the IMF have undertaken on governance issues. Last year, Mr. Camdessus and Mr. Wolfensohn emphasized that good governance is central to the basic economic objectives of both Bretton Woods institutions. This was recently underlined in the groundbreaking research in this year's *World Development Report* on "The State of a Changing World." The Bank and the IMF deserve to be commended for their efforts to move beyond rhetoric to provide practical guidance on these difficult issues.

The fight against corruption is of particular concern to the international community. As we are now acutely aware, corruption deters domestic and foreign investment and discourages private sector development. Moreover, the cost of corruption falls disproportionately on the poor, who are unable to pay bribes, and are therefore frequently denied essential services. In addition, widespread bribery undermines public trust in government and hinders the development of a well-functioning bureaucracy—both critical ingredients for economic and social development.

For these reasons, Canada is a strong supporter of action by the OECD to eliminate the favorable tax treatment that some industrial countries still provide for bribes. Canada also welcomes the promotion of a nonbribery pledge for all companies bidding on World Bank projects. In our own activities, we are pressing ahead to include anticorruption clauses in all contracts that are signed between Canadian companies and the Canadian International Development Agency (CIDA).

The Bank and the IMF can play a key role in addressing governance issues by bringing their unique expertise and experience to bear on the
problem. I see the following opportunities for greater Bank and IMF involvement in the future.

First, both institutions can better integrate governance considerations into their operations. The IMF needs to do this in the context of its Article IV consultations and adjustment programs. The Bank needs to factor governance issues more explicitly into its policy dialogues, country assistance strategies, public expenditure reviews, lending programs, and project designs. In addition, both institutions need to take greater account of excessive military spending, especially when this comes at the cost of spending on basic health and education.

Second, the opportunities that exist for international cooperation on governance issues must be better exploited. Progress in areas such as money laundering and transnational bribery can only be made if all parties work together. In the future, this means greater consultation and sharing of information among the Bretton Woods institutions, regional development banks, the OECD and UN institutions, and bilateral donors.

Third, it is essential that a government have the capacity to provide a professional civil service, predictable and accountable policymaking, and a fair and transparent tax system. However, capacity building does not end here. Good governance requires the involvement of people in the decision-making process. For their part, the Bank and the IMF need to pay more attention to capacity building at the local level to help to better educate people to understand governance issues and provide viable forums for the exchange of ideas.

Finally, it is critical that information on best practices in such areas as efficient public sector management and effective tax systems be widely available. Developing countries that have the ability to retrieve such information have a marked advantage over those that do not. Indeed, the recent international conference, which Canada and the World Bank co-hosted on knowledge for development in the information age—Global Knowledge 1997—concluded that knowledge is increasingly becoming the basis for the wealth of nations, and for individuals to move out of poverty and take full part in economic, social, and cultural spheres.

However, knowledge, and the new technology that makes it potentially more accessible, will not automatically be accessible to all. Failure to consciously address issues of access to knowledge can aggravate existing problems of poverty and marginalization. For this reason, we wholeheartedly support President Wolfensohn’s goal of making the World Bank into a “knowledge bank” and urge an explicit and concerted focus on the role of knowledge in poverty reduction.

Let me conclude by noting that the Bretton Woods institutions continue to face enormous challenges. However, we remain confident that they are fully capable of meeting these with flexibility and imagination.
I am honored to address this year’s Annual Meetings on behalf of Argentina, Bolivia, Colombia, 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, Chile.

The outlook for the growth of world output and trade for this year and the next is quite good. Even more important are the trends in factors contributing to the sustainability of global growth. Steady progress is being made in controlling inflation the world over, and the fiscal position of most countries is improving. Within this favorable global context, the Latin American economy is also making definite progress. Having overcome the weak performance of 1995, the region is set to grow by more than 4 percent in 1997, a higher rate than the 3.4 percent recorded in 1996. Particularly noteworthy is the significant recovery of the Argentine and Mexican economies. We can also expect faster regional growth by 1998.

Together with this improved outlook for growth in the region, capital inflows—that already in 1996 were at high levels—have continued to increase, a clear reversal of the temporary scarcity Latin America faced in 1995. Indeed, the Economic Commission for Latin America and the Caribbean estimates that capital inflows in 1997 will amount to approximately $70 billion, some $15 billion more than the projected current account deficit. Progress with regard to inflation recorded over the last three years is continuing. The regional inflation rate for 1997 is expected to be one of the lowest this century.

However, much remains to be done. To accomplish these tasks, rates of domestic saving and investment in physical capital must be raised, and education and health services must be radically improved. In that regard, perhaps what is most needed is to avoid the cycles of excessive growth followed by recessionary adjustment that have been the hallmark of the region for almost two decades. To this end, inflation control should be a priority, and timely preventive action should be taken when signs of deterioration in inflation rates or the external position appear. Both conditions, namely domestic and external equilibria, can be met through a sound fiscal position, which ideally should also be flexible, so as to support monetary policy in achieving stabilization. Domestic macroeconomic policies must also be compatible with the exchange regimes adopted. Progress in this area is promising.

However, good fiscal management alone is not enough and is often hard to reconcile with far-reaching policies for improving equity and
competitiveness, unless the proper instruments are in place for coping with private sector expenditure cycles. Development of a sound framework of prudential regulations and financial supervision, which our countries are working toward, is essential for ensuring the proper channeling of domestic and external financial saving into profitable ventures with a high probability of repayment. Too much private spending, financed by a poorly regulated and supervised financial system, may have been a determining factor in the recent financial and balance of payments crises in the emerging economies.

Equally as important as proper domestic policy management is a stable international environment. In that connection, although projections of world growth for this year and the next are positive, we should not underestimate a number of risks that are looming on the horizon.

The last two years have been characterized by ample international liquidity and the continued strengthening of the U.S. dollar. This abundance of liquidity has greatly benefited many economies. However, the pressure of this liquidity on the level of domestic spending in recipient emerging economies has been a factor in the significant widening of balance of payments current account deficits. In some cases, these deficits have increased beyond sustainable levels. This has triggered crises in a number of places and the contagion has spread worldwide. Experience has shown that policy changes in the developed countries can have a major impact on the developing countries. Developed countries, and also the Fund, must be mindful of the systemic effects that may arise from such changes.

In this context, continued stable conditions on international financial and exchange markets are of paramount importance, given countries' increasing openness to international capital movements—one of the key issues addressed at these meetings. Although progress on inflation and fiscal consolidation suggests that the moderate real interest rates on international markets of late should not significantly change in future, there are nevertheless some disturbing signs.

The U.S. economy seems to be operating at a sound and sustainable pace. Despite the absence of inflationary pressures in the goods and services markets, the sharp rise in asset prices, a phenomenon that has not yet been fully analyzed and has spread to many emerging economies, is a cause for concern. As for continental Europe, the advent of Economic and Monetary Union (EMU) will have major, and potentially positive, global repercussions. We are confident that the commitment of the European Central Bank to combating inflation will counteract any possible risks. In the case of Japan, the second quarter of this year was marked by sluggish performance and this is not an encouraging sign. There is considerable need for more vigorous growth both in Japan and in the economies that export to Japan, especially those in Asia that have recently been suffering financial and exchange problems.
The points I have raised demonstrate the high level of interdependence in the world economy today and the growing importance of balanced development. Let me offer some thoughts on the proposed amendment of the Articles of Agreement of the International Monetary Fund, with regard to the broadening of its jurisdiction over international capital movements.

The representatives of the countries in the region have clearly expressed their willingness to extend the Fund's mandate to enable it to promote liberalization in the capital accounts of its member countries. The requirement that external saving should supplement domestic efforts to tap our vast investment opportunities will create an environment in which we can obtain additional sources of financing, with better maturities and prices. No less important is the opportunity to diversify our own financial assets to incorporate instruments from a wide variety of countries, so that the profitability and risks for large amounts of personal savings, such as those invested in pension funds, will no longer be so dependent on domestic economic cycles.

By broadening the Fund's jurisdiction, it will be possible to ensure that the natural process of deregulation that is spontaneously occurring will be more orderly, efficient, and balanced. To maximize this potential, however, it is necessary to ensure that the new wording of the Articles provides the flexibility and powers needed to properly guide the process.

The Fund's Executive Board discussed using a transition period to enable the countries regulating capital flows to phase out these restrictions. This period, its definitions and approval policies are of main importance. Precipitate liberalization would create new financial crises with a spillover to other countries resulting from the contagion effect.

A transition period is not sufficient. In our opinion, one of the most important aspects of the future regime is the treatment of prudential measures. Owing to the structural characteristics of the economies of our region—mostly small open economies requiring external resources and with insufficiently diversified exports—they are highly vulnerable to external shocks. Although this vulnerability can be lessened with proper macroeconomic management, the volatility of some key variables cannot be completely prevented. This volatility has a very considerable effect on the stability of the financial system. Thus, adoption of prudential regulations in the financial system is very important to prevent any macroeconomic disturbance from being amplified into a full-blown crisis.

It has been proposed that the guiding principle for prudential regulations should be to exclude any relating to balance of payments or macroeconomic management reasons. However, prudential regulations applicable to the financial system are specifically designed to prevent financial problems that are initially limited or microeconomic in scope from acquiring macroeconomic proportions. Thus, the decision to exclude a reg-
ulation based on its macroeconomic character could be arbitrary and even inappropriate. Take, for example, the case of a rapidly growing economy with sound fundamental balances. The high rate of return on capital in a booming economy attracts large inflows of external resources. These inflows are further encouraged by the appreciation of the domestic currency, which is characteristic of economies experiencing rapid productivity growth. Capital inflows stimulate domestic demand and could push up domestic interest rates if the monetary authorities safeguard domestic equilibrium. This, in turn, could provide a further incentive for capital inflows. The probable outcome will be continued appreciation of the real value of the local currency, the resulting risk of widening the current account deficit, and the greater danger that these capital flows will be reversed, should some negative external shock occur. After implementing all the so-called first-best solutions, such as fiscal consolidation, incentives for capital outflows, and strengthening of bank supervision, the authorities may in addition have to take measures to discourage short-term foreign borrowing in order to minimize the impact, particularly on the financial system, of a possible reversal of capital flows. Would not such measures be eminently prudential? Could not the same be said of a requirement that high levels of liquidity be maintained in the financial system of an economy that is sound but risks contagion from an unstable neighboring economy?

In our opinion, the appropriate criteria for admitting prudential regulations should be based on a review of the status of economic fundamentals and not on the assumed micro- or macroeconomic character of the regulations. If the fundamentals are in order, prudential regulations will in fact be preventive or prudential in nature. If, on the contrary, this is not the case and adjustments need to be made, countries must take action to correct these fundamental imbalances before resorting to regulations or restrictions that, quite probably, would be used as substitutes for the necessary adjustments or would have a very limited effect if markets were aware of the fundamental imbalances. Prudential regulations are complements to, not substitutes for, the maintenance of sound fundamental balances.

In this new age of increasingly fluid capital markets, the role of international financial institutions is also affected. For the Fund, balance of payments crises will continue to emerge. Though such crises will probably be less frequent, they may well be more severe; thus, continually reviewing the modalities of the different available lending facilities will be an important future task of the Fund. We must also endeavor to provide the Fund with adequate resources and further facilitate drawings by member countries as the volume and scope of private capital movements increase.
In that connection, we welcome the agreement reached on the allocation of special drawing rights, an issue that was subject to lengthy discussions. The Fund’s Executive Board has also reached a consensus, to be ratified by the Board of Governors, on the Eleventh General Review of Quotas, requesting an overall increase of 45 percent. This consensus was not easy to attain, mainly because of the difficulties in reaching an agreement on criteria to distribute shares on a proper method for power sharing among members. An in-depth and informed discussion on the calculation of quotas would be very desirable. In any event, we regret that, under the current review, the developing countries, which have for some time now been recording substantially higher growth rates than the other countries, stand to lose some of their relative weight. We hope that, as a result of reviewing the formulas, this situation will be corrected in future. Meanwhile, we trust that the commitment to maintain the current representation will be honored.

Allow me to refer to my own country for a moment. The performance of the Chilean economy in recent years has meant that, in macroeconomic terms, the 1990s will undoubtedly be the best decade of the twentieth century. During this decade, Chile has achieved a high and sustained economic growth rate averaging more than 7 percent a year, while steadily reducing inflation gradually from almost 30 percent a year in 1990 to an estimated 5.5 percent in 1997. The current account deficit has been maintained at perfectly sustainable levels, averaging less than 2 percent of GDP for the decade to date and peaking at just about 4 percent of GDP. At the same time, exports have continued to grow at a sustained rate that exceeds the GDP growth rate.

In the area of social development, during the past 10 years, the incidence of poverty has been virtually cut in half, thereby reducing the percentage of persons with incomes below the poverty line from almost 40 percent of the total population in 1987 to just over 20 percent in 1996. The results were even more favorable in the case of extreme poverty, which in 1996 was reduced to one-third of the level of the mid-1980s.

We consider these favorable results to be the product of serious efforts reflecting the commitment by the Chilean authorities to maintain macroeconomic equilibrium and achieve sustainable performance in the medium term. This commitment is reflected not only in the policies followed by the government, but also by the central bank, whose autonomy and independence were established by law more than seven years ago.

The macroeconomic program for 1998 plans to maintain rapid economic growth, at a rate of 6.5 to 7 percent a year, and to continue to gradually reduce the inflation rate, aiming at a level close to 4.5 percent—1 percentage point less than the target for this year. The fact that inflation targets for each of the past few years have been achieved and that the policies followed have been consistent has given credibility to the stabiliza-
tion effort. Owing to careful regulation of capital flows, particularly the prevention of rapid increases in foreign borrowing, significant and sustainable advances have been made in Chile's integration into the external financial arena. As a result, the cost of foreign borrowing has significantly decreased and the composition of external financing has improved, with emphasis on foreign direct investment and long-term borrowing.

The success of these tasks is not only the result of the determination of the monetary and financial authorities; another key element is fiscal consolidation, which has resulted in repeated government finance surpluses, high levels of public saving, and moderate expenditure growth. This path of careful moderation must be pursued if success is to be achieved.

Policies to maintain macroeconomic stability will enhance the sustainability of the improvements in growth and development. This development will enable one-fifth of all Chileans, who still live in conditions of poverty, to enjoy the increasingly abundant fruits of progress. Sharing the fruits of progress is ultimately the foundation of social cohesion, institutional development, and democracy.

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

Liu Zhongli

The world economy continued to be encouraging in 1996 and achieved its best performance since 1990. The integration of developing countries in the world economy was further strengthened. However, we should not overlook the wide range of risks and fragilities persisting in the world economy. The international financial market has experienced some unrest. International capital flows have created opportunities for developing countries, as well as risks, such as speculative attacks. Global inflation could rise, causing interest rates in developed countries to increase, thus reducing capital flows to developing countries. Especially disturbing is that official development assistance (ODA), as a share of developed countries' GNP, has dropped to the lowest level in 50 years. New protectionism is occurring in international trade under the guise of environmental protection and labor standards. These problems, if not addressed in a timely and effective manner, will not only dampen the economic future of developing countries, but will also undermine the sustainability of global economic growth. We call upon the international community, and devel-
oped countries in particular, to act as soon as possible to reduce uncertainty and destabilizing factors in the world economy.

China’s economy has made satisfactory headway in 1996, and, since the beginning of 1997, the economy overall has maintained a momentum of healthy growth. While encouraged by our prospects, we are fully aware of the challenges we face. China is still a low-income developing country with a large population, a weak economic base, and wide disparities across regions. At present, we are facing a number of difficulties, especially irrationality in the economic structure, low efficiency in the economy, heavy losses by some state-owned enterprises, and rising unemployment. To address these problems, the Chinese government will further enhance economic system reform and take effective measures to change the growth pattern. Particularly, we will speed up the reform of state-owned enterprises, focusing on invigorating the larger ones while further relaxing control over the smaller ones. We will standardize bankruptcy procedures, encourage mergers and acquisitions, and promote reemployment. We are fully confident that, within the next few years, the performance of state-owned enterprises will be improved fundamentally. At the same time, we will continue to readjust and improve the ownership structure, and efforts will be made to develop diverse forms of ownership while ensuring a dominant position for public ownership.

The World Bank, as the largest international financial institution, has played an important role in supporting economic development in developing countries. We note that the Bank’s management, and Mr. Wolfensohn in particular, has exerted much effort in promoting the Bank’s own reform. We support the fundamental objectives of the Strategic Compact, namely, to increase the efficiency of the Bank’s work and provide better and more timely services to its borrowing members. In designing and implementing reform measures, the Bank should fully consider the real needs of different borrowers. In today’s changing world, it is important, more than ever, that the Bank act strictly within its mandate and overcome any political interference. We hope that the Bank will make full use of its comparative advantages and continue to focus on transferring resources to developing countries, alleviating poverty, and promoting sustainable development as its core operations.

International experience has shown that infrastructure development requires joint efforts by the public and private sectors. In this vein, we support the World Bank Group’s role in taking action, including strengthening and expanding guarantees, advisory services, and information dissemination, in order to facilitate private sector involvement in infrastructure. At the same time, we are of the view that the ability to provide finance is a valuable asset of the Bank and that financing infrastructure in developing countries directly should continue to be a priority for the World Bank and other multilateral development banks. In the future, the Bank’s role in
infrastructure, particularly in those projects related to poverty reduction, will still be irreplaceable. The Bank’s finance in infrastructure will not crowd out the private sector; on the contrary, it will help create an enabling environment for private sector participation.

We note that the prospects for the Bank’s net income are less than optimistic. We are of the view that the Bank must be more selective, especially when it is faced with increasing claims. In allocating net income, priority should be given to supporting the mainstream operations of the Bank as a development institution, especially lending, and the principle of equity should be observed.

The Multilateral Investment Guarantee Agency (MIGA), since its founding, has played a unique role in helping developing countries absorb international capital. We welcome the consensus reached on MIGA’s capital increase and are willing to take our share of responsibility.

Improving governance and eliminating corruption contribute to economic development. Fundamentally speaking, the responsibility for fighting corruption rests solely with sovereign governments. The Bank and the IMF, at the request of countries concerned, could play a useful role. But the two institutions should act in strict accordance with their respective mandates, limit their anticorruption activities to the economic aspects, and ensure uniformity of treatment of all members based on objective criteria.

We are pleased to see that certain progress has been made in implementing the Initiative for Heavily Indebted Poor Countries. We hope that creditors, especially the Paris Club members, will honor their commitments in a timely manner to benefit eligible countries as soon as possible. With regard to the debts owed to China, we will address them through bilateral channels on a case-by-case basis.

The Chinese government supports the IMF’s efforts to assist the economic reforms and adjustments of developing countries through arrangements under Enhanced Structural Adjustment Facility (ESAF). It is our view that the major industrial countries should take the lead in making concrete financial commitments. Conditional on this, China is willing to consider contributions comparable to its fiscal ability.

We support the extension of the Fund’s jurisdiction to the capital account, and we endorse the inclusion of capital account convertibility in the Fund’s purposes. Meanwhile, the Fund should respect the sovereignty of member countries and the jurisdiction of existing international treaties. Sufficient time should be given to member countries to study related issues, and haste should be avoided. During the transitional period, those members with immature conditions should be allowed to proceed in an orderly and healthy manner based on their real situations. Technical assistance to member countries should also be strengthened.

We welcome the newly reached agreements on the SDR allocation and the quota increase under the Eleventh General Review. Developing
countries’ quota share in the Fund and capital share in the World Bank are declining, however. We ask that efforts be made to address this issue at an early date.

As is well known, the return of Hong Kong to China has increased China’s economic strength. This development should be duly reflected in China’s quota share in the Fund. China has made a formal request to the Fund for a special increase in its quota share. We hope that our reasonable request will be met as soon as possible.

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

José Antonio Ocampo Gaviria

It is a great honor for me to address these Annual Meetings of the World Bank and the International Monetary Fund on behalf of Latin America and of my own country, Colombia.

Let me start by expressing our gratitude to the government of the People’s Republic of China and to the authorities of the Special Administrative Region of Hong Kong for their hospitality and outstanding organization of this forum.

Latin American Growth and Capital Volatility

The year since the previous Annual Meetings has been a period of acceleration of economic growth in our region. The strong recoveries in Mexico and Argentina, after their 1995 recession, have been accompanied by more rapid economic growth in Brazil. More recently, among medium-size economies, Peru and Colombia have shown clear signs of acceleration after their 1996 slowdown, as Venezuela recovered from her recession. Chile has continued, in turn, on her solid expansion path. Projected growth rates for Latin America, of 4 percent or more for 1997, reflect a generalized improvement of economic performance in the region.

Medium-term prospects have also improved. The new Global Economic Prospects projection for the region for 1997–2006, 4.2 percent a year, is a clear demonstration of this fact. However, this rate of growth remains below that which the region achieved prior to the 1980s, and that which is necessary to overcome the pressing economic and social problems we face. The region must thus continue to build, through structural reforms, the conditions to accelerate economic growth.
An essential element of this process was the rapid normalization of capital flows after the Mexican peso crisis in late 1994. The renewal of private capital flows has been accompanied by improved spreads and country rating upgrades. It is important to emphasize that the recovery in the region in the aftermath of the Mexican crisis, as opposed to the devastating effects of the debt crisis of the 1980s, was largely determined by the rapid intervention of multilateral agencies. This stresses the crucial role these agencies play in avoiding sharp fluctuations in capital flows. We thus welcome the timely response of the Fund to the recent problems faced by some Southeast Asian countries.

Capital volatility will continue to be a major source of instability for the region and for the developing world as a whole. It is true that domestic policy weaknesses have sometimes contributed to such instability. This is not the full story, however. It is clear that the Mexican peso crisis in 1994 was worsened by the panic behavior of short-term capital flows, which blew the crisis out of proportion with regard to its initial fundamental factors. Speculative behavior has played again a destabilizing effect in the recent Southeast Asian events. In both cases, contagion effects spread the crisis to other countries, including those with sound macroeconomic management.

This is the background against which the issue of capital market liberalization should be analyzed. For several Latin American countries, price-based capital controls have proven to be an efficient mechanism to discourage short-term capital flows and to reduce the volatility of domestic credit and exchange rates. They provide, in turn, incentives for long-term capital inflows and restore some degree of autonomy that policymakers may have lost in the process of economic and financial liberalization. This is why we fully support the Group of Twenty-Four (G-24) declarations, which emphasized that “precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.”

Moreover, financial liberalization must be accompanied by stronger multilateral institutions, capable of effectively compensating the instability of private capital flows. In this regard, as well as that of the Multilateral Investment Guarantee Agency (MIGA) and the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), there has been a wide gap between the increased responsibilities given to multilateral agencies and the willingness of some shareholders to effectively provide them with an adequate capital or quota base.

World Bank Initiative

Let me use this opportunity to congratulate the World Bank for its 1997 World Development Report, as well as for its recent reform agenda.
for Latin America, which was issued under a very Chinese title, *The Long March*. They deal, no doubt, with very controversial subjects but will, nonetheless, become crucial references for the ongoing debates on the redesign of the state.

The reform process under way in the Bank is, no doubt, essential to guarantee a more effective client-oriented institution, though its risks should not be disregarded. Loans denominated in single currencies, adjustable loans, portfolio management, decentralization, and support to private infrastructure are moves in the right direction. Much more remains to be done, however. To mention just two crucial issues: project approval continues to be cumbersome, and national government guarantees are increasingly paradoxical for an institution that wants to give direct support to local governments and to the private sector.

Let me focus my attention on three issues that are central to the discussions going on at these Annual Meetings: World Bank involvement in efforts to combat corruption, the HIPC Initiative, and support to private sector infrastructure.

We fully support international efforts to combat transnational bribery, asset laundering, and other forms of economic crime. My own country, Colombia, has been deeply involved in encouraging international treaties and domestic legislation to combat corruption and asset laundering, and thus strongly supports World Bank involvement in the fight against corruption and its transnational dimensions. At a national level, such involvement must obviously be based on objective analysis and established facts, and it should be concerned with systematic corruption rather than with isolated cases.

We are deeply concerned about the slow progress in the implementation of the HIPC Initiative, which basically reflects the financial uncertainties it faces. Let me also express this point of view in the name of the Non-Aligned Movement, which Colombia currently chairs. It is urgent that full funding be guaranteed to the HIPC Initiative as well as to the Enhanced Structural Adjustment Facility. This includes the adequate funding for regional multilateral institutions by their members, and, in the particular case of the African Development Bank, by special contributions from industrial nations. Moreover, this process should not weaken the financial strength of multilateral institutions. In this regard, we view with increasing concern the additional use of IBRD's net income for this purpose, and prefer mechanisms in which the required resources are explicitly provided by its members. We are willing to share in such costs, as well as in those of other multilateral institutions to which we belong, following equitable sharing and transparent rules.

We strongly support the action program on private infrastructure presented to the Development Committee. Obviously, involvement in this area should complement and not substitute traditional support to public
sector investment in infrastructure, which will continue to be essential. Collaboration between Colombia and the Bank in private infrastructure has been very productive, as the action program recognizes. Based on that dialogue, let me refer to six areas that are essential to the success of this initiative.

The first area is the close collaboration among the World Bank, the International Finance Corporation, and MIGA in this area. The design of country assistance strategies must emphasize this coordination among Bank Group institutions. Second, although adequate project design should minimize—or even eliminate altogether, in some cases—the use of government guarantees, contingencies assumed by governments should be adequately estimated and budgeted. Third, the adequate weight of guarantees versus loans in the determination of overall World Bank financial support to a specific country must be urgently analyzed, for otherwise guarantees will become an unattractive alternative. Fourth, guarantees should not necessarily be the major source of IBRD financial support. The Bank should also support the design of infrastructure financial facilities that guarantee the rollover of project financing when it matures, and of national and regional infrastructure funds, particularly those that participate in the financing of medium-size projects. Fifth, this should be complemented by programs to develop local capital markets, which should provide an increasing proportion of financing in this area. Finally, private financing of infrastructure is a clear case in which the Bank should consider the elimination of government counter guarantees as a condition for Bank financing.

*The Colombian Economy*

Let me finish with a brief statement on the Colombian economy. GDP growth slowed down in 1996 to 2.1 percent. Although several factors contributed to this process, a major reason was the contractionary monetary policy implemented by the central bank to face a clear overheating of the economy at the end of the 1992–94 boom, during which aggregate domestic demand increased at unsustainable levels: an average of 11 percent a year, compared with a GDP growth rate of 5 percent.

Since the second quarter of this year, economic conditions have significantly improved. GDP, seasonally adjusted, grew 3.7 percent during the quarter. Preliminary third-quarter data indicate that this trend has continued. We can expect rates of growth of more than 3 percent for 1997 as a whole and close to 5 percent for 1998. Inflation has come down simultaneously, though much more should be done in this area over the next few years. Annual inflation came down from 21.6 percent in December 1996, to 18.0 percent in August—this year's central bank target. The trade and current account deficits are simultaneously decreasing, and we have been
able to correct part of the undesired real appreciation that we faced during the second semester of 1996. This has been consistent, moreover, with unprecedented levels of foreign direct investment, which could reach $5 billion this year—equivalent to 5 percent of Colombia’s GDP.

Finally, economic recovery and the austerity measures adopted for 1997 have been reflected in stronger fiscal accounts than originally projected. This process will continue in 1998, as the austere budget before Congress indicates. Central government expenditure, net of interest payments, will fall by more than 1 percentage point of GDP between 1996 and 1998. Tax revenues have simultaneously increased 14 percent in real terms over the past four months. This will allow a reduction of the operational deficit of the consolidated public sector to 1.5 percent of GDP this year, and to return to an equilibrium operational position in 1998. This shows our strong commitment to sustainable recovery and to traditional orthodox standing in fiscal policy.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR CYPRUS**

*Christodoulos Christodoulou*

It is a great pleasure and honor for me to address these Fifty-Second Annual Meetings of the International Monetary Fund and World Bank.

It is encouraging that the world economy over the past year has been characterized by healthy growth, low inflation, reduced fiscal deficits and significant structural reforms in a number of countries. This improvement in the economic fundamentals has enabled many countries to pursue new initiatives and reforms to meet the challenges of globalization. At a regional level we welcome particularly the historically high economic growth rates being recorded by sub-Saharan Africa and the resumption of positive economic growth in the countries in transition and trust that these developments can be sustained.

The benefits and costs associated with the globalization process for emerging market economies has been illustrated strikingly during 1996 and 1997. Massive amounts of foreign private capital have flowed into these economies, especially to Southeast Asia, to promote investment and rapid economic growth. However, the vulnerability of such flows to individual countries and regions in response to shifts in market sentiment has been underlined by the recent downward pressures on the currencies of a number of Southeast Asian countries and the large falls in equity prices in their markets. We need to put these developments into perspective and as-
sess whether foreign investors and financiers and domestic players have exaggerated the deterioration in the prospects for Southeast Asian economies and have overreacted by shifting funds and capital out of these countries. If so, what else can the international financial community, including the IMF, do to help restore confidence in the currencies and financial assets in the affected Asian markets? Are the IMF's resources too limited to provide quickly the appropriate amount of emergency financing? What corrective measures should the authorities of individual countries take to enhance and reinforce policy credibility in the eyes of domestic and foreign investors? It is pleasing to note that the Interim and Development Committees have in recent days been at the forefront in addressing these issues.

In Cyprus we have become acutely aware of how sudden shifts in investor and consumer confidence arising from actual and perceived political and military developments can be transformed quickly into destabilizing financial and economic developments. In 1996 events, which caused uncertainty regarding future political and military developments, depressed foreign and domestic spending in the Cyprus economy reducing the growth rate to 2 percent compared with 5 1/2 percent in the preceding year. To contain the destabilizing tendencies the economic authorities stressed the good economic fundamentals pertaining to the Cyprus economy and its ability to increasingly align its policies with those of the more successful performers in the European Union. Indeed in 1996, with a stable exchange rate, annual inflation about 2.1 percent according to the interim EU harmonized consumer price index, a long-term interest rate of 7 percent, and a public debt to GDP ratio of 54 percent, Cyprus was able to meet almost all of the Maastricht criteria. Only a government deficit to GDP ratio of 3.4 percent, caused mainly by a moderation in the growth of revenues, prevented full satisfaction of the Maastricht criteria. In 1997 a strong recovery in net exports is now boosting the growth performance of the economy, while the rates of unemployment and inflation have been about 3 percent.

We consider the issues of the ability of the IMF and World Bank to help promote and sustain economic growth in the least developed countries and to provide emergency financing to countries affected by sudden private capital outflows are of great importance. The IMF and the World Bank must have the financial resources to respond quickly, flexibly, and adequately to meeting such responsibilities. We welcome the approval of the increase in quotas by 45 percent, a measure that will enhance the ability of the Fund to deal more adequately with balance of payments and currency crises of its members. Cyprus welcomes also the recent decision of the IMF to proceed with a new SDR allocation.

Cyprus would support efforts being made to speed up the implementation of debt initiatives by the IMF and the World Bank to assist the poor-
est highly indebted countries. We are concerned also that the flow of official and World Bank development assistance to African countries is falling and would urge that greater efforts be made to address this problem.

In concluding, I would like to stress that Cyprus will continue to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic environment conducive to growth and development. I would like also to take this opportunity to thank the management and staff of the Fund and the Bank for the constructive advice and assistance they have rendered to Cyprus. In particular, the various missions that have visited Cyprus in recent years have been instrumental in enabling us to implement economic and financial reforms that were necessary to liberalize our economy and to harmonize our policies and institutions with those of the European Union.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ARAB REPUBLIC OF EGYPT

Atef Mohamed Mohamed Ebeid

I am pleased and honored to address this gathering on behalf of the Governors of the Arab member states of the World Bank and IMF. I would like to begin my remarks by congratulating you on your election to chair the Board of Governors this year, and by thanking the government and citizens of the People’s Republic of China for their kind hospitality and successful organization of this year’s meetings.

During the past year we have witnessed a number of important developments in the global economic environment, including the continued pursuit, in a large number of countries, of policies aimed at achieving fiscal and monetary stability. These policies have led to reduced budget deficits and lower rates of inflation and world interest rates, and have helped to create a favorable economic climate in most countries of the world. Many countries have continued their structural reform efforts, which have helped to improve prospects for continued economic growth. But these developments were not accompanied by increased growth rates or by a reduction in the high rates of unemployment prevalent in many European industrial countries, although there are encouraging signs of increased economic activity in a number of them. While the lower economic growth and higher unemployment in these countries reflect in part a reduction in their budget deficits, we believe that additional efforts must be made to eliminate labor market distortions and reduce unem-
ployment by increasing the flexibility of wages and improving the social safety net.

On the other hand, economic growth in 1997 remained strong and without inflationary pressures in the United States and the United Kingdom, two countries distinguished by their flexible labor markets and balanced economic policies.

A number of countries in transition have implemented economic reform policies over the past few years that have significantly increased economic activity after a period of stagnation. In the developing countries, where reform efforts have been redoubled, growth rates remain high. We are highly appreciative of the efforts being made in developing countries, and of the outstanding role played by the World Bank and the IMF in supporting the implementation of sound economic policies in their member states.

On this occasion, and in order to support efforts to promote growth in developing countries, we call on the industrial countries to eliminate the obstacles that still constrain the exports of developing countries. We also hope that the reserve currency countries will intensify their efforts to reduce fluctuations in the exchange rates of their currencies, as such fluctuations have a negative effect on the economies of developing countries, especially those tied to the exchange rates of the principal currencies.

The global economy is currently undergoing great changes. The globalization of financial markets and the elimination of constraints to international trade have led to a new challenge—not only for the Bretton Woods institutions, but also for the policymakers of their member countries. Although the new economic environment has led to the creation of investment opportunities and worldwide growth, it has also resulted in new challenges for the member countries and the international financial organizations, including the increased size and sophistication of world financial markets, advances in information technology, and increases in the size of capital flows and the ease of transfers between various financial markets. The Bretton Woods institutions have a particularly important role to play in helping their member countries, especially the developing countries, to take full advantage of this new climate, while reducing the associated risks. Recent developments have caused the IMF to consider amending its Articles of Agreement to allow it to supervise efforts aimed at liberalizing worldwide capital movement, to ensure that it is done in an organized and effective manner. The recent problems of financial markets in many emerging markets are largely the result of the increased globalization of these markets. In order to obtain the maximum benefit from globalization and to minimize its negative effects, many developing countries have implemented a series of sound economic reforms, accompanied by comprehensive structural reforms. But these measures alone are not sufficient, as recent developments in Southeast Asia have shown. Even
countries that follow sound economic policies are not safe from the effects of financial disturbances in the region.

Recent global developments have underscored the need, when preparing economic reform programs, to consider the existence of favorable conditions in the countries concerned, which will allow them to meet the challenges of integration into the global financial markets.

It is also crucial to ensure that the financial and banking sectors are sound, and to strengthen financial markets in the developing countries, thus enabling them to keep pace with the latest economic developments. Here I would like to stress the importance of the technical assistance provided to developing countries by the IMF and the World Bank, to support their efforts aimed at integrating themselves into the new world order. There is no doubt that globalization has added to the burden of responsibilities carried by the World Bank and the IMF, and we consider the rapid response of the two organizations to the crisis in Southeast Asia to be clear proof of their effective role in limiting the effects of financial crises.

We endorse the importance attached by the Bank and the Fund to the role of sound management in economic development, but the focus must be on strengthening the economic aspects of sound management, as these lie naturally within their scope of activity. We also stress the importance of respecting the sovereignty of the member states and their freedom to choose the type and timing of the programs they implement. We also welcome the increased importance attached by the Bank and the IMF to the social dimension of economic reform programs in developing countries, especially in two areas: first, providing the needed resources to the health and education sectors within the framework of economic reform programs, as it is very difficult to achieve sustained high rates of growth without developing human resources; second, establishing effective mechanisms to provide a social safety net as an integral part of reform programs, as such mechanisms to reduce the negative effects on limited-income groups during the early stages of reform, while helping to promote public acceptance of the reform process itself.

We support the international initiative aimed at reducing the burden of heavily indebted poor countries, but we would like to express our concern over the unavailability of sufficient resources for this purpose. If sufficient bilateral assistance cannot be obtained to complete the implementation of this initiative, we support the Fund’s selling a portion of its gold reserves for this purpose.

I would now like to turn to the subject of relations with the World Bank.

We appreciate the circumstances that over the past two years have led the Bank to make a number of administrative changes and to focus its efforts on improving project implementation, but we also note a reduction
in the number of new commitments for FY 1997, and for the preceding year as well. It is disturbing that the decreased availability of new loans has hit particularly hard in regions that suffer from severe poverty, such as sub-Saharan Africa and South Asia, where World Bank and International Development Association (IDA) commitments fell significantly last year. It is also disturbing that the reduction in new commitments to the Arab world—over 40 percent—was larger than in any other region. We must therefore make exceptional efforts to increase the Bank's activities in these regions, to ensure its effective role in reducing poverty and supporting development efforts.

We look forward to implementing the reorganization program initiated by Mr. Wolfensohn within the framework of the Strategic Compact recently approved by the Bank's Board of Directors, which contains a number of basic reforms aimed at improving performance and enhancing the Bank's ability to serve its member countries more effectively and at lower cost.

I would also like to draw your attention to the positive accomplishments achieved by the World Bank Group over the past year. Foremost among them are the continued increase in drawings on IBRD and IDA credit facilities and the expanded activities of the IFC, along with its increased concern for the developmental effects of its investments and greater interest in investing in the small countries of Africa. We also welcome the increased number of guarantees provided by MIGA, and we support efforts to enhance its ability to provide even more of these guarantees, which encourage the flow of private capital. Moreover, we applaud the efforts made by Syria to normalize its financial relations with the World Bank and regain its right to avail itself of the Bank's services.

I would now like to discuss economic developments in the Arab world. The countries of this region witnessed a number of positive developments during 1996 and 1997, including significant improvements in most of the macroeconomic indicators, the renewed stability of economic conditions, and increased rates of growth. GDP grew by 4.5 percent in 1996 and is expected to achieve similar growth in 1997. This growth was also accompanied by an increase in real wages for the first time after four successive years of decline.

These positive developments also included an improvement in the general financial situation of both the oil and non-oil countries. Budget deficits in the region were reduced to about 2 percent of GDP in 1997, compared with 7 percent in the early 1990s. Inflation rates in the region fell to 8 percent in 1997, just half of the rate during the previous five years. The Arab countries also witnessed positive developments in their external performance, with the current account register showing a surplus for the first time since 1990. The external debt burden was also reduced in a number of countries.
The improvement in the region's economic performance is largely the result of the comprehensive financial and structural reforms implemented by a number of Arab countries, with the support and assistance of the World Bank and the IMF. The countries that adopted financial stability programs have begun to reap the benefits of reform. The Gulf countries have witnessed a significant improvement in their economic situation after several years of pursuing policies of financial reform.

Great efforts have also been made to revive the Palestinian economy and to build financial and economic institutions in Palestine, with the support of the World Bank, the IMF, and the donor countries. We applaud these valuable international efforts to assist the Palestine Authority in overcoming the difficult economic situation and poor standard of living in the Palestinian territories, but we regret that these efforts are faced with increasing obstacles caused by Israeli measures, which have stymied the efforts of the Palestinian people to develop their homeland and hindered the financial assistance provided by Arab and international donors, in addition to obstructing the pathway to peace in the Middle East. We therefore urge the World Bank Group, the IMF, all international organizations, and their member states to demand that the Israeli government release all financial assets belonging to the Palestine Authority, open the closed borders, and refrain from placing further obstacles to the development of the Palestinian economy.

Completion of structural reform aimed at increased economic liberalization is at the top of the agenda of the Arab countries. This is evident in the effective measures being taken by the countries of the region to implement privatization programs. It is also evident in the success that many of these countries have achieved in strengthening their banking and financial systems and freeing them from administrative constraints, in an attempt to stimulate financial mediation and improve the investment climate for the domestic and foreign private sectors. Also noteworthy are current structural reforms aimed at increasing production capacity and diversifying economic activity by providing new opportunities for the private sector. We hope that these important reforms will help solve the unemployment problem by creating new job opportunities that are sufficient to absorb the regions' steadily increasing labor market.

In view of the benefits of globalization and the need to increase their competitiveness, the Arab countries have taken measures to create a regional free trade zone, and members of the World Trade Organization have taken important steps to liberalize trade and open their markets to the outside world.

The marked improvement in the economic conditions of the Arab countries has led to increased capital flows in a number of them. We are hopeful that these countries will be able to attract further capital and increase their rates of investment. In this connection, an important step was
taken in 1996 by the Arab development funds to encourage increased participation by the Arab private sector in reform and development activities, through new programs offered by the funds to provide financing for private sector projects.

The Arab states are well aware that, despite the improved economic performance of the region, they still have a long road to travel. The achievements of the past two years will serve as the cornerstone for future reforms. The Arab countries are also aware that improvements in the external environment are not sufficient to stimulate economic growth. Efforts must also be made to create domestic conditions that can help achieve sustainable high growth rates. Both elements are needed to create a climate that encourages domestic savings and productive investment, which in turn can help achieve high growth rates, provide increasing employment opportunities, and raise the standard of living of the region’s population.

Before leaving our discussion of the Arab world, we must not forget that Libya continues to suffer from the sanctions and other constraints that have been placed upon it, and that other Arab countries are threatened with similar sanctions. It is our hope that these resolutions can be reconsidered in an objective light, in order to relieve the suffering of the people involved. We call for efforts to assist in the development of these countries by means that comply with the rules of international trade, to increase the flow of capital to these countries in accordance with the principles of the international financial institutions.

We urge the IMF and the World Bank to continue and intensify their efforts to provide financial support and technical assistance to Arab countries and their specialized agencies, thus enabling them to keep pace with the international economic system, in particular by providing the technical training necessary for modern economic management.

We welcome the approval by IMF members of the new SDR issue, and we urge member countries to complete in a timely manner the procedures for amending the Fund’s Articles of Agreement in this respect.

With regard to the Eleventh General Review of the Quotas of IMF members, we feel that we must express our reservations concerning the approved method of distribution, which will lead to an overall reduction in the quotas of developing countries, just as these countries are assuming a greater role in the world economy.

We share the view expressed in your opening statement that the most important challenge facing the World Bank Group, the IMF, and all their member countries is the challenge of adapting to the new circumstances of a changing world. We welcome the efforts that have been made so far in this direction, and we look forward to further participation in helping our member states meet this challenge.
STATEMENT BY THE GOVERNOR OF THE BANK FOR ETHIOPIA

Ato Sufian Ahmed

World Economic Outlook

Over the past three years, the increase in trade, financial flows, and exchanges of technology and information are factors that have created a more conducive environment for the expansion of the world economy. This process has generally led to encouraging performance and prospects for the developing countries as well as advanced economies and economies in transition. We are therefore encouraged to see that the macroeconomic and structural policies implemented in most of these countries have considerably eased inflationary expectations and reduced budgetary deficits, both of which have contributed to declining long-term interest rates as well as reduced erratic fluctuations in the exchange rates of the key currencies and further promoted international trade.

This favorable international economic environment has no doubt contributed to the progress made by the developing countries, which grew by about 6.5 percent in 1996. In Africa, economic reforms seem to be bearing fruit and have resulted in an average 4.8 percent growth rate in 1996, the highest in 20 years. Forecasts based on continuation of the adjustment policies and ongoing improvement in the international economic environment suggest that this rate of growth for the African countries is expected to rebound to 5 percent in 1998 after registering 3.7 percent in 1997.

As a number of studies have shown, Africa's economic performance remains below potential and is inadequate to reverse the trend in poverty. Africa must be competitive and produce more in order to achieve annual rates of growth above 7 percent. It is our view that it is only under such circumstances, with greater non-debt-creating capital inflows and strengthened human and institutional capacities, that Africa can meet the twofold challenge of improving the living conditions of its people and integrating into the world economy.

Africa and the Globalization of the Economy: Challenges and Opportunities

Meeting this twofold challenge is one of our key concerns, especially as we are aware of the marginalization of our continent in the current globalization of the economy. Indeed, based on the fact that globalization implies more dynamic international trade and capital flows, we
must resolutely reverse, in international trade, the current decline in Africa's—and especially sub-Saharan Africa's—share, which stands below 2 percent. We must also considerably improve our saving and investment rates in comparison with those of other regions and must attract more foreign direct investment so as to raise its share of capital flows to the African region. Indeed, this should be possible as we have, through the implementation of structural adjustment programs, managed to keep our economies on the path of macroeconomic stability. Thus we have laid greater emphasis on market-based policies, redefining the role of the state in the economy and improving basic infrastructure. Our actions have also aimed at promoting the agricultural sector as well as the social and educational sectors, which, in our view, are the basis for sustained development. Furthermore, as we know that the sustainable growth of our economies and the improvement of the living standards of our populations are dependent on more efficient management of our resources, we are giving the highest priority to the issues of good governance, efficiency, and transparency in the management of public resources. However, all these efforts have not yet received the desired response from the international community.

We are determined to pursue our actions in all these areas, in spite of the limits of our current efforts. Consequently, we believe that the active support of the international community, and of the Bretton Woods institutions in particular, should enable us to achieve the objectives we have set. We hope that this support will form part of a mutually beneficial partnership, in which the advanced countries open their markets wider to our goods and services and in which our economic reforms are supported by concessional bilateral and multilateral financing. In this context, we are very much encouraged by the recent Group of Seven economic statement in Denver emphasizing the need for the international financial institutions to reinforce their efforts to support reforming sub-Saharan African countries in the areas of greater openness, regional integration, and wider participation in the world economy.

Resource Flows

We are cognizant of the need to accelerate the mobilization of our internal resources to promote higher investment rates. However, the contribution of additional external resources is also crucial in strengthening and improving the financing of our adjustment programs and projects in priority sectors. We believe that the international community has an important role to play in this process, particularly in helping our countries create conditions that favor the mobilization of external capital. We deeply regret the steady decline in official development assistance, which
is marginally compensated for with private capital inflows. This decline makes it difficult for our countries to successfully complete the ambitious reform programs being implemented in the priority areas of our economies. As for International Development Association (IDA) resources, we are firmly committed to redoubling our efforts to ensure that these resources are mobilized and used effectively. In this regard, we must once again thank donors for their efforts to replenish IDA resources and their intention to explore long-term financing mechanisms for IDA.

Enhanced Structural Adjustment Facility

We reiterate our support for the Enhanced Structural Adjustment Facility (ESAF), which has thus far been very useful in supporting the adjustment programs of the low-income countries. While we are pleased with the broad consensus achieved in the international financial community in favor of continuing ESAF operations, we remain concerned about the uncertainties regarding its financing in the interim period (2000–2004). We, therefore, invite the IMF to do everything possible to ensure the adequate financing of this facility by the donor countries, especially at a time when the ESAF is called upon to play an additional role in providing debt relief within the framework of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). In this regard, we continue to be in favor of a partial sale of the IMF’s gold holdings to supplement any shortfalls in contributions from the bilateral donors.

Private Capital Flows

We are determined to pursue the economic reforms needed to stimulate sustainable economic growth, with the private sector as the driving force. To achieve this key objective, we have undertaken to create or revitalize the financial markets and to introduce appropriate regulatory and legal frameworks. Our ambition is not only to mobilize domestic private capital, but also to have access to international capital markets. It is quite worrisome that capital flows to African countries remain inadequate. The international community should therefore support our efforts in this endeavor so that the African countries that have improved their macroeconomic environment may have voluntary access to the capital markets. Thus our countries would become less dependent on external aid. In addition, the World Bank, through the International Finance Corporation, should promote greater involvement of the domestic private sectors in the privatization process through “piggybacking” schemes. Furthermore, it should encourage the international private sector to participate in private investment financing, especially with regard to basic infrastructure.
The Debt Problem

The debt burden remains a significant constraint for the economic and social development of Africa, as it constitutes a substantial drain on our resources and limits the impact of our efforts to achieve our priority objectives. Indeed, in 1996, Africa’s external debt increased to $320 billion, with a corresponding rise in the debt service to exports earnings ratio. Considering these figures, it is disturbing to note that Africa’s debt burden continues to worsen, even though several countries have benefited from debt relief under several schemes (Toronto, Naples, IDA, etc.). It is also disturbing to note that multilateral debt rose to about 30 percent of total debt in 1996, compared with 16 percent in 1990. In this context, we consider that more viable solutions to our debt problem must be found urgently, so as to enable Africa to use its limited domestic resources for accelerating its development and its integration into the world economy. We appreciate the recent efforts of the international community and the Bretton Woods institutions to reduce the debt burden of some African countries under the HIPC Initiative. We also welcome the broadening of the eligibility criteria. However, we are still concerned by the three additional years required between the eligibility decision point and the completion point, during which a country is expected to demonstrate its commitment to its reform program, thus establishing a track record of reform. In our view, a rigid interpretation of what constitutes a good track record might defeat the very purpose of the initiative, which is to achieve a viable environment conducive to growth and development. We therefore ask for a reduction of the three-year period and greater flexibility in the implementation of this new initiative, so that it may indeed reduce significantly the external debt overhang of a large number of eligible countries. The Denver Declaration is, in this regard, very well appreciated, and we look forward to concrete actions by all creditors. Furthermore, for those countries that are ineligible for the HIPC Initiative and whose debt service continues to absorb too great a share of their resources, and here we refer especially to some middle-income countries, we urge the international community to consider the implementation of a debt relief mechanism that is adapted to their needs.

Capacity Building

Capacity building is the key to Africa’s development. In this regard, we would like to pay particular tribute to the President of the World Bank for his exceptional commitment to this initiative. We appreciate the creation of a technical group for capacity building in the African region. We are pleased to observe that 12 capacity-building appraisals have been conducted and others are planned for the near future. All the workshops
and seminars scheduled under this initiative have been held and have en-
abled African authorities to meet and discuss issues related to this topic
and to consider practical solutions. The meetings also shed light on the
goals and principles that should underlie this new African initiative—to
build human and institutional capacities. We are also pleased to inform
the assembly that we are in the process of putting in place national sec-
retariats on capacity-building issues. The secretariats will be responsible
for coordinating capacity-building issues and activities at the national
level and will be the sole interlocutors with the donor community on
these issues. We expect that a partnership group on capacity building in
Africa and a capacity-building trust fund, which form the backbone of
this initiative, will be created in the next few months. We appeal to all
partners in development, including foundations and the private sector, to
contribute as well. We are counting on the support and participation of
the World Bank and the IMF in the mobilization of international financial
and other assistance for the effective launching of the initiative. We wish
to emphasize that our initiative is comprehensive and incorporates the ac-
tivities of existing institutions, including those of the African Capacity-
Building Foundation.

International Trade and Regional Integration

Notwithstanding the agreements reached within the World Trade Or-
organization, export prospects remain uncertain for African countries. Our
products still have limited access to international markets owing to the nu-
umerous barriers in those markets. However, we do recognize the positive
aspects of the current Lomé agreements, and we are pleased with the draft
treaty between the United States and Africa on trade and investment,
which is currently being reviewed by Congress and also opens up new
trade prospects for our countries. Africa must become more integrated into
world trade. To this end, our countries have begun to take appropriate
measures to eliminate obstacles to the movement of capital, goods, and
people so as to accelerate cross-border investment. We urge the Bretton
Woods institutions and the international community to support these
efforts.

We are committed to pursuing the regional integration process under
way with a view to enabling us to implement common projects, especially
in the areas of basic infrastructure, information dissemination, and human
resource development. While we know that, in all cases, we must first rely
on our own resources, nonetheless, the international community has a role
to play. In particular, we believe that the Bretton Woods institutions can
create the necessary instruments to strengthen our subregional and re-
gional economic integration so as to expand our limited domestic markets
and create more viable economic entities.
STATEMENT BY THE GOVERNOR OF THE BANK FOR FIJI

James Ah Koy

It is an honor to attend the Fifty-Second Annual Meetings of the World Bank and the International Monetary Fund. On behalf of the government of the Republic of Fiji and its delegation, we extend warm greetings to the government and the people of China. We are privileged to be meeting here in Hong Kong, China, soon after the historic handover in July. My delegation and I are impressed by the excellent facilities and the warm hospitality of the Hong Kong community.

The robust growth in the industrial countries such as the United States, and recoveries in Japan and continental Europe, combined with low inflation, have provided a solid foundation for sustained expansion in developing countries. The continuing good performance of the global economy rests largely on the prudent management of industrial countries. I am encouraged by the commitment to suppress the threat of inflation with a proper balance between tight monetary policy and fiscal consolidation. However, if the economic dividends of this prudent management are to be shared by all, industrial countries must continue to resist the temptation to reverse trade liberalization. The rules of the General Agreement on Tariffs and Trade must be rules for everybody.

The developing countries, however, should not be under any illusion that the benefits of global expansion will accrue to countries automatically—they must be earned by hard work and disciplined policies. Without the right policies, some countries face the risk of being marginalized and will not share in the global expansion. To harness this growth opportunity, developing countries must play their part. Ongoing structural reforms to improve the allocation of resources and increase efficiency must continue. Macroeconomic stability can only be achieved through sound monetary policy and the political will to reduce the fiscal imbalance.

The World Bank and the International Monetary Fund must continue to recognize the extreme diversity among developing countries in size, economic endowment, and problems faced. The dynamic growth in Southeast Asia has been threatened by turmoil in the foreign exchange market at a time when we thought that the contagion effects of the Mexican crisis were well behind us. This brings into question the role of the Fund in its surveillance and the remedy it can offer. In my view, the Fund must urgently and seriously review its role of the custodian of exchange rate stability. The Fund, in its zeal for transparency and global integration, must take into account recent evidence that economic discipline, while es-
sential, is not a sufficient condition for exchange rate stability. I therefore welcome the strengthening of the General Arrangements to Borrow, which can offer vital support in such crises. Whatever solution is preferred, a clear message from these crises is that the Fund must move decisively and immediately at the first sign of trouble.

At these annual meetings, we, the small members of the Bretton Woods institutions, have one of the few opportunities to express our views on specific problems and challenges that we face. While these may seem very minute to the international community, these problems are extremely real and imposing to us. We, therefore, urge the Bank and the Fund to continue to safeguard the evenhanded treatment of all member countries. The economic fate of the small South Pacific member countries, to a large extent, rests on our ability to expand our markets beyond the traditional bounds of Australia and New Zealand. Stability in Southeast Asia and the international exchange rate market is therefore very important to us.

We would also like to appeal to the Bank and the Fund to adopt a country-specific approach to the needs of the developing member countries. As a small nation, Fiji fully embraces the policy of trade liberalization. However, in embarking on this process, it is essential that we give our local industries the tools and the infrastructure to allow them to compete on a level playing field with our bigger and established competitors. This cannot be done successfully overnight. The pace and sequence of trade liberalization must be consistent with other micro reforms in the country. Otherwise, the only beneficiaries of our accelerated trade reforms are our major trading partners, at a cost to us of high unemployment.

The recent exchange crisis in Southeast Asia has placed considerable attention on fixed exchange rate arrangement and capital account convertibility—issues that are very important to small countries like Fiji with narrow domestic markets and export base. The currency stability and the inflation anchor that a fixed arrangement offers has worked well for us. However, we realize that we need to regularly review this arrangement, and the current discussion of exit policy in the Fund will provide some guidance to our future direction. At the same time, we urge the Fund, in its discussion of capital account convertibility, to consider carefully the susceptibility of small developing member countries, and grant transitional conditions to them.

I am happy to report that Fiji’s monetary policy has kept inflation contained at about 3 percent and is likely to stay low over the coming years. External financial stability has also been maintained. My government is committed to restoring fiscal balance by the year 2000. We fully realize that, to lift our growth path, Fiji needs to better harness its economic potential, raise the level of investment, and provide sufficient re-
sources to the private sector to spearhead economic expansion. We will continue to look to the Fund and the Bank to assist us in facing these daunting challenges and, in this regard, we particularly support the initiative to involve the private sector in infrastructural development.

The major single challenge that small Pacific islands face is the potential loss of preferential trade arrangements to Europe under the Lomé Agreement and to Australia and New Zealand under the South Pacific Regional Trade Economic Cooperation Agreement. Therefore, we appeal to the international community for sufficient time and resources to make the necessary transition, and to the multilateral institutions for assistance in this endeavor. Needless to say, the Fund and the Bank need to be furnished with adequate resources to meet the growing demand of member countries. Therefore, we fully applaud the decisions to increase the Fund's quota and to replenish International Development Association resources.

Pacific islands are isolated geographically from the major markets, and high transport costs reduce the competitiveness of our exports. We are also isolated in the context of information, with technology transfer slow and uneven. We import a large part of our needs and rely heavily on the export of a few major commodities. We are particularly vulnerable to fluctuations in the terms of trade and supply shocks caused by cyclones and other natural disasters. Being small, with relatively underdeveloped financial markets, we are also exposed to large and irregular capital flows in response to shifts in foreign policies and investor sentiment.

The message that comes out loud and clear is that we need to be competitive if we are to survive in this new world order of globalization. To be competitive, we will need to develop: an enabling social and physical infrastructure; a healthy, well-educated population; a transparent set of property rights; a well-functioning legal system; an efficient system of transportation and communication; and small, but efficient administrative systems. These require resources and skills that we do not possess. Our future needs for Bank and Fund assistance will continue to be for infrastructure and human resource development, institutional strengthening, and economic policy advice.

In this regard, Fiji is indebted to the Bank’s and Fund’s past and ongoing assistance to the region, and to the country. In particular, we have found the Pacific Technical Assistance Center very useful, and we are thankful to the United Nations Development Programme, the Fund, and other donor countries for their indication of support to the center for another three-year term.

I conclude by wishing the Bank and the Fund well in their next year of operation.
STATEMENT BY THE GOVERNOR OF THE BANK FOR FINLAND

Sauli Niinistö

On behalf of the Nordic countries—Denmark, Finland, Iceland, Norway, and Sweden—I would like to express my appreciation to the people and governments of the People's Republic of China and Hong Kong for their generosity in hosting the Annual Meetings of the World Bank Group and the International Monetary Fund. The economic and institutional setup of Hong Kong has led to remarkable economic performance in the past. On this occasion, I would like to extend my best wishes also for the future of Hong Kong.

World Economy

The world economy continues to grow at a steady pace with low inflation. I note with particular satisfaction that recent estimates indicate that 5 out of 20 of the world's fastest-growing economies, likely to grow more than 6 percent in 1997, are located in Africa. In the transition countries, the fast reformers are today attracting significant amounts of direct foreign capital, and the private sector in those countries counts for more than two-thirds of GDP. It is evident that strong reform policies show tangible results. The World Bank Group should continue to support such efforts.

Looking ahead, the overall picture for growth is expected to remain favorable. Yet demanding challenges remain. The policy track record and economic performance in developing countries, as well as in the transition countries, have begun to differ significantly. We witness growing inequities both within and between countries, increased national vulnerability and global environmental degradation. Our challenge is how we seize the positive opportunities and curb the negative impacts of the process of economic globalization. This is a cause for deep concern and demands special attention. The Bank Group can and should play a role in this process.

Private Capital Flows and Financial Sector Development

The continuously increasing private financial flows now constitute more than four-fifths of the international capital flows to the developing world. While still heavily concentrated on some limited number of countries, new countries could seize the opportunity of utilizing these flows by creating a more hospitable environment for private sector participation. We should actively foster private sector-led development while ensuring that the resulting growth reaches all segments of society.
In many of the most successful developing countries, a vibrant private sector has been the engine of growth, producing job opportunities and generating incomes. Increased private sector engagement in the economy broadens the tax base and releases public resources. This contributes to macroeconomic stability and allows increased social expenditures.

A challenge for the World Bank Group is to enhance private sector development by helping to catalyze private capital flows and to support governments in establishing an enabling environment needed for private involvement. Two important elements in such a strategy are institutional development and increased use of guarantees. This should be done in close collaboration with the private sector entrepreneurs and partner governments.

An effective financial intermediation lies at the core of mobilization of resources and a well-functioning private sector. Recent turbulence in financial markets, particularly in Asia, is a reminder that the financial sector remains highly sensitive to imbalances, sometimes with severe consequences for the people and societies involved. In an interdependent world, such problems are spreading rapidly.

Concerted and systematic international efforts are needed to restore public confidence and to consolidate financial sectors nurturing growth and development. We urge the World Bank Group to give assistance to its member countries in matters related to development of the financial sector. The Nordic countries welcome efforts by the Bank and the Fund to increase collaboration and also to clarify further the division of labor in this field.

Role of the Public Sector as a Facilitator

The state has a crucial role in providing the overall framework for development, including systems of law, education, health, and regulatory structures. A prerequisite for favorable private sector development is an effective public sector that complements the private sector by providing a framework conducive to sustainable economic and social development. A well-balanced division of labor between public and private sector responsibilities guarantees the best outcome. We welcome the emphasis on the role of the state in the World Development Report 1997. We encourage the Bank Group to continue to help countries in speeding up liberalization of national economies and in reducing public sector involvement in commodity producing activities.

Good governance is central for economic efficiency, growth, and sustainable development. We warmly welcome recent initiatives by the Bank and IMF to support good governance and guard against corruption. The fight against corruption to undercut its adverse effects should be intensified. Corruption must be taken into account in lending decisions. Credibility, transparency, and accountability are important underpinnings of all-out development efforts.
Official Development Assistance (ODA) and Initiative for Heavily Indebted Poor Countries (HIPC Initiative)

Despite the propitious development of private international capital flows, the majority of the poorest countries are still primarily dependent on the concessional aid resources. To take full advantage of the increased private capital flows in the future, they will continue to require official external assistance to buttress ongoing reform processes and to support investments needed for sustainable development. We are deeply concerned about the declining trend of official development assistance (ODA), which needs to be reversed.

Scarce ODA resources should be used effectively. We need to be more selective and performance based. All the partners should strive for improving the allocation of concessional flows by targeting, to a larger extent, recipients with firm commitment to reforms. This will increase the likelihood of sustainable development impacts and also backup for future allocations.

As strong supporters of the HIPC Initiative, we are deeply concerned at disagreements over the initiative’s costs and a general unwillingness to contribute, which are shifting focus away from the needs of the eligible countries. Reaching debt sustainability is crucial for leading the way to more sustainable overall development.

Development in the Transition Economies

Let me now touch upon more closely the recent developments in the transition countries. In the advanced transition economies, the progress already achieved in macroeconomic stabilization and structural change is already forming the basis for resumed economic growth. For the applicant transition countries, the accession to the European Union is posing several challenges in the coming years. Apart from macroeconomic convergence, all member candidates need to pursue further structural and institutional adjustments in order to harmonize current practices with future requirements. The Bank is in a unique position to help these countries in this process in close cooperation with the European Union.

Russia is at a critical juncture in its economic transformation process. We commend the Bank’s commitment to its assistance for Russia. Strengthening the rule of law in the legal and regulatory systems, especially in areas relating to the financial sector, property rights, and competition, is necessary.

There is a necessity to pursue privatization further in every transition country. However, at the same time, the World Bank should also try to moderate the negative aspects transition may have on socially vulnerable groups by establishing viable social safety nets, which must be well de-
signed in order to meet the needs of those who really need support from the society. The social sector loans recently approved by the Bank are necessary and welcome. The environmental situation in the transition economies gives rise to a deep concern. This is a vast task, and all the international financial institutions must work together in this area. We wish the Bank would also take a more active role in the environmental sector in Russia, where small-scale projects have proven to be most effective.

Strategic Compact

The Strategic Compact acknowledges the fundamental changes that have occurred worldwide. It is the Bank's response to the above-mentioned challenges. I commend President Wolfensohn and his staff for their commitment to this reform. The Nordic countries support the renewal process. We expect to see it leading to a more flexible and results-oriented institution that remains dedicated to the fundamental objective of poverty alleviation through sustainable growth and investment in people.

The true challenge now, both for the institution and the shareholders, lies in translating these commitments into proper actions. The levels of ambition and expectation built into the process are highly demanding. An intense monitoring of the progress is a key factor to its success. The vision of what the Bank Group wants to be in the beginning of the new millennium is clear: the most effective global financial and development institution for fighting poverty. I think we all share this aspiration.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR FRANCE

Jean-Claude Trichet

The Annual Meetings in Hong Kong will long be remembered by our institutions as being among the most successful. The Interim Committee agreement on a significant increase in Fund quotas and a one-time allocation of SDRs to end the problem of inequity, on the one hand, and the Development Committee's support for the IMF and World Bank action plan to promote good governance and combat corruption, on the other, stand as significant advances. Another important achievement of this meeting, in my view, is the agreement to draft an amendment of the Fund's Articles of Agreement to promote the orderly liberalization of capital movements.

The objective of achieving free capital movements throughout the world is quite ambitious. As demonstrated by the recent financial crisis in
Asia, such freedom creates new risks and imposes new forms of discipline. It is therefore useful to reflect on certain lessons from that crisis, to be able to determine precisely what the concept—new to our discussions—of orderly liberalization means. I will highlight two aspects related to market information and the pivotal role of the IMF.

As a result of the strengthening of surveillance following the Mexican crisis, the IMF anticipated the crisis in Thailand, pointing out to anyone willing to listen that certain external deficits had become unsustainable and that the obstinate defense of exchange rates no longer based on sound economic policies was dangerous and bound to fail. It has been asked whether a more public expression of the Fund’s concerns would have been appropriate. As far as I am concerned, I consider that the Fund has done well. But I agree that public awareness of the IMF’s independent and informed judgment, as is done for industrial countries with each report on the World Economic Outlook, may usefully contribute to the proper functioning of markets.

The second lesson is that only an institution with universal scope, such as the IMF, is capable of fulfilling all of the conditions necessary for handling crises in a globalized economy. The needed financing can be mobilized only on the basis of member countries’ confidence in the firm and objective IMF conditionality. Nothing could be more dangerous than organizing financial support without backing it with the discipline provided by the IMF, be it in respect of governments or of markets. Taking Thailand as an example, I would reiterate that it is essential that commitments entered into with the IMF be strictly honored on time and that the financial sector restructuring currently being negotiated with the World Bank result in losses being shared equally by all improvident creditors.

Even more important is that, to be successful, the liberalization of capital movements must proceed in an orderly fashion. Capital movements enter and exit freely. A government cannot applaud inflows that enable it to finance accelerated growth and then denounce outflows when an excessive external deficit or economic policy blunders drive investors away.

The fundamental purpose of an amendment of the Articles is the universal recognition that the freedom to save and invest provides the conditions for sustained growth and therefore for greater wealth, for both providers and recipients of capital flows. From this perspective, the prosperity of Hong Kong—an open economy if ever there was one—and China’s leap forward since the adoption of the open-door policy are more eloquent than any demonstration.

The first condition for successful liberalization is irreversible acceptance by each country of the discipline required by openness, the first of which is macroeconomic discipline. Reversals are always costly for countries that decide on such a course of action. Lost confidence is only slowly regained. The definition of a liberalization program should explicitly aim
at the irreversibility of measures taken, although it is impossible to rule out imposing exceptional, limited controls in the event of a setback.

In this connection, the preparatory efforts have quite rightly emphasized the necessity of a pragmatic, gradual approach that allows for transitions. I favor this caution and believe that each country should determine what it can do, based on the stage of development of its economy. However, I would also remind you that hesitating too long can be costly, as it entails the risk of marginalization from the increasingly interrelated international flows in goods, services, and capital, and thus of missing out on opportunities for growth. For some countries, acting in time means waiting until conditions are right; for others, it means moving faster.

Another aspect of this orderly progression is the balance between internal and external liberalization. We all stress—and the IMF will never do it too much—the importance of strengthening the safety of the financial sector and the reliability of prudential control systems. Clearly, the IMF will play a decisive role in detecting potential crises through its surveillance, and in disseminating and monitoring the implementation of the core prudential principles formulated by the Basle Committee in close conjunction with the banking supervisors of emerging and transition countries. It is also particularly welcome that the World Bank is committed to giving clear priority in its activities to the restructuring of financial sectors.

Although it is the most important, the prudential aspect is not the only concern. Three examples come to mind: the need for a vigilant conduct of monetary policy, particularly in the occurrence of excessive short-term capital inflows denominated in foreign currencies; increased competition among banks, specifically promoted by greater openness to foreign banks; and appropriate surveillance and regulation of domestic capital markets.

Finally, liberalization should apply evenly to all capital movements. I have some reservations about the arguments suggesting that liberalization of inward direct investment should be excluded from the mandate of the IMF on the grounds that non-economic considerations are frequently involved in the decision to maintain restrictions. Foreign direct investment makes an essential contribution to growth and balance of payments stability. Excluding such capital flow and having the IMF focus narrowly on achieving freedom of financial and short-term capital movements would not be consistent with our efforts to pursue an orderly liberalization. Naturally, the IMF should acknowledge the legitimacy of restrictions specific in their purpose, limited in their impact, and motivated by considerations of national interest unrelated to the conduct of economic policy.

I now turn to the creation of the euro, an event that will be of the utmost importance both for European countries and the international monetary system. I stress that France is firmly committed to the achievement of European Economic and Monetary Union (EMU).
A few days ago, in Mondorf, during an informal meeting of the Economic and Financial Council of the European Union, the Ministers of Finance and Governors sent a clear signal of their determination. They announced that the list of countries and bilateral conversion rates, which will enter into force on January 1, 1999, will be made known on a single date next spring. This is an important decision that was well understood in Europe and throughout the world.

Economic and Monetary Union will be achieved in accordance with the criteria and the timetable set forth in the treaty. Accordingly, the convergence of many European countries toward the performance of the best among them warrants special mention.

Collective progress in the area of monetary stability, the curbing of inflation, the lowering of long-term interest rates, and the reduction of government deficits has been substantial. As far as France is concerned, I would particularly like to mention our long-term interest rates, which are among the lowest in the European Union, our control over inflation, and the orderly reduction of budget deficits. After 1999, the EMU should—and will—serve as an area of stability.

A sound and stable euro will guarantee that. The citizens of Europe want a single currency that is credible and that inspires trust. Confidence in the single currency in Europe and worldwide will enable Europe to benefit from the best financing conditions. This confidence will be reinforced by the independence of the European System of Central Banks, which will fully benefit from the strength of the most credible national central banks of the countries using the euro, whose legacy it will inherit.

Fiscal stability will be ensured by the determination of governments to consolidate public deficits on a sustainable basis in the context of the Stability and Growth Pact agreed in Amsterdam in June 1997.

Lastly, the strengthened coordination of economic policies decided upon in Amsterdam will clearly benefit integration of the euro zone.

Thus, EMU has the potential to promote confidence, growth, and employment. Following a French initiative, a summit on employment in November 1997 was announced in Amsterdam, as employment is one of France’s primary concerns. However, growth alone cannot bring about a sufficient reduction in unemployment if we fail to implement the necessary structural reforms, particularly with respect to adapting training to the needs of the economy. This is an important task for our country, as it is for most European countries.

Finally, let me commend the World Bank and the IMF for successfully implementing the initiative for reducing the debt of the heavily indebted poor countries approved last year, and for their productive cooperation with the Paris Club. The main challenge now is for this initiative to be implemented consistently, both by eligible countries—which should hasten to conclude and implement their adjustment and reform pro-
grams—and by the institutions, through the effective mobilization of fin-
nancial support.

In this regard, France is concerned by the temptation to offer verbal
support without any financial participation, which continues to exist here
and there, and by the persistent silence of certain countries concerning their
contribution to the financing of the self-sustained Enhanced Structural Ad-
justment Facility (ESAF) and the IMF contribution to the Initiative for
Heavily Indebted Poor Countries. We should therefore refrain from mak-
ing new promises before securing the financing of our commitments.

This does not mean that further progress is impossible. I particularly
hope that other creditors will forgive development assistance debt, as
France and other European countries have been doing for several years
and as the United Kingdom decided to do, and that the World Bank will
explicitly consider ways of helping the African Development Bank con-
tribute to the debt relief initiative.

STATEMENT BY THE ALTERNATE GOVERNOR OF
THE FUND FOR GERMANY

Theo Waigel

First of all, I would like to thank the government of the People’s Re-
public of China and the government of the Special Administrative Region
of Hong Kong for an excellent organization of this year’s Annual Meet-
ings and for their warm hospitality.

Increasing interdependence of our economies, buoyant international
trade and the integration of our capital markets are essential prerequisites
for increasing global prosperity. The spread of globalization has enabled
many countries to gain access for the first time to international capital and
product markets.

But intense global competition confronts our economies and our eco-
nomic and fiscal policies with new challenges. If economic and fiscal poli-
cies are out of line with economic fundamentals, and if policies remain un-
adjusted, the markets will respond by reassessing credit risk and possibly
by massively withdrawing financial resources.

Delayed implementation of exchange rate policy adjustments in com-
bination with other risk factors, such as excessive and short-term foreign
currency debt and a high and potentially rising current account deficit, will
inevitably be followed by a loss of growth and jobs. This has been clearly
evident in some Southeast Asian countries during the past weeks and
months. It is now important for those countries to implement the necessary reforms and make up the international loss of confidence.

We must not conclude from the currency turbulence in parts of this region that capital transactions should be more strongly regulated or controlled. Rather, free international capital movements are a central element of an efficient resource allocation and therefore a precondition for rising global prosperity.

Experience in many industrial economies and in some emerging countries as well has shown that liberalization must go hand in hand with the establishment of stable financial market structures. The IMF and the World Bank can—and in fact must—assume a key role in these endeavors.

Against the background of globalization, it is appropriate for the IMF to be given a new, extended mandate to include promoting the liberalization of capital transactions. Extending and thus modernizing the IMF’s Articles of Agreement is essential to ensure that the IMF is able to make an effective contribution in this area of central significance for the efficiency of the world economic and monetary system.

Recent events in Southeast Asia have shown that the classic role of the IMF should continue to be the central pillar of its activity. In particular, this includes the surveillance of economic policies in member countries to prevent crises and the temporary provision of conditional financial resources in the event of balance of payments need. Therefore, I welcome the consensus we reached here in Hong Kong on increasing the Fund’s resources. I am grateful for the spirit of cooperation that has prevailed among IMF members. I would also like to thank Michel Camdessus.

But interdependent markets also call for enhanced economic policy surveillance by the IMF. This purpose is served by setting up standards for the publication of economic statistics, which in turn will provide a basis for intensifying surveillance in the interest of transparency.

The IMF and the World Bank perform complementary activities. The adoption of the World Bank reform program—the Strategic Compact—in the past year was an important landmark on the road to reorganization. I would like to congratulate President Wolfensohn for that. The reform process now set in train aims generally to make the World Bank more flexible, more responsive to customer needs, and more efficient and to bring its range of services more closely into line with its development policy mandate.

In this way, the World Bank is responding both to the new global economic and social challenges in its environment and to the growing diversity in the needs of its customers. The reforms envisaged at the World Bank will improve its efficiency in promoting sustainable development, especially in the poorest countries.

The International Development Association (IDA) is the central global instrument in the fight against poverty and thus has a key role to
play in Africa. The poorest countries of the world need adequate access to aid on concessionary terms to facilitate their successful integration into the global economy, which would be reflected in improved living standards for their peoples. The development policy mandate of IDA and its achievements to date should motivate all donor countries to honor their commitments and to put IDA finance on a sound footing. This is also true for the African Development Fund.

Finally, a word on the realization of European Economic and Monetary Union (EMU). Economic convergence has made further progress. The inflation rate in the European Union (EU) has been cut by half over the past few years and now stands at an average of about 2 percent for all member states. This is the lowest in 35 years. Interest rate differentials have fallen to an all-time low. Further progress has also been made on fiscal consolidation. As long as the EU member states do their homework thoroughly, EMU will start on time, on January 1, 1999.

Europe wants to see a strong and stable euro and has taken decisive steps toward this. A principal commitment of the future European Central Bank will be to maintain price stability. Its independence is guaranteed under international law. The economic policy pursued by member states in the EMU will remain the responsibility of the respective governments, but the coordination of these policies will be intensified to make sure that they are attuned to the stability objective of EMU.

Maintaining stability is also the objective of the Stability and Growth Pact we Europeans concluded a few months ago in Amsterdam on the level of heads of state or government. The pact requires member states to pursue stability-oriented fiscal policies and maintain a budget “close to balance or in surplus.” In any case, budget deficits in excess of 3 percent of GDP have to be avoided. Europe’s future currency, the euro, will be no less stable than other key currencies. A strong and stable euro is a further contribution by Europe to maintaining the stability of the international monetary system and to promoting prosperity throughout the world economy.

STATEMENT BY THE GOVERNOR OF THE BANK FOR GREECE

Yannos Papantoniou

In 1997 the global economy is characterized by rapid growth led by the U.S. economic recovery, a stronger commitment towards price stability, and an intensification of the fiscal consolidation process in many countries. The recovery in Europe and in the transition countries, combined
with a growing number of successful economies in the developing world, signal that the current expansion of world output could be sustainable.

The emergence of a new international currency, the euro, is expected to have worldwide effects. A strong and stable euro may match the role of the U.S. dollar as a means of payment and an international asset. Moreover, it will create a more stable financial climate in Europe that will have a positive impact on international financial markets.

The creation of the euro area will contribute to sustainable growth in Europe. Prudent fiscal policies, a credible commitment to price stability, and the elimination of the risk premia associated with multiple EU currencies will tend to lower real interest rates and promote investment.

In contrast to this positive global outlook stands the unsatisfactory employment performance in Europe. Tackling Europe's unemployment can be a critical factor for the success of European Economic and Monetary Union. The forthcoming special meeting of the European Council in Luxembourg is expected to give a new impetus in the fight against unemployment.

Let me now turn to recent economic developments in Greece. In the past four years, the Greek economy has shown substantial progress on many fronts. The fiscal deficit has been reduced by about 10 percentage points of GDP since 1993, the debt-to-GDP ratio has been stabilized, while inflation has fallen from 14.3 percent in 1993 to an expected 5.7 percent in 1997. At the same time, GDP growth has gradually accelerated to 2.6 percent in 1996 and an estimated 3.5 percent in 1997, from minus 1 percent in 1993. The rise in private capital spending has more than compensated the fall in demand due to fiscal consolidation. The major forces that have created this virtuous cycle have been increased policy credibility, a considerable boost in business confidence, a significant fall in real lending rates, and an expansionary public investment program, which is partly supported by European Union funds.

The new government, which was formed after the September 1996 general elections, has decided to accelerate fiscal consolidation so that Greece can achieve the Maastricht Treaty convergence criteria by 1998 or 1999 and, hence, participate in the third stage of EMU by the year 2001. The 1997 budget is an ambitious one, aimed at bringing the general government deficit-to-GDP ratio down to 4.2 percent from 7.5 percent in 1996. Preliminary results in the first seven months of the year suggest that the budget is on track.

The restrictive stance of fiscal, monetary, and exchange rate policies has contributed to the deceleration of inflation. The exchange rate policy pursued, while playing an important role in combating inflation, did not have adverse effects on competitiveness on account of the substantial fall in interest rates and firms' financial costs as well as the limited rise in raw material prices. The sustained profitability of the business sector in recent
years, which mainly produces traded goods, supports this view. The "stable drachma" policy remains a constant parameter in our economic strategy.

Good economic performance since the beginning of the year has produced buoyancy in capital and money markets. The Athens Stock Exchange Index rose by more than 70 percent since the beginning of the year. Interest rates are falling faster than forecast in the budget. Three-, five- and seven-year fixed-rate bonds, index-linked bonds, and zero coupon bonds have been issued for the first time in Greece. The result was judged by markets as a success.

Apart from macroeconomic policies pursued, the government has put more emphasis on structural policies. Recent legislation—which gives greater independence to the management of public corporations, the partial privatization of the Hellenic Telecommunications Company (OTE), the selling of certain industrial firms, the creation of the Hellenic Investment Center to facilitate foreign direct investment, legislation concerning new labor market policies, and the acceleration of the absorption of European Union structural funds—is expected to produce favorable results in the coming years. The focus of structural policies is on the following:

- partial privatization of profitable public corporations;
- labor market and pension system reform based on social consensus;
- granting statutory independence to the Bank of Greece;
- creating new schemes for the financing of public works, with increased participation of the private sector;
- rigorous application of recently adopted legislation for curbing public expenditure and improving the efficiency of the public sector;
- introducing legislation to further modernize capital and money markets and strengthen the supervisory powers of the Capital Market Committee; and
- restructuring the portfolios of the large state-controlled banks.

Greece's economic prospects are further enhanced by the opening of trade and investment opportunities as a result of the transition of its Balkan and Black Sea neighbors to democracy and market economies. The Greek government actively promotes increased international cooperation by encouraging the creation of joint ventures aimed at improving economic structures in the region.

The 1998 budget is now under consideration. The government aims at a public deficit-to-GDP ratio of less than 3 percent, which will satisfy the Maastricht Treaty criterion for entering the European Economic and Monetary Union. Tight budget, incomes, and monetary policies ensure the
continuation of nominal convergence, while continued investment expansion—both private and public—partly financed by the European Union, and the pursuit of structural policies lay the basis for robust growth of output for the years to come.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ICELAND

Birgir Ísl. Gunnarsson

I have the honor of addressing this meeting on behalf of the Nordic and Baltic countries—Denmark, Finland, Iceland, Norway, Sweden, Estonia, Latvia and Lithuania—on matters relating to the International Monetary Fund. At the outset I would like to thank the Chinese government for the hospitality extended to us here in Hong Kong. Following the return of Hong Kong to China earlier this year, I would also like to use this opportunity to extend my best wishes for the future of Hong Kong and of China in general, both of which have shown an impressive economic performance in previous years.

World Economic Outlook

The Nordic and Baltic countries support stability-oriented economic policies conducive to growth and expansion of world trade. In addition to sound public finances, ongoing sweeping changes in many parts of the world that contribute to this effect are increased market orientation, dismantling of trade barriers, liberalization of capital flows, and privatization of public enterprises. All of these measures have provided tangible results, as evidenced by the healthy expansion in the world economy and the strong rise in the volume of world trade. Currently, the world economy is expanding at the strongest pace in a decade, with the trend growth rate in the world economy about 4½ percent while global inflation remains subdued. It is encouraging that the expansion is firmly underpinned by strong growth in various parts of the world.

While several advanced economies are operating at relatively high capacity, the slow growth of many economies of continental Europe is far from satisfactory and suggests the need for more vigorous structural reform policies. Moreover, in previous years a slowdown, and even recessions, have followed episodes of relatively rapid growth in many countries. Given that experience, the overall current positive developments in the world economy create the challenge of sustaining the healthy noninflationary growth of the recent past.
In the advanced economies, the current developments have been largely characterized by the high degree of price stability that remains an impressive achievement shared by most of these countries. Indeed, the low inflation levels and widespread commitment to stable prices count among the major factors that contribute to the solid economic growth and the favorable prospects of sustaining current expansion in the period ahead. In the economic outlook, however, there are various elements of concern, among them the risk of overheating in some countries. It is vital that we stay on guard to counter the possibility of inflation rising again. We must be prepared to use the policy measures available to us in this regard.

It is encouraging that in the developing countries real GDP growth is expected to remain relatively buoyant at about 6½ percent in 1997, with similar growth being projected for the coming year. Macroeconomic stability and prompt implementation of necessary reforms are fundamental to sustain this improvement in the period ahead and to enhance the generally positive long-term prospects for these countries. The growing number of successful economies in the developing world is opening new markets and creating increased production capacities.

In countries in transition, as well as in developing countries, it is clear that many challenges remain to be addressed to safeguard and further extend the progress that has been achieved. The experience of several countries in transition suggests that the process of turning centrally planned systems into market economies is providing successful results. This is particularly evident in the countries that have pursued the most comprehensive stabilization and reform policies. These countries are increasingly being reintegrated into the world economic and financial system. The less advanced transition economies need to increase their efforts and embark on comprehensive reform programs that include the establishment of market economy institutions and the development of financial markets capable of efficiently channeling funds into productive investments.

In regard to general policy formulation in all countries, there is no alternative to the policies that have proven most successful and conducive to sustainable growth. We need a balanced mix of monetary and fiscal policies to ensure economic stability and growth in the long term. With monetary policy directed at price stability, the design of sound fiscal policies must take into account the need to foster savings as a prerequisite for investment and growth. We need structural policies to free up economic resources bound by restrictions in the form of excessive regulations and impediments to trade and capital flows. We need comprehensive labor market reform that, together with efforts in the field of education and training, can facilitate new economic dynamism and tackle the unemployment problem. In order to safeguard long-term growth, we need environmentally sound policies. We need free and open markets that allow developing countries and transition economies to earn their way to eco-
nomic prosperity through a vibrant world trade that is beneficial to all countries.

World Monetary System

In light of imminent Economic and Monetary Union (EMU) in Europe, with one single currency replacing various national currencies, the world monetary system is at an important juncture. Replacement of the currencies of several economies of this size and state of development with a single common currency is unprecedented in history. With its systemic consequences, EMU will create new challenges for the world monetary system. But while EMU will be a major change it will not be a sudden change. The establishment of the common currency will reflect a process of four decades within Europe characterized by strengthening economic and monetary ties.

For participating countries, EMU will represent a change in the monetary policy regime where national monetary policies will be replaced by a policy attuned to conditions throughout the euro area. The effects of EMU on the world economy will depend on the economic performance in Europe and the extent to which the euro is used in international transactions. Given the scope of the changes that the EMU entails, it is important that a smooth transition to the new monetary regime be effected.

Role of the Fund

The International Monetary Fund plays a vital and central role in the surveillance of the global economy and world monetary issues. Given the need to efficiently detect problems in the world economy and provide an early warning of unfavorable developments to facilitate prompt policy response, I would like to underline the importance of the surveillance functions of the Fund in regard to the world economy as well as surveillance of individual member countries' economic policies. The recent market turbulence in Southeast Asia has highlighted the importance of strong and confidence-building macroeconomic and structural policies and early policy action when imbalances build up. The Fund has an important surveillance role in that regard, but the ultimate responsibility lies with the countries themselves. The Fund also has a vital role to play as a catalyst for financial flows to developing countries and transition economies. In this function, the Fund must continue to build on the basis of established practices, with strict conditionality and taking into account the revolving character of its resources.

We must, at all times, ensure that the Fund has the capacity necessary to carry out the functions specified in its mandate. Thus, I welcome the
agreement by the Executive Board on the quota increase. I also welcome yesterday’s unanimous decision on the special one-time SDR allocation.

The increasingly open and liberal system of capital movements is highly beneficial to the world economy. Capital liberalization, backed by sound macroeconomic and structural policies, is conducive to investment and growth. Future positive developments of global financial markets and the prevention of market turmoil would be enhanced by an international agreement to promote orderly capital liberalization. Thus, we support an amendment of the Articles of Agreement in order to extend the Fund’s mandate to cover capital movements.

I would also like to welcome the launching of the Initiative for Heavily Indebted Poor Countries. It is essential that this one-time effort be further secured through adequate financing based on the principle of fair burden sharing.

The Fund has a central role to play to strengthen future prospects for growth and employment in all its member countries, based on the agreed principles of the 1996 Interim Committee Declaration on Partnership for Sustainable Global Growth. Looking ahead, further economic cooperation and policy coordination form the basis for meeting the future challenges in the world economy.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR INDIA

Chakravarthy Rangarajan

The Annual Meetings of the World Bank Group and the International Monetary Fund at Hong Kong, China are of historic significance, coming as they do immediately after the unification of Hong Kong with China. In many ways, Hong Kong epitomizes the tremendous potential for economic development through openness to foreign trade and investment within a framework of a sound regulatory environment. Hong Kong has a fairly large community of Indian origin that has contributed to Hong Kong’s development for more than a century, and I am sure it will continue to do so in future. We thank the Chinese authorities for the excellent arrangements and warm hospitality.

World growth has continued to be strong, thanks in part to the high growth of developing countries and the prolonged boom of the U.S. economy. Inflation has also remained low. However, there are some reasons for concern. World trade growth decelerated significantly in 1996, with sharp slowdown in export growth in many Asian countries. The medium-term
outlook for developing country growth is less buoyant than in the spring of this year. There is, therefore, a need for concerted policy action to reverse any incipient sign of deceleration of growth in these countries. In this context, it is essential to encourage rapid recovery through strengthening of an open, nondiscriminatory multilateral trading system operating within the World Trade Organization framework. Along with free trade and buoyant private capital flows, there is a need to augment flows of official development assistance, which remains crucial for the development of poorer countries with limited access to private capital markets.

The crisis in some East Asian currencies has been an important feature of the global economy in the recent months. Led by the IMF, the swift action on the part of the international community in putting together a rescue package has helped to reduce the costs of the crisis and contain the spillover effects on other countries. It is clear from these developments that there can be no substitute for prudent macroeconomic policies, effective economic reforms, and strong domestic financial systems to facilitate growth with price stability and orderly external payments conditions. It is essentially through such a strategy that countries can avoid currency crises and also lay the foundation for the rapid and sustained development that is necessary for raising general living standards and alleviating poverty.

The accelerating pace of globalization and integration of markets requires strengthening of institutions, at both the national and international levels. At the international level, policy coordination is needed to strengthen economic linkages. Multilateral institutions must help promote an environment that is conducive to worldwide prosperity. These institutions, therefore, need to be strengthened, with decision making in these institutions being made more transparent and democratic. The conclusion of the Eleventh General Review of Quotas has given the Fund extra strength, although regrettably the voting share of developing countries has declined in the process. There is a clear need to review the formulas for quota calculations before the next Quota Review so that the fast-growing developing economies get their due share. The one-time special allocation of SDRs is a reflection of international goodwill, since it will help those members that could not participate in previous allocations while at the same time ensuring some allocation to every country.

We fully support the proposal to infuse capital into the Multilateral Investment Guarantee Agency (MIGA) through subscription by member countries. On the Initiatives for Heavily Indebted Poor Countries (HIPC Initiative) and for the Enhanced Structural Adjustment Facility (ESAF), my government has already agreed to contribute its entire balances in the second Special Contingency Account as a non-interest-bearing deposit toward funding these arrangements. These initiatives of multilateral institutions need to be supplemented by further measures to ensure that the transfer of resources to developing countries is maintained at an appropriate
level. In particular, there is an urgent need to review the international commitment to the International Development Association.

Infrastructure development is the key to rapid economic growth in developing countries, and we are very happy that the Bank Group is charting an active role for itself in promoting private investment in infrastructure. We strongly support this initiative.

India is the largest functioning democracy in the world with all the attributes of a free society, ensuring that good governance is in place. The government of India is fully committed to deal with the menace of corruption, which is reflected in the statements of the Prime Minister of India made in various forums.

Let me take this opportunity to apprise this distinguished gathering of the recent developments in the Indian economy. We are indeed happy that our structural program of economic reforms and commitment to macroeconomic stability continue to yield substantial rewards. In 1996/97, the Indian economy grew by 6.8 percent. Growth has averaged 7 percent in the last three years. Inflation has been brought under control and is currently at an annual rate of about 4 percent. The central government's fiscal deficit declined to 5 percent of GDP in 1996/97 and is budgeted at 4.5 percent for 1997/98. The external sector has remained strong, with the current account deficit at 1 percent of GDP in 1996/97, and it is expected to be about 1.5 percent in 1997/98. The debt-service ratio is projected to decline substantially, from 25.4 percent in 1996/97 to about 21 percent in 1997/98. Foreign currency reserves (excluding gold and SDRs) increased by $5 billion in 1996/97 and by a further $4 billion in the first five months of 1997/98. These reserves stood at $25.5 billion as of mid-September. Foreign investment rose to nearly $6 billion in 1996/97 and is expected to be substantially higher in the current fiscal year, 1997/98. All in all, the economic fundamentals are strong.

We are deeply conscious that, to maintain and improve on a strong economic record, we have to deepen economic reforms and conduct vigilant economic management. Our reforms have accorded special attention to the financial sector. Our banking prudential standards have been strengthened to be comparable to the international ones. We use both on-site and off-site supervision of banks. The government securities market has been widened, with the introduction of new instruments with an array of maturities that are sold on an auction basis. Stock market reforms have been pursued vigorously. Monetary policy has been made more flexible, with virtual deregulation of interest rates and sharp reduction of reserve requirements. The exchange rate is market determined. Restrictions on the current account of balance of payments have been eliminated. We are exploring possibilities of capital account liberalization. An expert committee recently submitted a report providing a road map on capital account convertibility. This is under examination by the central bank and the government of India.
Let me not give the impression that we do not face any policy challenges. Very recently, we have had to deal with the problem of coping with a large wage settlement for government employees. In order to contain the fiscal deficit at the budgeted level, the government has acted promptly to raise fresh taxes, cut expenditure, and expand the program of disinvestment of government-owned enterprises. We have also had to tackle the problem of large capital inflows in the context of monetary and exchange rate management. Our experience shows that monetary and financial policies geared to maintain a reasonable degree of price stability can serve the purpose of not only maintaining a stable domestic environment, but also avoiding the need for disruptive exchange rate adjustment.

We are aware that we still have to tackle the problem of poverty. We are, however, confident that, with an external environment that is conducive, the Indian economy will be able to realize a sustained growth of more than 7 percent a year, which, besides enhancing living standards in general, will directly reduce poverty and provide resources for expanding programs of social development.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR INDONESIA**

Mar'ie Muhammad

This annual meeting takes place in the course of currency turmoil in the Southeast Asian region. Indeed, over the last decade the Southeast Asian economies have demonstrated tremendous progress, a development that was described by the World Bank as *The East Asian Miracle*. Despite this progress, over the last two to three years Southeast Asian economies in general are marked by the following:

- high economic growth with signs of economic overheating;
- enlarged current account deficits accompanied by inflationary pressures;
- growing short-term private foreign borrowings; and
- construction of huge projects that are beyond the limits of national economic capacity.

In addressing these issues, the countries in the region have made considerable efforts through structural adjustments. As a result, there are positive indications that the currencies are in the process of arriving at a new equilibrium in the near future. As far as Indonesia is concerned, we have
taken the following major steps: floating of the rupiah since the middle of August 1997, accompanied by tightening of liquidity and increasing interest rates—this tightening is gradually being loosened, and interest rates are being lowered in measured steps; to maintain the budget in balance, the government has decided to cut the development budget by 8.4 percent and to abolish subsidies; to boost exports and to contain imports in a manner consistent with GATT; and to defer a number of government projects, state-owned enterprise (SOE) projects, and private projects related to the government and SOEs that are financed by foreign commercial borrowings and export credits. It is the government’s opinion that a number of private megaprojects do not reflect the national priority; therefore, they can be postponed. The postponed and reviewed projects of the government and SOEs, and the private projects related to government and SOEs, amount to approximately $35 billion. The objective of these measures is to lower the current account deficit, which is now about 3.8 percent of GDP, to a maximum of 3 percent within the next two years.

Within a month of having begun to float, the rupiah has now reached a relatively stable exchange rate in the range of Rp 2,900 to Rp 2,950 per $1, a depreciation of about 24 percent since January 1997. This relative stability is partly a result of positive reaction of the market toward the market-friendly measures taken by the government. Fortunately, this result was achieved without sacrificing our foreign exchange reserves.

Despite the budget constraints that we are facing, the government of Indonesia reaffirms its commitment to discharge all of its financial obligations fully and in a timely manner, and will continue to make efforts to prepay our foreign debt using proceeds from on-going privatization of our SOEs. Although we are in favor of market mechanism, we are concerned with the excessive volatility of many currencies, which undoubtedly creates uncertainties in the business community, and in turn could lead to an economic crisis. In this regard, I would urge the IMF to take an active role according to its mandate.

Meanwhile, we are impressed by, and we support, the recent approach of the World Bank in implementing the development concept in a very broad sense. We welcome the initiative taken by the World Bank and the IMF in addressing the foreign debt burden of the most severely indebted poor countries. As part of our commitment to the HIPC Initiative, the government of Indonesia has decided to contribute $10 million to the HIPC trust fund. Considering that about 1.3 billion people still live in poverty, we urge the Bank to put the poverty eradication program as its highest priority.

In my view, the goal of development is to create conditions that will enable each human being to attain his or her potential in all aspects of their lives, in creating a sound society that succeeds in preserving the harmony
between community and individual interest and in maintaining the balance between rights and duties.

Finally, I wish to state that Indonesia will continue to maintain the sound and prudent economic policies that have been demonstrated over the past 30 years, and will continue to carry out effective structural reforms. As excessive volatility of currencies can hinder the world economy, we warmly welcome any regional or global initiatives to stabilize currencies.

Government Statement on Policies to Deal with the Impact of Rupiah Fluctuations

We would like to open the statement by inviting the Chairman and honored members of parliament to give praise and thanks to God Almighty, as only with His blessing and mercy will we have the strength to fulfill our duty to our nation.

In the state address delivered to the Indonesian parliament by the president of the Republic of Indonesia on August 16, 1997, the president set forth the reasons Indonesia had decided to allow the rupiah to float. Further, in the same address, a broad indication was given of the policy direction that would be followed by the government to deal with the impact of the floating of the rupiah that occurred after intervention band was suspended. Experience from other countries has shown that in the early stages of a floating exchange rate system, substantial fluctuations in the value of the currency will take place. This fluctuation is generally short lived and is caused largely by market players and persons who are in process of learning how to deal with the new reality. This initial condition can be exacerbated by speculations. Moreover at this early stage the currency is still in the process reaching a new equilibrium.

Even though in the early stages of a floating exchange rate system there is likely to be excessive volatility, we note that since the beginning of September the rupiah has been relatively stable with the exchange rate moving between Rp 2,900/$1 to Rp 2,950/$1. This favorable outcome reflects various government efforts that were positively received by the market.

The currency fluctuations have had a substantial effect on business activities as well as on our national development programs. The changing value of the rupiah has influenced government receipts as well as the forecast annual expenditures in the state budget for 1997/1998. Even though there is a considerable negative impact, we hope this event can be used as an opportunity to consolidate the national economy by implementing various structural adjustments. These structural adjustments are needed so that all sectors of our national economy are prepared to face economic globalization, a development that is already well under way.
The Southeast Asia currency fluctuations occurred at the same time as the U.S. dollar gained strength against most other currencies, including the Japanese yen and the European currencies.

From January 1997 through 11 September 1997, the rupiah depreciated by 23.53 percent, while the Thai baht had depreciated by 36.68 percent. The weakening of the rupiah/dollar exchange rate should be seen in light of the weakening of several currencies in Southeast Asia, as well as the Japanese yen and other European currencies against the U.S. dollar. This change in the exchange rates is important if Indonesia is to maintain its competitiveness, since, in addition to the United States, Japan and Western Europe are also important markets for Indonesian exports. One difference between what happened in Indonesia and elsewhere is that Indonesia's depreciation took place without any substantial loss of our national foreign exchange reserves.

In order to stabilize the fluctuations of the rupiah and to assist in the strengthening of the national economy as soon as possible, the government will undertake a series of policy measures with the following objectives:

- stabilize the value of the rupiah at a new equilibrium level;
- strengthen fiscal policies;
- reduce the current account deficit;
- establish a sound banking sector; and
- create a vibrant private business sector.

To reach our goals we will take steps that are in line with the new situation and with market trends. These measures will have a positive effect on the development of the capital market and are in line with Indonesia's 25-year reputation for prudent economic management.

To reach the above-mentioned goals, the government is already implementing a number of policy steps and will take further measures as follows.

As the situation permits, the government will continue to reduce interest rates on SBIs, in stages. The reduction of interest rates on SBIs will help to bring down interest rates on loans. This is important for promoting the recovery of the private business sector.

The government will loosen liquidity gradually and in accordance with the situation through fiscal and monetary instruments. This easing of liquidity will be conducted cautiously so as not to give rise to additional volatility of the rupiah.

Because government revenue from direct and indirect taxes is going to decline, an adjustment to government expenditure is needed. The reduction in receipts is due to a reduction in private business activity and to numerous losses experienced by private businesses as a result of the change in the exchange rate. The state budget is also under pressure be-
cause of the size of the fuel (BBM) subsidy, currently borne by the government, which has resulted from the decline in the value of the rupiah. The fiscal year 1997/98 budget originally planned for a net profit from oil of Rp 249.2 billion. However, if the reference price of $16.5 per barrel of oil is maintained and if the exchange rate is $1 per Rp 2,900, the size of the annual BBM subsidy rises to Rp 2.2 trillion. If necessary adjustments are not made, the state budget for the current fiscal year will suffer a deficit of Rp 9.2 trillion, and for this reason steps must be taken to overcome the potential deficit.

Therefore, a number of budget programs and projects should be rescheduled, including:

- programs/projects of various ministries and government institutions;
- official travel;
- workshops, seminars, and training;
- land acquisitions, government office constructions, and procurement of equipment; and
- other development projects under Part XVI of the state budget.

The total amount of expenditure to be rescheduled comes to Rp 3,278.9 billion. This is equivalent to 12.7 percent of the rupiah development budget or 8.4 percent of the total development budget.

Projects to be rescheduled within the ministries and government institutions consist of those projects where a significant portion of all rupiah financing is used for import, those projects that have not yet begun any physical development, or those projects that have not signed the contract. Most of these projects are within the Ministry of Public Works, the Ministry of Mining and Energy, and the Ministry of Transportation.

Although we are experiencing constraints on the state budget, the government will fulfill its foreign debt obligations thoroughly and on time. If the situation permits, it may even be possible to make prepayments on foreign debt.

Various programs and projects that are directly connected to efforts to raise social welfare and overcome poverty will not be rescheduled. These programs and projects will be carried out as planned. Included in this category are various Inpres projects, the IDT program, and projects in the field of basic health and basic education. In addition, foreign aid projects whose funding source is from the CGI will be carried out as planned.

In addition to budget projects, various state-owned enterprise projects will be postponed or reviewed, primarily those with high import content or those funded from overseas. Projects that will be postponed or reviewed include:
• government projects;
• state-owned enterprise projects;
• private projects connected to the government; and
• private projects connected to state-owned enterprises whose funding source is from foreign commercial loans that require the approval of Tim PKLN (Keppres No. 39/1991) and export credit.

Such projects are divided into three categories: those that will be continued, those that will be postponed, and those that will be reviewed. Projects to be continued are those that are already under construction. These projects will be continued according to the original schedule. Projects to be postponed are those projects that have not yet begun. Implementation of these projects can be postponed until the economy recovers and the objectives of this rescheduling have been achieved. Projects to be reviewed are those projects that require further study, and based on the results of the study these projects will be either continued, postponed, or rescheduled.

From the total number of SOE projects and private projects connected to government/SOEs that are financed with commercial credits amounting to Rp 161.78 trillion, those to be postponed amount to Rp 38.92 trillion (24.1 percent) and those to be reviewed amount to Rp 62.69 trillion (38.7 percent). Within the Ministry of Mining and Energy, of the 29 power generating plants that have been negotiated, 14 of those will be postponed (amounting to $5 billion), and 9 of those will be reviewed (amounting to $4.9 billion). Furthermore, two oil refinery projects, amounting to $800 million, will be postponed. Within the transportation sector, 29 toll road projects will be postponed, and 19 toll road projects will be reviewed. The Manggarai Terminal project and the Surabaya-Madura Bridge project will be postponed. In addition, various private megaprojects, such as Menara Jakarta and the Java-Sumatera Bridge project, are not considered to be priority projects by the government, and therefore can be postponed—so can the Indonesia-Malaysia Bridge project, which is not an urgently needed project.

From government development projects financed with export credits amounting to Rp 2.37 trillion, those to be postponed amount to Rp 237.6 billion (9.4 percent) and those to be reviewed amount to Rp 970.1 billion (38.2 percent). The desired outcome from postponing and reviewing these projects is to reduce the current account deficit, so that over the next two years the current account deficit can be kept to a maximum of 3 percent of GDP.

To stimulate non-oil exports, the government will provide facilities to exporters mainly in the form of preshipment financing. In addition, import duties on a number of raw materials and intermediate products will be reduced. To further restrain the growth of imports, the government will im-
pose and increase sales taxes on a number of luxury consumption goods (PPn BM) that are not vital for development or for basic social needs.

Consolidation and measures to improve the soundness of the banking system will continue to be carried out. Within this framework, a study on the plan to merge state banks is being completed and will be implemented as soon as possible. It is hoped that plans for the merger and acquisition of private banks will continue. Banks that are truly insolvent and whose difficulties cannot be overcome through merger or acquisition will be liquidated, while safeguarding depositors as far as possible, mainly small depositors.

Private businesses are encouraged to engage in consolidation and not to pursue unnecessary expansion activities, especially those activities that depend on short-term foreign funding. In this connection, the government also hopes that private companies will fulfill their obligations toward foreign parties.

As it realized that dealing with currency volatility requires regional and, even global, efforts, the government welcomes every effort aimed at stabilizing the various foreign exchange rates, including those in South-East Asia, through a process of regional and global cooperation. The government will implement these measures as quickly as possible in order to provide greater certainty for the private business community and for society in general. The government seeks the support of the honorable members of parliament in these efforts and extends its appreciation for this support. May God the Almighty bless our efforts.

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

Hossein Namazi

I would like to start by expressing my appreciation for the opportunity to discuss topics that have made their way on to the agenda of the Bretton Woods twin institutions. I would like to touch upon some of them as follows. Before proceeding, I wish to congratulate the government and people of the People’s Republic of China for the rejoining of Hong Kong to the mainland and to thank them for hosting this meeting.

Strengthening Support for Development

The divergence between the growth in private capital flows and the stagnation in official flows to developing countries that has characterized
the early 1990s continued in 1996. Between 1990 and 1996, when private net capital flows to developing countries grew fivefold, official development assistance had either leveled off or slightly decreased.

The Bank and the IMF's call to strengthen support for development cooperation sends a clear and timely message regarding the decline in official development assistance (ODA) flows and the very limited access of poor countries to private flows. I therefore urge donor countries to redouble their efforts to provide adequate concessional resources to the low-income countries with either limited or no access to private capital markets. Meanwhile I also urge the developing countries to increase efforts aimed at containing budget deficits and encouraging private savings to reduce dependence on external financing.

Furthermore, the task of the World Bank, as well as of other multilateral development banks and bilateral agencies, is to provide countries with the kind of assistance they really need. Middle-income countries that have easier access to private financing need a different type of assistance than do low-income countries with fragile state institutions and less open economies. This means that the Bank should provide middle-income countries with more sustained support through IBRD loans as well as International Finance Corporation and Multilateral Investment Guarantee Agency instruments. Thus, more concessional resources could be used to increase the attractiveness of poor countries for the private sector and to reduce poverty. In this respect, I support the general approach of the Bank's Strategic Compact to make the Bank's products and services more client tailored.

Implementing the HIPC Initiative

The decline of ODA flows emphasizes the need for developing countries to become progressively less dependent on ODA. In this context, a sustainable debt policy is crucial. We therefore welcome the progress that has been made with regard to implementation of the HIPC Initiative since the last meeting and would like to commend the Bank and the Fund for their leadership in this endeavor.

Nevertheless, the experience gained thus far from four HIPC Initiative cases has revealed some practical difficulties. This reflects the complexity of the issues and calls for exercising flexibility in the application of the provisions and for a strong commitment to cover the costs on an equitable basis.

The Strategic Compact

In recognition of the rapidly changing global environment, the World Bank Group has adopted a program of renewal that will enable it to position itself well for the twenty-first century. The Bank's traditional ways of
doing business are being changed to reflect the new political and economic environment influenced by increased globalization, client diversity, and the technological revolution.

We welcome this shift to a broader development agenda, especially in terms of more socially relevant country assistance strategies and better targeted projects based on a more comprehensive understanding of local social situations and better assessment of the social and political risks. We believe it is a sound approach. Nevertheless, it is essential for the Bank and the IMF to stay within their respective mandate.

However, within the topics covered by the Strategic Compact, I would like here to touch upon the issues of governance and combating corruption. Before turning to these issues, I would like to draw your attention to the importance of careful consideration of the cost-effectiveness of implementing the Strategic Compact.

**Governance and Combating Corruption**

Worldwide attention to issues of governance has intensified in recent years so that it has become a central item on the agenda of the international financial organizations in their dealings with member states. Promoting good governance in all its aspects, including ensuring the rule of law, improving efficiency and accountability of the public sector, and tackling corruption is identified as an essential element of a framework within which economies can prosper. Corruption in economic activity and, more specifically, bribery is one manifestation of weak governance and is a major concern of governments, citizens, and nongovernmental organizations in developing and industrial countries alike. The heightened focus of the World Bank and the IMF on these topics is particularly welcome. We find this initiative positive and believe that good governance and the move to combat corruption contribute strongly to sustainable growth, social development, and the creation of a stable regulatory environment at national and international levels.

However, certain points are noteworthy in this context: first, the principles of accountability, participation, and transparency that the international financial institutions are applying to borrowing governments have not as yet been rigorously applied to the institutions’ own governance. While pressure for good governance has been magnified by the policy-making role of the Bretton Woods twins, neither institution has adequately reformed core aspects of their own accountability and participation.

The World Bank and the IMF fall short of these requirements of good governance in a number of ways, despite their efforts to respond to calls for more transparent, accountable, and participatory governance. In both institutions there are certain rules that work against the standards of governance that they are requiring from member governments.
Second, as we stated at the last Annual Meetings, despite all the constructive intentions that might have been behind the idea of requiring good governance, there is a major concern regarding its abuse—that it may serve as a tool to impinge on national sovereignty. This should be carefully dealt with by both institutions.

Third, corruption is a global phenomenon that affects all countries in varying degrees. Therefore, international cooperation among all countries should be strengthened to reduce corrupt practices. In this context the Bank’s strategy for helping countries combat corruption is particularly welcome. A recent communique of the Development Committee indicated that the Committee had encouraged governments to criminalize international bribery. With respect to this subject, it is noteworthy that what may in one case be counted as bribery, in another case is treated as the legal payment of commissions to intermediaries. Thus, in the case of international transactions, equal attention should be paid to both sides. For example, the tax deductibility of bribes in many major exporter countries not only does not challenge corruption, but is even conducive to such practices. Therefore, a general agreement on bribery is required at the international level to ensure that the legal and constitutional definitions of corruption adopted by different governments are compatible, so that a crime committed in one jurisdiction will be recognized as such by others.

It is noteworthy that the Islamic Law, which is based on the instructions of the Holy Quran as well as the rules enacted by the Prophet Mohammed has precisely touched the bribery issues, such that a Prophetic Narration establishes that “the briber and the bribee deserve hell.”

**Capital Account Liberalization and SDR Allocation**

We support the position taken by the Ministers of the Group of Twenty-Four regarding capital account liberalization. We expect the IMF to complete its work on the orderly liberalization of capital movements as a prelude to any amendment of the Fund’s Articles of Agreement. We also welcome the agreement reached on the special one-time allocation of SDRs and the quota increase. We believe that, in order to increase the role of developing countries in the decision-making process of the Bretton Woods institutions, there is a need to modify the formula for determining quotas, and we are pleased with the assurances given in this respect.

Now I would like to present an overview of economic conditions in my country. The overall economic outlook is favorable. The government, while fulfilling its undertakings and improving the external balance of payments, has succeeded in containing inflation and has decreased its rate by over 50 percent compared with the preceding year. Nevertheless, the GDP growth rate increased by 5.2 percent in real terms during the last year.
As you may know, the new administration in the Islamic Republic of Iran has recently commenced its work. This administration, while remaining committed to the earlier economic and policy reforms pursued under the country's Second Five-Year Development Plan, will mainly embark on the following fundamental tasks aimed at attaining further economic growth, greater social justice, and sustainable development:

- applying a tighter discipline to the financial system of the public sector;
- reducing government expenditures through further privatization;
- increasing tax revenues by improving the taxation system, reforming tax laws, and introducing value-added tax;
- reducing inflation through tighter monetary policy;
- promoting private savings and preventing private sector crowding out by the government;
- establishing an exchange rate system compatible with the economic growth rate;
- promoting price stability;
- making a stronger commitment to the social sectors and human resource development; and
- introducing a more efficient economic policy coordination and implementation.

STATEMENT BY THE GOVERNOR OF THE BANK FOR IRAQ

Rashid Hwaish

I would like to begin my brief remarks by congratulating you on your election to chair the 1997 joint Annual Meetings of the Board of Governors of the IMF and the World Bank Group. I take this opportunity to add my voice to those of my colleagues in expressing our thanks and appreciation to Hong Kong for hosting this year's meetings, the largest international economic gathering held here since it joined the People's Republic of China.

In previous years, and at these same meetings, the Iraqi delegation has brought to our attention one of the most important purposes of the IMF, as stated in paragraph 4 of the Articles of Agreement: eliminating the restrictions that hamper world trade. Today once again, I wish to affirm that the continued economic sanctions imposed on Iraq since 1990 and the freezing of its banking assets are incompatible with the Articles of Agreement and the general philosophy of the Fund. As Iraq is a founding mem-
ber and one of the nations that signed the Bretton Woods agreement in 1945, we urge the IMF to condemn the continuation of economic sanctions against Iraq, based on their incompatibility with the Fund’s purposes of eliminating trade restrictions and promoting economic stability and prosperity for all the nations of the world.

The economic sanctions imposed on Iraq have greatly affected the lives of its people and hindered the country’s development, as can be seen from the direct effects of sanctions on the production of goods and services in all sectors of the economy, from rising inflation and the resulting negative impact on family income, and from the severe shortages of medicines and medical supplies that have resulted in rising death rates in all age sectors, not to mention pollution of the environment and its negative effects on the quality of life in Iraq.

Despite the expiration of the first phase established by the memorandum of understanding between Iraq and the United Nations, signed in March 1997 and permitting Iraq to export limited quantities of oil, and despite the renewal of the memorandum in August 1997 for an additional six months, the situation in Iraq remains very difficult. During implementation of phase one, many difficulties were encountered in the contracting process. Three months after the expiration of phase one in June of this year, the import program for crucial items has still not been implemented, and contracts have been suspended without justification—despite the urgent need for these items—owing to the position of certain countries that have placed obstacles in the path of its implementation.

From this international forum today, we call for measures to ensure the rapid implementation of contracts to purchase food, medicine, and other basic necessities, in exchange for oil exports, in accordance with the second phase of the memorandum of understanding.

After seven long years of sanctions against my country, which are without precedent in modern history, and in view of our patience and continued efforts to implement the relevant Security Council resolutions, the international community and its representative institutions are demanding a review of our experience with the commission responsible for implementing the terms of the sanctions against Iraq and a revision of their operating methods. A new and just system must be developed that will prevent any of the commission’s members from using the right of veto or creating delays and obstacles, whether for political purposes or for any other reason, to obstruct the importing of goods or the provision of services crucial to the lives of an entire people who are members of the international community.

Once again, I appeal to the IMF and the World Bank, based on the principles of their Articles of Agreement and the Declaration on Partnership for Sustainable Global Growth, approved by the IMF’s Interim Committee on September 29, 1996, to call for an end to the economic sanctions
imposed on Iraq and the freezing of its assets. I also appeal to the Governors of our financial institutions, Ministers of Finance, and governors of central banks, to invite your governments to work together to lift the sanctions and end the suffering of an entire population caused by the deterioration of their economic and social conditions. Implementation of the memorandum of understanding signed by the Secretary General of the United Nations has not been sufficient to halt the continuing deterioration of the quality of life in Iraq, and the continuation of sanctions will lead to an immense human tragedy, unless measures are taken to end this abnormal situation, after Iraq has fulfilled all its obligations in accordance with the relevant resolutions.

Most developing countries currently face the prospect of deteriorating production systems, caused by the threat of free markets and prohibitions against any financial or administrative restrictions on the transfer of goods to world markets and against subsidizing goods produced for export. Faced with higher costs and lower technical standards, our production installations will encounter many difficulties caused by application of the General Agreement on Tariffs and Trade agreement and membership in the World Trade Organization. That is why the IMF and the World Bank are calling for added support for developing countries’ efforts to make the necessary adjustments and develop their production systems, thereby increasing their ability to penetrate world markets and meet the challenges of free trade.

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

Charlie McCreevy

The IMF and the World Bank have done valuable work during the past year. Ireland particularly welcomes the advances made with a number of initiatives to help the less developed countries and their integration into the world economy. Regarding the economic situation, the World Economic Outlook makes for encouraging reading but equally shows that policymakers face considerable challenges.

Irish Economy

The Irish economy has made impressive progress in recent years. This year is also proving very positive. GNP is likely to grow by about 6.5 percent, with employment rising by about 4 percent and unemploy-
ment declining further. Investment continues to grow strongly. Inflation should average 1.5 percent in 1997. The long-standing policy stance that has brought about these results will be maintained.

**Current Issues**

I would like to comment on a number of issues relevant to the Fund and the Bank on which progress has been made since our last Annual Meetings.

I am particularly pleased to note the preparatory work that has been initiated in the IMF in relation to Economic and Monetary Union (EMU) in the European Union (EU). This major change to the European region's economic and monetary systems will have implications for the global economy and also for the relationship between the Fund and the European Union and its member states. I am very pleased to see the cooperative and mutually supportive manner in which the discussions between the Fund and the EU are being handled.

In the EU, preparation for this major project has progressed in a major way—on both the policy and practical aspects—over the past 12 months. I am confident that EMU will be established on January 1, 1999, in accordance with the treaty timetable. It is clear, too, that Ireland will qualify for participation from the outset. There is every reason to believe that EMU will be characterized by a low inflation and low interest rate environment conducive to economic growth and sustainable employment creation.

We note with approval the agreement on the special one-time allocation of SDRs to bring total allocations to all members to a common benchmark of quota.

We warmly welcome the agreement to strengthen the financial base of the Fund to meet future challenges through the Eleventh General Review of Quotas. A positive aspect of the agreement is that it will bring quotas more into line with relative positions in the world economy.

We fully agree with the concept of making the orderly liberalization of capital movements one of the purposes of the Fund and with extending the Fund's jurisdiction to capital movements.

**Development Agenda**

Turning to the development agenda, the Bank and the Fund are to be congratulated on the progress that has been made on the implementation of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). We very much welcome that decisions have been made on Uganda, Bolivia, and Burkina Faso and that preliminary consideration of a group of other countries is well under way. This is no mean achievement, given the complexity of the problems affecting the indebted countries and the number and diversity of the players that are party to each decision.
We note the flexibility with which the initiative is being implemented. It is important that this flexibility be used to ensure that the maximum number of eligible countries benefit from the initiative—and as early as possible.

In any event, the initiative must offer a real exit from excessive debt to the countries concerned and allow them to regenerate their capacity for economic and social development. In this context, Ireland welcomes the recent internal review of the Enhanced Structural Adjustment Facility (ESAF), and looks forward to the completion of the ongoing external evaluation. Understanding the impact of structural adjustment, on social sector programs in particular, is critical to implementing the ESAF in an optimal way.

*Other Issues*

The new focus on good governance by the Bank and the Fund is appropriate and timely. This is necessary for the effective implementation of macroeconomic and development policies.

The volume of business now being transacted by the Multilateral Investment Guarantee Agency (MIGA) is such that an increase in its resources will be necessary if MIGA is to meet increased demand for guarantees in coming years. We welcome the conclusions of the Development Committee that the immediate funding requirement be dealt with as soon as possible and the overall question of a capital increase be sorted out by the spring meetings.

We would encourage the Bank, in implementing its action program, to reduce barriers to private sector involvement in infrastructure in developing countries. Its sectoral and global experience, strong credit rating and financial capacity, long-standing partnerships with countries, and reputation as an honest broker equip the Bank to make a special contribution in this field.

In conclusion, I would like to congratulate both organizations for their efforts during the past year. The leadership, long-term orientation, and strategic qualities shown by those in charge of both the Fund and the Bank augur well for the future.

**STATEMENT BY THE GOVERNOR OF THE FUND FOR ISRAEL**

*Yaakov Neeman*

Thank you very much for the opportunity to address this distinguished group on behalf of the State of Israel. The joint meetings of the
International Monetary Fund and the World Bank hold great significance for the world economy and for Israel as an active participant in the world economy.

It is a great privilege to hold the meetings here in Hong Kong since handover to the People’s Republic of China has been effected. The Jewish people owe a great debt to China for harboring Jewish refugees during the second World War. These refugees found haven in cities like Shanghai, Tianjin, and Harbin. I am reminded of the Talmudic expression that states, “he who saves a life, it is as if he has saved the entire world.” With this spirit I would like to praise both Bretton Woods institutions and their staff for their initiative with various programs to promote and assist poor countries. In particular I would like to commend their efforts to assist the incipient Palestinian economy, and thereby promote peace. We hope that these efforts will not be undermined by recurring acts of terrorism. Such acts endanger the peace process and bring devastation to the Palestinians and to their economy. We continue to seek peace and security with the Palestinians and with all other countries in the region.

Impressive Achievements

Israel’s economic achievements have been quite impressive. Today the State of Israel is a highly advanced, industrialized economy. This decade is especially remarkable. During the period 1990–96, Israel achieved GDP growth of approximately 6 percent a year, based mainly on high value-added industries such as high technology. This growth rate brought Israel to about $17,000 GDP per capita in 1996.

Decline in Growth Rate

However, in mid-1996 a decline in the growth rate occurred. It is important to emphasize that this slowdown is not a recession. Moreover, the Israeli economy has the potential for an even higher growth rate than the indicators show. In order to realize this potential in the future, and to return to a growth rate of 5–6 percent a year, in June 1996, the government of Israel acted quickly to find a solution to the problems of the previous two years.

The Problems of the Economy in 1996 and the Policy

The central problem of the economy was the large deficit in the current account of the balance of payments, which, in principle, is the result of the government’s budget deficit. The balance of payments deficit in 1996 was 5.6 percent of GDP. The budget deficit was 3.9 percent of GDP, compared with the 3.6 percent planned. The government acted immedi-
ately upon entering office by implementing drastic cuts in the budget for 1997. The planned budget deficit for 1997 is 2.8 percent of GDP, in accordance with the Maastricht criteria.

The government also announced a gradual reduction in the budget deficit, with a ultimate target for the year 2001—a deficit of 1.5 percent. In order to achieve this goal the government of Israel is strictly following the course of the budget. As stressed in the IMF’s 1997 Annual Report we shall adhere to the deficit target for 1997 and the following years. I can state with confidence that this year we will not deviate from the deficit reduction goals that we set for ourselves, and the 2.8 percent target will be met.

The change in the budget deficit track was immediately reflected in a substantial improvement in the balance of payments. Today, our estimates suggest a deficit of 3.6 percent of GDP, compared with 5.6 percent in 1996, an improvement of 2 percentage points!

Policy for 1998—Budget Cut

Two weeks ago the government approved the proposed budget of 1998. This budget sets a target of further reduction in the budget deficit to 2.4 percent of GDP. It includes an additional cut in government spending, without cutting expenditure on infrastructure. It also includes the setting of inflation targets designed to bring about a further reduction in the inflation rate. It is not easy to implement a restrictive policy during a time of slower economic growth. The fear of further slowdown, combined with rising unemployment, increases the pressure to abandon restrictive fiscal policy. However, we are aware that there are times when we must exercise policy restraint in the short term in order to benefit in the long term.

Structural Reforms

Let me stress that our government, which has been in office for only 15 months, has taken strong and assertive actions to improve the economy. As I mentioned, the first step was regarding the budget. However, we also believe that reforms are essential for growth. We have embarked on a series of structural reforms that are designed to remove government influence in the marketplace, promote the growth of the private sector, and enhance competition. In today’s world of globalization the changes we have made are only the start. We have started deregulating many different industries and sectors of the economy. Among the structural changes that the government approved, we can find examples in telecommunications, transportation, investments, construction, and medicine. The government, in cooperation with the Bank of Israel, has also announced a plan to remove foreign exchange controls, which will make the Israeli shekel fully convertible by mid-1998.
**Privatization**

In the past year, the Israeli government has labored intensively to expedite the process of bank privatization. The fruits of this effort reached a climax two weeks ago with the sale of the controlling share of the largest bank, Bank Hapoalim. The proceeds of this transaction may equal 2.1 billion dollars. It should be emphasized that the sale was carried out for a price that was 25 percent above the book value and 16 percent above its valuation on the Tel Aviv stock market. This unprecedented success reflects confidence in the Israeli economy and in its future course. The process of selling and privatizing must be handled carefully and responsibly. The importance of the process is not only in selling, but also in enhancing competition and efficiency.

The proceeds generated by our successful overall privatization policy has far exceeded our projections. Our estimates for 1997 were about $1.2 billion in revenue; today we expect a revenue of $2.5 billion. Moreover, we have raised more money this year than has ever been raised through privatization.

**High Technology**

The world market, with its fierce competition and almost endless possibilities, is the target of most Israeli startups today. Israel has become one of the world’s leaders in the high-tech field. About one-third of our export of goods is in high-tech industries, which in the past two years has grown at an annual rate of about 15 percent. It is remarkable to notice that over 3,000 start-up high-tech projects are being conducted in Israel at present.

**Financial World Markets**

The world is aware of the economic possibilities that the Israeli economy has to offer. Many Israeli enterprises utilize the capital markets abroad to finance their products. Besides the United States and Canada, Israel has the largest number of companies listed on NASDAQ. Most of those companies are in the high-tech field. At the same time, foreign investment in Israel continues to increase.

**Conclusion**

The economic forecast for the State of Israel is promising. We are making the necessary changes so the economy will prosper. I can assure you that we will keep to our plan for economic reform. We will continue to pave the way toward a future of stability and sustainable economic growth; a reduction of the budget deficit; a reduction of the rate of inflation; and prosperity.
Finally, on behalf of the State of Israel, I would like to express my gratitude and appreciation to the Managing Director of the Fund, Mr. Michael Camdessus, and the President of the World Bank, Mr. James Wolfensohn. I would also like to thank the Executive Directors, the staff, and the Joint Secretariat for these successful and fruitful meetings.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ITALY

Carlo Azeglio Ciampi

The progress of integration, the spreading of economic growth to most areas of the world, the convergence of inflation to low levels, and the sustainability of existing current account positions offer all of us the opportunity to proceed in our efforts to make lasting contributions to international stability and prosperity. We should seize this opportunity.

For many in Europe, moving forward means establishing Economic and Monetary Union (EMU) after the establishment of the single market. For others, it means completing the transition to a market economy.

Economic and financial integration is already on a well-established path. We possess good institutions, regional and global, that can help us do this, but, in the final analysis, results largely depend on our policies and choices.

One year ago, Italy was faced with a hard choice. The economy was stagnating, the budget deficit—although improving—was still at about 7 percent of GDP, and the inflation rate was double the average for the European Union (EU). At the same time, the calendar and commitments for EMU did not leave any room for slippage.

The Italian government made its choice: early participation in EMU became the guiding light of our policies. The challenge was a bold one; even, according to some, reckless. But today I can say that we are close to meeting it. Optimism must be tempered with caution, but certainly Italy is now well positioned to reap the benefits of the disinflation, fiscal adjustment, and structural reform that it has endured, despite the unfavorable cyclical circumstances of 1996 and early 1997.

The markets have appreciated our determination in facing the task of fiscal consolidation: the fall of interest rates was the reward, and it has made the adjustment not too punitive for the real economy. The primary surplus in Italy is one of the highest in the world, which makes further gains in the overall budget balance easier to obtain. Confidence is returning to households and firms. We expect output in Italy to rebound this year.
and to continue to grow in the next: our prudent forecasts for GDP growth of 1.2 percent in 1997 and 2.0 percent in 1998 are well within reach. Our current account balance of payments position is among the strongest in Europe. The lira reentered the exchange rate mechanism (ERM) and has remained stable in it.

It is in the area of inflation that we can see the most progress. The rate of inflation, which one year ago was the second highest in the EU, is now among the lowest: much lower than 2 percent. Behind this unique improvement, there is a radical and nontransient downturn in inflationary expectations. This was made possible by converging fiscal, monetary, and income policies: the three pillars of a society that bases its progress and its cohesion on stability.

A reform of public administration has been launched. The budget process itself has been revamped. A tax reform has been approved and is being implemented. It is innovative and has made the tax system more favorable to growth and fairer.

I have mentioned the structural components of our fiscal adjustment in order to underline our commitment to the “sustainability” of our budgetary position. We are well aware that some of the corrective actions taken with the 1997 Finance Law need to be consolidated through the implementation of structural measures and through a rigorous 1998 budget.

The process of fiscal consolidation needs to take into account a problem that is common to all industrial countries, but is especially acute in Italy and Japan: the rapid aging of the population. In Italy, we are now collectively attempting to reevaluate some of the basic features of our welfare system and to adapt it to ensure its long-term balance, and to ensure that future generations can benefit from it.

We believe that Italy can contribute to the historical change about to take place in Europe. We believe that the more countries that participate in EMU, the stronger the euro will be, provided they comply with the Maastricht criteria. We believe that the single currency will go a long way toward giving back to Europe the ability to compete in the global economy, to grow, and to create jobs.

The key problem of continental Europe is unemployment. Making progress on this front requires, in addition to the resumption of sustainable growth, substantial structural improvements—in physical and nonphysical infrastructure, to help the competitiveness of the system; in deregulation, to increase competition in the markets for goods and factors of production; in taxation, to make it less skewed against using labor; and in the functioning of the labor market and the composition of public expenditure to facilitate lifelong education and training of the labor force and to increase the ability of workers to move within and across industries and regions.

Solid international institutions, regional and global, can help our societies change and prosper. We are fortunate to have the IMF and the
World Bank at work in their respective spheres, adapting to the emerging world realities while at the same time helping to shape them. The IMF is becoming a major supplier of credibility, aside from credit, to member countries and a key player in preventing and handling crises. To fulfill its complex and evolving roles, the IMF must have a clear mandate, flexibility of action, and adequate resources.

For these reasons, we have supported the establishment of the New Arrangements to Borrow, the expansion of the ordinary resources of the IMF, and the extension of its mandate to capital account convertibility. We are happy to see the first two objectives reached.

The amendment of the Articles of Agreement that we are now contemplating is an event of historical dimensions. After the successful establishment of the World Trade Organization, the extension of the IMF’s responsibility from current to capital accounts would constitute a major advancement in the existing world economic order. We must therefore take care to act judiciously. In this area, it is more important to be right than to be quick.

In the same spirit, we support the emphasis that the World Bank Group is placing on the fundamental areas of private sector development and governance. The Bank can help remove existing obstacles to the participation of the private sector in the development of key areas of the economies of emerging countries by providing guarantees, supplying risk capital, extending credit, and sponsoring good sectoral policies. It can also provide critically important assistance in extending physical infrastructures and developing human capital. Governance in all countries is critical. The World Bank Group and the IMF can play a useful, if limited, role in fostering effective governance, which by its nature begins at home.

This leads me to a final consideration. In public policy, success begins at home. If we succeed there, international public action also becomes easier and more productive. To be fully effective, we must achieve mutually reinforcing results in both of these domains.

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

Hiroshi Mitsuzuka

Introduction

May I begin by saying what a pleasure it is for me to be able to address the Fifty-Second Annual Meetings of the World Bank Group and the International Monetary Fund.
It is extremely significant that these Annual Meetings are being held here in Hong Kong, a center of international attention, especially since its return to China on July 1, 1997. I would like to express my sincere appreciation to the government of the People’s Republic of China for making it possible to hold these important Annual Meetings in Hong Kong.

May I also take this opportunity to voice my hope that Hong Kong, which has attained remarkable economic growth as a model of a free and open economy, will continue to play a significant role in the progress of the region as an international trade and world financial center, while maintaining its free and open system under the principle of “one country, two systems.”

Dynamics of Emerging Economies in Asia

Let me begin by reviewing the state of the emerging economies in Asia and what lies ahead for them.

In recent years, the growth of the emerging economies in Asia has indeed been spectacular. As a growth center of the world, they have served as the engine for world economic growth. The key driving force behind such economic growth is a combination of many factors: the promotion of open-market and export-oriented policies; development of human resources; and financial liberalization, plus the enormous private capital inflows resulting from this.

However, I must point out that depending on short-term capital without having the appropriate macroeconomic policies and foreign exchange systems is dangerous. Without sound economic management, short-term capital flows can fluctuate both abruptly and on a large scale in response to changes in economic circumstances or speculative pressures, causing a currency crisis. Once a currency crisis occurs in one market, it may have an immediate and contagion effect on other markets. This will certainly have a negative impact on the sustainable growth of an entire regional economy.

The recent currency crisis in Thailand was the unfortunate realization of such concern. Happily, however, a strong relief package was arranged in a very short period of time by some Asian countries and multilateral development banks, with the IMF playing a central role in coordinating the package.

It is noteworthy that the Asian countries have expressed their willingness to provide active support, and have taken part in bringing the package together. I believe this also indicates the level of their commitment to stability in the Asian financial markets.

Lessons also must be learned from our experience in Thailand, as it has clarified a number of issues in the area of economic management that must be addressed in the wake of integration of financial markets.
First, an appropriate foreign exchange system and sound fiscal and monetary policies are both essential to currency stability. Second, appropriate policy action in response to structural problems in each country’s financial sector is also essential, especially in the wake of capital liberalization. Third, close regional cooperation is essential for the prevention and control of crises, especially among the emerging economies in Asia, as turbulence in one market can easily spread to the rest of the region.

These are the challenges that we must all address, together with the Fund and the Bank. The good news is that generally the Asian countries enjoy relatively good economic fundamentals. So, if lessons are learned from the recent experience and the economy is managed properly, the emerging economies of Asia should continue to grow at a high pace in the future.

Role of the Fund and Strengthening Its Function in the Wake of Capital Liberalization

Now I will comment on the role expected of the IMF in the wake of capital liberalization.

Today, integration of the financial markets and capital liberalization are already irreversible trends. These will ensure efficient distribution of resources and have a positive effect on economic growth. In promoting capital liberalization, the Fund should play a central role as the organization that oversees the international monetary system. In this context, the proposed amendment of the Fund’s Articles of Agreement to make the promotion of capital account liberalization a specific purpose of the Fund is extremely significant. It is hoped that further progress will be made in the discussion on the amendment.

In view of the recent currency crises in various parts of the world, however, the risks associated with capital account liberalization must also be taken into account in drafting the actual amendment. It is essential that the amended Articles have adequate levels of flexibility that will allow a response according to the size of the economy and the development stage of the financial market in each country.

On the other hand, we must not overlook the fact that in the wake of capital liberalization, each country more than ever is faced with the risk of being exposed to abrupt as well as large-scale capital movements. For the Fund to maintain stability in the international monetary system under such circumstances, it is essential that it strengthen its activities. To this end, a strengthening of the financial resources of the Fund is the necessary first step. For its part, the government of Japan completed on September 8 the domestic procedures needed for the New Arrangements to Borrow (NAB) and has notified the Fund of our adherence. It is hoped that other member
countries will also complete their domestic procedures so that the NAB will take effect very soon.

At the same time, we welcome the agreement on the Eleventh General Review of Quotas. However, as was evidenced by the recent financial support to Thailand, the financial resources of the Fund need to be enhanced further. For future reviews of quotas, we must take into account the expected magnitude of financial crises that might result from the liberalization of capital movements.

With regard to the allocation of SDRs, I welcome the latest agreement at the Executive Board of the Fund to make the first allocation of SDRs since 1981. The agreement is most welcome because it will achieve greater equity.

Furthermore, I believe it is essential that the Fund strengthen its surveillance of the economic policy and financial markets of each member country. The Fund is also expected to provide expanded technical assistance to help develop sound financial markets through strengthened supervision of financial institutions and increased transparency of their operations. These efforts are vital as they will translate into greater discipline in financial markets and more effective prevention of crises.

Sustainable Growth of Developing Countries

I will now touch upon what is needed to ensure sustainable growth of developing countries.

First of all, it is essential that they strengthen the base for further economic growth by modernizing industrial structure and developing infrastructure. For example, Asia has an enormous need for infrastructure development. Though the public sector will continue to play a significant role in this area, there is a limit as to what and how much the public sector alone can do. This is where multilateral development banks can play a significant role by promoting private capital flows for infrastructure development.

In this respect, I welcome the action program that the World Bank Group presented at this Development Committee in response to the proposal the Governor of Japan made at the last Annual Meetings. I strongly hope that the entire World Bank Group will actively implement the action program to deliver results on the ground.

For the same reason, it is essential to strengthen and expand guarantees of the World Bank Group. In particular, with its activities steadily expanding in recent years, MIGA needs additional financial resources to continue its activities. We welcome the agreement on the adequate level of MIGA's capital increase reached at this Development Committee, and at the same time strongly urge the MIGA Board and other relevant parties
to come to closure on details of the capital increase before the next Development Committee Meeting in April 1998.

Second, developing and strengthening financial and capital markets is vital for sustainable growth of developing countries. For these countries to fully benefit from globalization, it is essential that they win investor confidence and increase efficiency of their domestic financial markets by implementing financial reforms. Developing and strengthening financial and capital markets are also indispensable to steadily facilitating private infrastructure development. In the recent currency crisis in Thailand, the Bank played a key role. Thus, we strongly hope that multilateral development banks will make a comprehensive study and strengthen their activities in this field.

Third, poverty reduction and environmental protection are necessary for sustainable growth. In Asia, over 900 million people still live in poverty, accounting for about two-thirds of the world’s poor; in sub-Saharan Africa, over 200 million people live in poverty. In tackling this problem, it is essential to increase employment and income through sustainable growth, while emphasizing expanded measures targeted to these populations. In view of assisting heavily indebted poor countries, Japan is ready to make its utmost contribution to the HIPC Initiative.

Many environmental issues require concerted efforts across borders. In this context, the Bank should be the forerunner among the multilateral development banks. In particular, the functions of the Global Environment Facility should be strengthened. In formulating country assistance strategies, the Bank should also strengthen policy dialogue with each country to ensure that environmental policies are strictly adhered to medium- and long-term development strategies.

For its part, the government of Japan stands ready to support such areas as promoting private capital flows, strengthening the financial sector, and fighting against poverty and environmental destruction by further utilizing the Japan Special Trust Fund in the Bank, entitled the Policy and Human Resources Development Fund, based on further discussion with the Bank.

In Japan, we are more actively addressing global environmental problems such as global warming and acid rain. Regarding antipollution and global conservation measures, our government decided to ease official development assistance (ODA) loan conditions to the level equivalent to those of the International Development Association (IDA). This policy was implemented this month prior to the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change to be held in Kyoto this coming December.

Finally, continual effort to maintain development assistance is equally important. The government of Japan intends to provide as much assistance as possible under the severe fiscal constraints; however, it is
also necessary for the multilateral development banks (MDBs) to provide even more efficient and effective operations.

In this respect, the government of Japan supports the framework of the Strategic Compact while, at the same time, urges the Bank to attach greater importance to efficiency of its activities.

Moreover, strengthened collaboration among MDBs, other donors, the private sector, and nongovernmental organizations is an effective factor for maximizing the aid impact. I believe it is important to fully consider a wider range of opinions on development issues, including the role of MDBs, to build support for development assistance.

Conclusion

Each country’s circumstances are different. Each has a different industrial structure, and is at a different stage of development: some economies are developed; some are developing; some are in transition; yet others are emerging.

Despite such diversity, there is a possibility that we all might face a crisis of the type and magnitude never before experienced as the globalization and integration of financial markets proceed. Increased uncertainty associated with capital movements might also make our policy management even more difficult than it is now. These are the challenges we will have to address in order to ensure sustainable growth of the world economy.

One obvious way to address these challenges is to further promote collaboration among member countries. This is where the World Bank and the IMF can play a central role in coordinating concerted action through global as well as regional dialogue.

In closing, I strongly hope that the Annual Meetings in Hong Kong will provide an opportunity to confirm these commitments of ours and will allow us to go a step further in our collaboration.

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

Kyong Shik Kang

Every day, dramatic changes transform the world around us. These changes demand that we adapt and innovate to stay relevant in a rapidly changing environment.
As a major regional and global financial center, Hong Kong has been held up as an example of hybrid vigor, a successful combination of Eastern culture and Western thought. Much of Hong Kong’s strength lies in its ability to make full use of these resources and reinvent itself to reflect the times.

Now, once again, a part of the People’s Republic of China, I have no doubt that Hong Kong’s dynamism will continue to create new opportunities not only for China, but also for the rest of the world.

Role of IMF and World Bank in the New Global Economy

Hong Kong is in many ways one example of how rapid economic integration can benefit an economy. Many globalizing countries are now beginning to benefit from freer capital flows with the aid of advanced information technologies.

I’d like to take this opportunity to commend the IMF Managing Director and President Wolfensohn for reforming the IMF and the World Bank to better address the new challenges that inevitably accompany globalization and market opening.

Indeed, the recent foreign exchange crisis in Southeast Asia clearly demonstrated how indispensable the Bretton Woods institutions are to the world economy.

The IMF Quota Increase and the Quota Distribution

It is clear we must enhance the capacity of the Bretton Woods institutions, particularly the IMF, to offer appropriate policy assistance packages while combating the tactical movements of international speculative forces. To this end, we need to consider efficient measures that can effectively increase the IMF capital base.

This added capacity would enable the IMF to more successfully manage global market mechanisms, promote economic fundamentals, and avoid unnecessary turbulence.

In this context, I welcome the recent consensus that was reached among member countries regarding the Eleventh Quota Review. However, I believe the increase does not go far enough to correct quota positions vis-à-vis member countries’ economic position in the world economy. The quota distribution continues to unnecessarily limit the level of contribution of some member countries in the IMF capital increase.

I believe additional corrective measures in the future, which bring quotas more in line with the current global economic map, represent the most efficient and effective way to expand the IMF’s capital base.

Given the complementary nature of the Bank’s relationship with the IMF, a commensurate capital share adjustment by the Bank would go far to enhance the effectiveness of the Bretton Woods institutions.
The New Arrangements to Borrow Should Be Launched Immediately

I would also like to stress the importance of the New Arrangements to Borrow (NAB), a facility that will significantly augment the IMF’s ability to cope with international financial emergencies.

I urge the member countries of the NAB to make this facility operational as soon as possible.

Korea Supports Capital Account Jurisdiction Expansion

Both economic theory and practical experience suggest that financial liberalization is essential for economic development. But our experience also teaches us that, in order to be successful, financial reforms must be implemented in an appropriate macroeconomic, financial, and institutional environment with proper timing and sequencing.

The IMF’s record for guiding wellsequenced current account liberalization indicates it may also be the appropriate body to guide orderly capital account liberalization. Thus, I consider the initiative to expand the IMF’s jurisdiction to the capital account well justified. Of course, due respect should be given to the economic differences between member economies.

The Korean Economy

Balancing growth and stability has always been an elusive proposition. Although Korea’s extraordinary growth story is well known, recent cyclical and structural developments have caused some difficulties for the Korean economy.

As you know, a few large corporate insolvencies have aggravated Korea’s current economic situation. The government’s short-term response was decisive. While taking into account market principles, measures were implemented to improve risk management and the disposition of nonperforming assets. However, it is important to realize these insolvencies are symptomatic of the Korean economy’s structural imbalances, inherited from periods of condensed growth, and demonstrate the urgent need for structural adjustment.

Accordingly, the Korean government is in the midst of structurally reforming Korea’s financial system. These financial reform efforts include the expansion of business boundaries, interest rate liberalization, and support for venture capital financing. A complete overhaul of Korea’s central banking and financial supervisory systems is also in the making. We expect these reform efforts to dramatically alter the landscape of the Korean financial sector in the future.

I recognize many members of the international community may still have some concerns about the current health of the Korean economy. In response, I would like to point out that Korea’s economic fundamentals remain sound and current economic difficulties are manageable. Korea has...
begun to recover from the bottom of this cyclical downturn and macro-economic indicators are improving; we expect over 6 percent GDP growth and less than 4.5 percent inflation. More important, current account deficits are expected to substantially moderate from 5 percent last year to about 3 percent of GDP this year.

The Democratic People's Republic of Korea's Accession to Bretton Woods

I would like to take this opportunity to address the issue of the Democratic People's Republic of Korea's accession to international financial institutions. The Democratic People's Republic of Korea's accession to the Bretton Woods institutions is a sensitive issue, especially given its policy of isolation and the political and economic questions involved. However, the Democratic People's Republic of Korea's accession would expedite its integration into the world economy and contribute significantly to the political and economic stability of East Asia. The Korean government welcomes the Democratic People's Republic of Korea's future participation in these institutions and is ready to support and assist the Democratic People's Republic of Korea in the process of meeting the prerequisites of accession.

Concluding Remarks

Increased capital and information flows promise vast opportunities for global prosperity while posing an equal number of challenges. The IMF, the World Bank, and the international community must work together to take maximum advantage of these opportunities and effectively overcome the challenges. I believe that the rapid response of the Bretton Woods institutions and the international community to the turbulence in Southeast Asia was an excellent example of this collective commitment to multilateral and bilateral cooperation. Indeed, Korea's active contribution to the IMF's package for Thailand is only one indication of our readiness to undertake the cooperative responsibilities that come with a larger economy.

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

Xaysomphone Phomvihane

It is a great privilege and pleasure for me to represent the government of the Lao People's Democratic Republic at the Fifty-Second Annual Meetings of the Boards of Governors of the World Bank and the IMF.
First of all, let me join my fellow Governors in thanking the government of the People’s Republic of China, particularly the authorities and the people of the Hong Kong Special Administrative Region, for the warm welcome accorded to us, and in congratulating the management and staff of the Bank and the Fund for the joint efforts put into the excellent preparation of these meetings. Let me also take this opportunity to share with the meeting that two months ago, on July 23, 1997, the Lao People’s Democratic Republic was officially admitted into the Association of Southeast Asian Nations (ASEAN). This is an important event for our country and demonstrates the continuous willingness of our people to contribute to cooperation and peace in the world.

In 1996, world economic growth quickened. As for the Lao People’s Democratic Republic, economic growth reached 6.8 percent in 1996, which is slightly lower than the 1995 level. Agriculture, which still accounts for more than half of GDP, managed to grow by about 3 percent in 1996, even though affected by floods. Industry expanded by 14.5 percent and the services sector by 10.7 percent, which shows the increasing role of both sectors in the economy. The 1995 floods and harsh weather conditions for agricultural activities largely caused rising inflation in early 1996. Tight financial policies were successful in bringing inflation down from 20 percent to 7 percent at the end of the year.

For 1997, our country faced various difficulties:

- Natural adversity resulted in a lower harvest, especially that of rice. This, in turn, had a negative impact on GDP.
- Garment exports to Europe slowed when the general system of preferences status for the Lao People’s Democratic Republic was withdrawn in 1996.
- The financial system was unable to adapt to the rapid growth of an open-market economy.
- The Southeast Asian financial crisis affected our country.

All of these have contributed to the slower growth of the economy and caused food prices, especially those of rice, to increase in many provinces, with an impact on the overall consumer price index. Nevertheless, inflation has been maintained at the level of 10 percent. The export growth at 3.7 percent a year, compared with import growth, is slow. To contain inflation, the government has undertaken a monetary policy of restricting credits and promoting operations in the primary market through treasury bills and bills of the Bank of the Lao People’s Democratic Republic.

To rectify the difficult situation that resulted from the rapid growth of an open-market economy and to ensure the sustainable development of our country, the government has undertaken several measures, such as fo-
focusing on rural development as the means to alleviate poverty and closely
linking this with the preservation of forestry and land resources and the
environment. In addition, to promote import substitution, the government
has a program to promote the manufacturing and services sector, includ-
ing the textile and garment industry. Although the prospects for increasing
revenue from hydropower exports are reassuring in the medium term, the
garment industry is important, as the government is aware that building a
vital non-hydropower sector in the economy is essential to ensuring sus-
tained growth and to generating employment for a fast-growing popula-
tion. In addition, the government promotes the production of other com-
modities with the view to substituting imports and boosting exports to
other countries, as well as local exports.

The government’s objectives and policies for 1997–2000 will aim at
creating an environment conducive to a well-functioning market economy
with sound management of public resources, while promoting prudent
macroeconomic policies. Priority will be given to accelerating and deep-
ening the reforms in the financial sector, the exchange rate system, the
legal framework, and the economic policymaking capacity. We recognize
that without continued reform in these areas there cannot be a favorable
environment for sustained economic growth. It is also evident that the de-
cisive factor in the implementation of government policy is human capi-
tal. Therefore, effort is being put into human resources development, one
of the eight priority programs.

We always regard the continued and increased support of the interna-
tional community, including bilateral and multilateral donors, interna-
tional financial institutions, and nongovernmental organizations, as one of
the important factors contributing to the success of the country’s socio-
economic development plan. In particular, during the Sixth Round Table
Meeting in Geneva last June, the international community pledged to pro-
vide financial support of more than $1.2 billion to our country to support
the implementation of the socioeconomic development plan till the year
2000. I take this opportunity to express to all concerned our sincere grati-
tude and to give assurances that we will do our utmost to use these re-
sources efficiently and fruitfully.

As in previous years, the International Development Association con-
tributed to the development of the Lao People’s Democratic Republic’s
economy and in 1997 extended a loan amounting to $48 million for the
Third Highway Improvement Project. We recently completed the prepara-
tion of a new ESAF-supported program jointly with the IMF. The govern-
ment of the Lao People’s Democratic Republic greatly appreciates the
Bank’s and the IMF’s role in supporting the socioeconomic development
of the Lao People’s Democratic Republic. On behalf of the Lao People’s
Democratic Republic government, allow me to take this opportunity to ex-
press our sincere thanks to the World Bank and the IMF, other interna-
tional financial institutions, and all friendly countries for their valuable support. We truly hope that they will continue and increase their support to our country, thus helping the Lao People’s Democratic Republic to overcome its status as a least developed state in a short period of time.

We congratulate the management of the Bank for its effort in improving its organizational structure to enable the Bank to be more efficient and responsive to the needs of member countries.

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

Mohamed A. Bait Elmal

In the name of the delegation of the Socialist People’s Libyan Arab Jamahiriya, I am pleased, Mr. Chairman, to congratulate you on the occasion of being selected to the Chairmanship of this year’s Board of Governors. I wish you success in moderating these meetings and achieving good results whose effects will be felt by the various nations of the world through the commitment of member countries to coordinated economic, financial, and monetary policies that take into account the needs and conditions of those nations.

Our meetings this year coincide with the great celebrations on the occasion of the return of Hong Kong to the motherland. We applaud the hospitality, generosity, and excellent preparations for making our meetings a success, and we congratulate the Chinese people on this auspicious occasion and wish them success and prosperity.

Although world economic growth is expected to reach 4 percent in 1997 and 4.5 percent in 1998, which is among the highest annual rates since the beginning of the 1970s, thanks to the performance of the world’s industrialized as well as developing countries, this has been accompanied by several adverse economic developments in Southeast Asia, an important region in the world economy, owing to the currency and financial market crisis. Part of that crisis was due to external factors beyond the control of these countries as well as to the policies of the major-currency countries. The Mexican crisis at the end of 1994 and the current events in the Southeast Asian countries represent a serious development and are a source of great concern to the developing countries. Despite the positive approach of the IMF in dealing with such crises, a major part of the solution lies in the major-currency industrial countries shouldering their responsibilities for adopting economic, financial, and monetary policies that
take the conditions of other countries into account. It also requires a comprehensive supervisory role by the IMF over economic indicators in various countries of the world.

While we welcome the agreement on a one-time allocation of SDRs under the amendment to the Fund's Articles of Agreement, in light of our desire to achieve general consensus, we emphasize that this should not be at the expense of the general allocation of SDRs under the Fund's existing Agreement.

In the context of increasing the Fund's resources and enabling it to strengthen its role, we hope that the Eleventh General Quota increase will be allocated equally among member countries.

The great Socialist People's Libyan Arab Jamahiriya faces arbitrary sanctions imposed by the Security Council under its Resolutions No. 748 of 1992, and No. 883 of 1993, merely on the basis of suspicion that two Libyan citizens were involved in the so-called Lockerbie case, despite agreeing to a trial of the two suspects at the International Court of Justice by Scottish judges or in a neutral country, and despite calls by numerous regional and international organizations such as the League of Arab States, the Organization of African Unity, the Islamic Conference Organization, and many sister and friendly countries for the lifting of these sanctions. However, this has not happened because of the insistence of certain Western countries on maintaining them, which is a flagrant violation of all international resolutions, covenants, and norms.

The adverse effects of those sanctions have reached all sectors and have started to have serious results. They have also hindered development programs and plans designed to advance development programs and plans in the great Socialist People's Libyan Arab Jamahiriya.

The arbitrary sanctions imposed on the Socialist People's Libyan Arab Jamahiriya have resulted in financial losses, so far estimated at more than $23 billion. I may summarize some of the financial and economic effects as follows:

- the rising financial losses resulting from the freezing of Libyan assets owing to unilateral U.S. measures and subsequent Security Council resolutions;
- denying the great Socialist People's Libyan Arab Jamahiriya the chance of utilizing financial facilities available to it from various international and regional financial and monetary organizations to which the Socialist People's Libyan Arab Jamahiriya contributes, as a result of U.S. measures preventing our country from using the dollar in settling its international transactions, as well as Security Council resolutions;
- depriving the Socialist People's Libyan Arab Jamahiriya of numerous world investment opportunities, and of the ability to use and
LITHUANIA

manage the revenues from its existing investments because these revenues are frozen; and

• an increase in the cost of imports by nearly $600 million annually as a result of the requirement to provide full coverage of credits on the one hand, and the reluctance of exporters to accept uncovered credits on the other.

In conclusion, it should be mentioned that these direct or indirect losses resulted from measures that constitute a clear violation of the covenants of international financial institutions; the provisions of the IMF Articles of Agreement, which calls for liberation of international payments; and the provisions of the World Trade Organization Agreement, which calls for removal of all barriers curtailing the flow of goods and services among countries. Therefore, we call upon the world community to lift these unjust and unjustified sanctions imposed on Libya. From this podium, we reiterate Libya's willingness to cooperate with the United Nations and the Security Council to find a just settlement to this dispute, which has lasted too long without any convincing justification.

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

Algirdas G. Semeta

On behalf of the Baltic countries—Estonia, Latvia, and Lithuania—I would like to express my gratitude to the people and governments of the People's Republic of China and Hong Kong for their hospitality during the Annual Meetings of the World Bank Group and the International Monetary Fund.

The roles of the World Bank Group and the International Monetary Fund in the global arena remain strong and important. Fundamental changes worldwide are reflected in the Bank's policy objectives as expressed in the Strategic Compact.

We welcome the World Bank's efforts to improve its responsiveness to client needs, including decentralization, by placing the country director for Poland and the Baltic countries in Warsaw. The Baltic countries support the Bank's renewal process, and we hope to see a more flexible and results-oriented Bank in the future.

Since regaining independence, the Baltic countries have achieved a stable democracy and have made considerable political and economic
progress. Our economies are driven by a vibrant private sector. More than two-thirds of GDP is produced in the private sector, with GDP growth likely to remain above 5 percent for several years. Inflation is on a steadily declining trend and, in all three countries, is expected to fall to a single digit in 1997. Our inflation gains are reflected in the decline in interest rates. The rates on short-term government treasuries have fallen to less than 6 percent this year. The Baltic states remain low-debt countries, a situation unlikely to change because of tight fiscal policies in all three countries. The gross public debt and the budget deficit as a percentage of GDP are well below the limits set out by the Maastricht agreement. Structural reforms have been accelerated, particularly in the area of privatization of medium- and large-scale enterprises. Privatization of large public utilities, such as telecommunications and energy sector companies, is on the agenda. Rapid privatization, together with significant improvement of the investment climate, has boosted flows of foreign direct investment into the Baltic states. Our countries have modern, well-equipped capital markets with steadily growing trade volumes.

All three countries have received investment grade ratings, maintain an open and liberal trade regime and strict fiscal and monetary policies, and have strong and freely convertible currencies.

The progress achieved by the Baltic countries in 1996 and the results of this year clearly demonstrate stronger economic growth, continued economic restructuring, and an open foreign policy, which are expected to lead to membership in the European Union (EU). EU accession is very important for the Baltic states. We welcome that Estonia has been recommended for accession negotiations. However, we believe that Latvia and Lithuania, having made strong progress last year and this year, are also ready for negotiations. Future economic cooperation in the Baltic region would be strongly supported if the EU summit in Luxembourg in December 1997 decided to allow all three countries to start negotiations at the same time. We hope that further Bank assistance to our countries will concentrate more on activity associated with EU accession and on helping our countries meet the membership criteria.

Because the economic reforms in the Baltic countries are broadly based on private sector development, we consider the Bank’s action program to facilitate private involvement in infrastructure to be a satisfactory and important agenda item. Recognizing the demand of the Baltic countries for private capital flows, we support the efforts of the World Bank Group to enhance private sector development by helping to catalyze private capital flows. In this respect, we would like to see the action programs consolidated among all Bank institutions, including the Multilateral Investment Guarantee Agency and the International Finance Corporation.

We welcome that the Bank has placed combat against corruption on the agenda. The World Bank’s support of countries fighting against this
sickness is extremely important. The Baltic governments also have their own action programs in this area.

We believe that strengthening governance and improving accountability and transparency are the main fields that require assistance from the Bank.

On behalf of the Governors for Estonia, Latvia, and Lithuania, I would like to express my appreciation to the Bank and the Fund for supporting our countries during the past five years and to wish these institutions success in their future work.

**STATEMENT BY THE GOVERNOR OF THE FUND FOR LUXEMBOURG**

*Jean-Claude Juncker*

As Luxembourg currently holds the presidency of the Council of the European Union, I am honored to address this meeting on behalf of the Union. I will focus my speech on three subjects: the outlook for the world economy from the European perspective, the progress in the process to European Economic and Monetary Union, and some comments on how the European Union (EU) is contributing to international financial stability.

The growth pattern of the world economy appears to be satisfactory. Noninflationary growth is being sustained by low interest rates, wage moderation, and continued efforts toward sound public finances. Although there are contrasts in economic performance across countries, the fundamentals for sustained development are generally in place. Thus, we can reasonably expect growth to continue at a satisfactory pace in the next few years.

In the developing world, the median growth rate has continued to outperform that of the industrial countries, thanks to the increasing implementation of sound macroeconomic policies accompanied by efficient structural measures. A number of Southeast Asian countries, however, have recently experienced serious financial market turbulence. These developments highlight the urgent need for containing external deficits better, reducing the reliance on short-term foreign borrowing, maintaining realistic exchange rates, and strengthening fragile banking systems. In the particular case of Africa, it is encouraging to note that the average growth performance has been rising steadily over the recent past.

Among the industrial countries, the U.S. economy is growing at a sustainable rate with inflation broadly under control and unemployment
figures low. In Japan also the economic environment has improved, notably through adequate fiscal and monetary policies. And European economies are also back on a positive track, supported by an improved convergence of national economies, which is demonstrated by low inflation and interest rates.

In most European countries, however, the recovery has not been strong enough to reduce high unemployment, despite the progress made over the past 12 months. Growth has been too weak in the recent past, but above all, some European countries suffer from the fact that growth creates fewer jobs than in other countries. Given this, we are conscious that the best way to increase employment is to implement the structural reforms necessary to improve the functioning of labor, product, and financial markets. This would at the same time improve growth prospects. Progress has been made over the past year, but more needs to be done. Structural reforms will have to continue, as well as the process of budgetary consolidation, which has allowed significant reductions of short- and long-term interest rates. Such perseverance will boost consumer and business confidence and can be expected to lead to higher investment and new job opportunities.

The soundly based recovery supported by structural reforms and a positive international environment is assisting European economies in their transition to Stage 3, the final stage of European Economic and Monetary Union (EMU). The introduction of the single currency will constitute a historical event opening new avenues for growth and employment in Europe and providing large opportunities for our trading partners.

Since the last meeting of the Interim Committee, further significant progress has been made in the economic convergence of member states and the technical preparations for EMU. In the spring of 1998, European heads of state or government will decide which of the member states of the EU will belong to the first group of countries with the euro as their single currency. This decision will be based on the achievement of a high degree of sustainable convergence as measured by the convergence criteria of the Maastricht Treaty, referring to government financial positions, inflation, and interest and exchange rates. On the last three, almost all member states are performing well. As regards budgetary consolidation, considerable progress is being made. While all the member states are making efforts to meet the agreed reference value, some differences of rhythms and results remain.

The strong commitment of European governments to reducing budget deficits and the stock of public debt in relation to GDP is based not only on EMU requirements but also on their common conviction that sound public finances are a precondition for sustainable economic growth. Moreover, they are convinced that European countries will have to pre-
pare themselves for increasing demographic pressures that call for determined action to restructure and rationalize public expenditure.

European heads of state or government, meeting last June in Amsterdam, have added further significant elements to the ongoing preparation of the technical, legal, and institutional framework of EMU. First, they endorsed a stability and growth pact, which will help to maintain budgetary discipline in EMU. Second, they decided on the principles and fundamentals of a new exchange rate mechanism, which will link participating currencies of member states outside the euro area to the euro. Third, they agreed on a resolution on growth and employment, which focuses policymaking more intensively on creating favorable conditions for higher employment, and the Treaty of Amsterdam includes a new chapter in order to strengthen the coordination of member states’ policies on employment. The heads of state or government have also reached complete agreement on the two regulations that constitute the legal framework for the use of the euro.

In addition, heads of state or government agreed to improve economic coordination in Stage 3 of EMU so as to give better effect to the treaty provision that member states should regard their economic policies as matters of common concern. Regarding EMU’s implications for the IMF, member states of the EU will contribute to the discussion in a constructive and pragmatic manner. On some of these issues, the EU and the IMF have already started work.

The Amsterdam summit also concluded an intergovernmental conference with the decision to adopt new amendments to the EU Treaty. The modernization of the EU is now clearly under way, although further work is needed in the institutional field. Nevertheless, the results achieved in Amsterdam allow the EU to launch a process of enlargement. These negotiations will be opened as soon as possible after December 1997 and will be one of the main challenges the EU will face over the coming years.

The European countries are already major actors at the international level, while the EU itself is progressively acquiring this status. We are conscious of the responsibility that this entails and will contribute actively to promoting international cooperation. Allow me to comment briefly on our contributions in three areas: Europe’s role in providing financial assistance, in cooperating with other regional bodies, and in supporting the World Bank and the IMF.

First, we are firmly committed to supporting the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). The member states, notably in the framework of the Paris Club, and the EU institutions have indicated that they will participate in the initiative on debt relief launched by the international community after the Lyons summit. They will provide an appropriate contribution to this international commitment in favor of the poorest countries of the world. This participation of the EU, together
with its member states, confirms our continuing will to help developing countries toward fast and balanced progress.

Second, the European countries are already a major part of the international monetary system. A successful EMU, underpinned by sound macroeconomic and structural policies, is likely to become a major pole of that system and to contribute to its stability. In other areas, we maintain regular contacts with the Central and Eastern European countries and the European Free Trade Association and stand ready to develop similar relations with other countries or regions. Recently, on September 19, an Asia-Europe finance ministers’ meeting was held in Bangkok. It illustrates our commitment to international cooperation and our wish to contribute to a stable overall economic environment.

Of course, the World Bank and the IMF continue to occupy a key role in our approach. The member states of the EU welcome the crucial contribution of these institutions to the improvement of the international economic and financial framework. We are determined to support them in their efforts to contribute, in accordance with their respective mandates, to a sound international financial and monetary system as well as to sustainable economic development.

Hence, we welcome the agreement to broaden the IMF’s mandate to include the promotion of orderly and sustainable liberalization of capital movements. Movement toward increased capital account liberalization highlights the IMF’s role in maintaining order in the international monetary system and the need for sustained, sound macroeconomic and structural policies.

The size of the IMF and its liquidity position need to take into account the deep changes in the world economy as well as the mandate of the institution. We therefore welcome the recent decision on the basic features of the Eleventh General Review of Quotas.

Let me add some more words on a topic that will command our particular attention over the next few months: the improvement of the World Bank’s operational performance. The member states of the EU encourage the World Bank in its endeavors to adopt better working methods, and we welcome the Strategic Compact, which aims to make the Bank more cost-effective, flexible, and responsive to client needs.

Regarding the mission of the Bank, the member states of the EU will actively contribute to finding satisfactory solutions for such issues as the need for a timely increase of the assets of the Multilateral Investment Guarantee Agency.

To conclude, I would like to stress again the resolute commitment of the EU to the stability and the efficiency of the world economy. We are convinced that EMU will be a decisive contribution to that objective and are determined to do what is necessary, in full compliance with the Maastricht Treaty, to ensure that EMU starts on schedule on January 1, 1999.
STATEMENT BY THE GOVERNOR OF THE BANK FOR MALAYSIA

Dato' Seri Anwar bin Ibrahim

Allow me to begin by commending the World Bank and the IMF for having successfully initiated pro-market growth policies that have altered the global economic scene. This has resulted in not only raising the prosperity of member countries but also alleviating poverty, particularly in the poorer nations.

The Southeast Asian region has experienced a decade of high growth, which has enabled countries to undertake several economic and financial reforms together with greater liberalization. The region’s long-term economic prospects remain strong. However, the recent depreciation of the region’s currencies illustrates that sound policies are no guarantee against speculative activities. In the light of recent developments, there is a need to focus attention on the problems that should be addressed, especially when these problems are faced by countries with less sophisticated financial systems.

Malaysia has always been committed to a market-driven economy and has pursued a consistent program to reduce the role of government and promote private sector initiative in the growth process. Our commitment to a market-based financial sector started with the flotation of the ringgit as early as 1973, followed by liberalization of the financial system. In an open environment, to be sure, volatility will be experienced from time to time.

Though the openness has led to problems, it is not necessarily true, however, that financial crises in any one country would lead to systemic ramifications elsewhere in the region. Nevertheless, the contagion effects of the crisis in Thailand, for example, have reached an intensity beyond our expectations, to no small extent aggravated by the workings of unscrupulous speculators. All this has led to a cumulative psychological effect of viewing the entire region in turmoil. It is therefore necessary to put things in the proper perspective and not view recent and current developments outside of their proper context. We have indeed the political resolve to put the appropriate macroeconomic policies in place. Nevertheless, we should not be befuddled by statistical abstractions into prescribing macroeconomic policies divorced from social realities.

In the light of recent developments, the Fund has an important role to play to assist countries in curbing the tendency for markets to overreact to any perceived contagion effects. An important first step was the launch of the Fund’s Special Data Dissemination Standard (SDDS). Unfortunately, the provision of timely and comprehensive data has not been sufficient.
Market players have a tendency to overreact to isolated events and sometimes exaggerate them.

Another significant step is the recent emphasis by the IMF’s Managing Director on the importance of peer pressure to ensure that countries adopt appropriate policies. In the ASEAN region, we have finalized a framework to facilitate effective consultations and discussions. In this regard, I would like to propose two initiatives to promote greater cooperation in order to facilitate further liberalization and integration of financial markets while avoiding any destabilizing consequences.

First, work on the SDDS must be expanded to enhance transparency of the activities of all market players. For example, the Fund could promote international coordination in the supervision of financial markets through the establishment of a global trade information system for foreign exchange markets to allow authorities to monitor trading activities in the global marketplace.

Second, the Fund could devise a framework to enable countries to adapt and cope more effectively with market excesses associated with destabilizing capital flows. It is not sufficient that only member countries abide by Fund advice and observe “international rules.” Similar rules should also be designed to encourage capital market participants to contribute towards the efficient functioning of the market mechanism. This framework could include rules and principles on ethical and professional standards, stronger disclosure requirements, and regular contacts between the managers of leveraged funds and banking supervisors. This framework should be facilitated by agreement on the provision of information on leveraged fund activities and arrangements for the home country supervisors to share information with the host country supervisors on the activities of these funds.

The recent financial turbulence in the region is not without its positive developments. We have witnessed the mobilization of regional financial support for Thailand. The IMF played a catalytic role in this exercise with several bilateral contributions from Asian countries. The expeditious response of the IMF and the Asian countries in providing a $17.2 billion facility is a unique demonstration of regional solidarity. The financial turbulence has provided the impetus for the formation of a forum to discuss common regional issues, as well as explore remedial policy action. This forum now provides a basis for the establishment of a facility to enhance efforts towards economic and financial stability to support macroeconomic adjustment.

We are committed to the liberalization process because we have seen and we have enjoyed the results, but multilateral institutions such as the IMF must be prepared to view the predicament of emerging economies in their efforts to deal with the volatility of their markets caused by unscrupulous speculators. Therefore the speed and space of liberalization
should be contingent upon the mechanisms being put in place. In this regard, the IMF should initiate a study and introduce measures to ensure market stability.

While asking the IMF to assume a larger role to ensure monetary stability, I have not forgotten the very critical role of the World Bank in helping to raise living standards and alleviate the plight of poor nations. The benefits of strong economic growth continue to be denied to the poorest nations largely because of their large and unsustainable debts. We are concerned that progress on the implementation of the HIPC-ESAF Initiative to help poorer members exit from the debt trap has been slow. We support the call for greater flexibility in implementing this initiative so that more countries will benefit. To achieve this, it is essential that we all make firm financial commitments. Malaysia is prepared to commit our second Special Contingency Account balances as well as bilateral contributions, based on an equitable burden-sharing formula.

On combating corruption and improving governance, we attach great significance to this exercise as unchecked they could undermine macro-economic stability and sustainable development. In this regard, we support the relevant strategies and guidelines recently issued by the Bank and the Fund. However, the final responsibility rests with the member countries to strengthen their own policies and institutions. It is also crucial that those guidelines should not be prescribed on the assumption that corruption and financial mismanagement occur only in developing countries.

We recognize the importance of the private sector in the process of development and welcome the recent agreement to increase the capital of the Multilateral Investment Guarantee Agency.

It is disturbing to note that official development assistance to developing countries continues to decline despite evidence of rising poverty in many countries. Of particular concern is that scarce financial resources that could be used to finance long-term development in poor countries are instead being utilized to fund peacekeeping and emergency activities. I therefore urge donor countries to renew their commitment to official development assistance through a smart partnership between donors and recipients. While donors provide the necessary financing, the recipients must reciprocate by demonstrating maturity and responsibility in utilizing these funds.

While the poor and disadvantaged must not be forgotten, the recent currency developments in this region have also driven home the need for us to rededicate ourselves to the cause of closer international monetary cooperation. It is essential that the World Bank and the IMF act in the true spirit of global partnership to ensure that the future shape of the world economy and its financial system will be such that they promote growth and an equitable sharing of the fruits of development with stability.
It is a privilege and an honor for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I would like to begin by thanking the government of China and the Hong Kong Authorities for their warm welcome and kind hospitality.

Since the last Annual Meetings of the Fund and the Bank, the world economic outlook has remained positive and prospects for the coming year continue to show that there will be a further expansion in world output and trade. Among the advanced countries, economic growth has been relatively strong, with expectations for a continued recovery of the Japanese economy and a stronger growth performance in the continental European countries. At the same time, inflation has continued to decline to historic lows and this is being reflected in the downward movement of interest rates. Meanwhile, in many developing countries, the sustained implementation of sound macroeconomic policies is expected to continue to boost economic growth, especially in the Middle East region and Africa, where prospects are expected to remain favorable. At the same time, the recent abatement of overheating pressures in many of the emerging market economies, particularly in Asia, will help them to retain a noninflationary economic expansion. Finally, prospects for strong growth in the transition economies have increased as a result of the successful measures taken in these countries to control inflation and implement structural reforms.

While these positive economic developments are certainly encouraging, they should not bring about an air of complacency—since there are still challenges that policymakers have yet to address. Thus, in the Anglo-Saxon countries, the main challenge faced by policymakers is that of maintaining an adequate level of economic growth while preventing a resurgence of inflation. In most of the continental European countries, it is the need to tackle labor market rigidities in order to reduce high structural unemployment—even while they strive to cut their fiscal deficits in order to meet the convergence criteria laid down in the Maastricht Treaty in preparation for monetary union. In the case of the developing economies, especially in Asia, a major problem remains the need to reduce large current account deficits. In the least developed countries, on the other hand, the growth rate of per capita income needs to be increased substantially in order to achieve a significant reduction of poverty.

Notwithstanding these problems, it cannot be denied that there have been many positive developments over the last year. The World Trade Organization (WTO) met in December 1996 in Singapore for its first Minis-
MALTANew material Conference since it was established in 1995, to review the progress achieved in implementing multilateral trade agreements and to establish its future work program. This was a successful meeting, during which ministers of countries accounting for more than 90 percent of trade in information technology products agreed to sign an agreement to liberalize global trade in such products. Ministers also agreed on new issues to be included on the WTO agenda—such as labor, investment, competition, and corruption. The prospects of further trade liberalization are welcome as they provide opportunities of further economic growth and a better allocation of resources to all countries participating in the multilateral trading system, even though trade liberalization might adversely affect some segments of society in the short run.

The last year also saw the successful start, by the Fund, of the implementation of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) through special Enhanced Structural Adjustment Facility (ESAF) operations, and notably with the decision by the IMF’s Executive Board to provide assistance to Uganda under the initiative and to consider the cases of three other countries. The HIPC Initiative is critical to help ensure the full participation of the poorer countries in the expansion of global trade and investment. Moreover, this initiative fills a gap in the area of economic aid, as it deals with heavily indebted poor countries that are following sound economic policies, and for which other traditional debt-relief programs are inadequate to ensure a sustainable debt position over the medium term. I am glad to say that Malta, though its resources are limited, is contributing to the HIPC Initiative through the funds it has accumulated in the second Special Contingent Account.

The New Arrangements to Borrow (NAB), which were adopted by the Fund over the past year, should also enable the Fund to respond more promptly to balance of payments crises that might threaten the stability of the international monetary system and the world economy. The need for such supplementary credit lines had become evident during the Mexican peso crisis two years ago, when it was recognized that all countries stood to suffer from the lack of international cooperation mechanisms designed to meet such emergency situations. The new arrangements will surely enable the Fund to fulfil its role as overseer of the international monetary system more effectively.

We are also happy to observe that the Fund is continuously strengthening its surveillance procedures. In today’s ever-changing and more integrated world economy, it is essential that the Fund constantly monitor the economic performance of member countries, particularly those that have a significant impact on global economic developments. An important development in connection with surveillance is the increased attention being given to issues concerning members’ banking and financial sectors. There is a need in many countries to develop a framework for sound bank-
ing practices, since these have important implications for macroeconomic policy and for international monetary and economic cooperation. The Fund should thus continue to promote sound practices and be in a position to alert members to address weaknesses in their banking system. In this context, the Fund’s technical assistance program has a vital role to play in supporting members’ drive to enhance their prudential financial regulatory regime.

In this regard I am pleased to say that in Malta we are placing great emphasis on strengthening and upgrading banking supervision, and we are indeed grateful for the technical assistance provided by the Fund last year in this respect. The Central Bank of Malta, which is the competent authority in this regard, continues to give priority to the conduct of intensive on-site and off-site inspections in order to evaluate the soundness of credit institutions and ensure that they are complying with banking regulations. It has, moreover, been the policy of the Maltese monetary authorities to constantly upgrade and review the regulatory and prudential regime, so as to ensure that it attains recognized international standards. Towards this end, most of the recommendations of the Bank for International Settlements’ (BIS) Banking Supervisory Committee have been adopted in Malta. The Central Bank of Malta is now in the process of introducing a capital adequacy directive on the same lines as the BIS and European Union directives. The Central Bank of Malta has also accentuated its efforts to combat money laundering, through the issue of guidance notes to local credit and financial institutions and the strengthening of cross-border collaboration.

The proposal to amend the Fund’s Articles of Agreement so as to make the promotion of capital account liberalization a specific goal of the IMF and to give it appropriate jurisdiction over capital movements can also be viewed as a step towards achieving more comprehensive surveillance. An open and liberal system of capital movements should ensure that financial resources are put to the most productive uses and is thus beneficial to the world economy. However, currency crises—such as the Mexican peso crisis last year and the recent crises in Southeast Asia—are usually triggered by large capital movements. Thus, it is important that capital movements should be carefully monitored, so as to enable the international community to foresee and prevent such crises. In this regard, while the Maltese authorities have made the liberalization of capital movements a final goal in their program of liberalization of the Maltese economy, they are adopting a gradual and cautious approach to the matter, giving due attention to the correct sequencing of liberalization measures, so as to avoid disruptive shocks to the Maltese financial system. Such a gradualist approach is especially important for small open economies given their disproportionately high vulnerability to abrupt speculation-led changes in capital flows.
The Fund has also continued to develop statistical standards to guide member countries in the dissemination of economic and financial statistics. Early this year, the framework for the General Data Dissemination System (GDDS) was endorsed by the Board of the Fund. This will enable countries that have not yet subscribed to the Special Data Dissemination Standard (SDDS) to publish data in a less prescriptive form until they are able to achieve the higher standards required by the SDDS. Malta has for the time being opted for the GDDS. However, it is the intention of the Maltese government to attain the standards and eventually accept the obligations of the more demanding SDDS. The government is in fact taking steps to strengthen and upgrade the compilation of statistics, and legislation will soon be introduced providing for the establishment of a National Institute of Statistics with a high degree of autonomy and the necessary resources to produce and publish all the relevant statistical information on a timely basis.

Another notable development last year was the progress made towards establishing Economic and Monetary Union in Europe. Without doubt, the advent of the single European currency will be one of the most important developments in international monetary cooperation of the post–Bretton Woods era. The introduction of the euro will have wide implications for the international monetary system and for the world. For Malta, with its geographical proximity and close trade links with Europe, the implications will indeed be far reaching. We are, therefore, following developments in this area very closely.

With regard to the IMF’s liquidity position, the Fund’s usable resources have been decreasing over the past few years on account of the heavy demands being made on them by a number of large countries that are restructuring their economies. As this strong demand on the Fund’s financial resources is expected to continue over the next few years, Malta notes with satisfaction the agreement reached on quota increases in the Fund’s Executive Board. We hope that procedures will be stepped up to allow the quotas to become effective at an early date. With regards to an SDR allocation, Malta is also pleased to see that the resolution presented to members takes into consideration the issue of equity for member countries that have not participated in previous allocations.

Finally, please allow me to elaborate slightly on what has been happening in Malta during recent years. The monetary authorities have continued to upgrade and amend Malta’s banking and financial legislation to take into account the latest international and domestic developments, with the overriding objective of ensuring that Malta can stand out as a financial center of repute. As a result, Malta has successfully managed to attract additional international banking and financial institutions to its shores. At the same time, Malta enjoyed relatively high economic growth rates, but these were largely fueled by an excessive level of government expendi-
ture, which in turn led to unduly high rates of private consumption spending, the greater part of which was on foreign goods and services. This has given rise to an unsustainable series of fiscal and external imbalances, which, if not addressed, could exert irreparable damage to the Maltese economy. My government, which took office in late October 1996, has set as one of its major priorities a stabilization policy designed to correct these imbalances. The government is thus moving along the guidelines indicated during the last IMF Article IV consultation mission that took place early this year. Indeed, the government is trying to find solutions to reduce its fiscal deficit, particularly by minimizing waste and unproductive expenditure, restructuring loss-making public enterprises, and improving the revenue collection systems. Active consideration is also being given to new sources of finance.

It is expected that the measures being contemplated by the government will restore the fiscal position to a healthy sustainable level within the next two or three years. The government is also actively engaged, in full consultation with the major private sector bodies, in fostering a more effective package of incentives and economic conditions to facilitate that the private sector would be the main engine of growth within the framework of a better economy, an economy that is based on productive investment and export-led growth.

In conclusion, I would like to reaffirm the Maltese government’s commitment to continued cooperation with the Fund and the Bank in their efforts to foster a stable environment conducive to global growth and development. I would also like to take this opportunity to express my gratitude to the management and staff of the Fund for the technical assistance they have given us over the years in our efforts to liberalize our economy and integrate it more fully into the global economy.

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

Puntsag Tsagaan

First of all, on behalf of the Mongolian delegation, I would like to extend our warm and cordial greetings to the Chairman, the President, the Managing Director, esteemed guests, and the other participants here at this forum. I would also like to thank the Hong Kong Monetary Authority for its excellent organizational arrangements and hospitality.
I would like to briefly focus on our experience since last year’s IMF and World Bank Annual Meetings in Washington, D.C. and our plans in the near future. As you may know, the new government established in July 1996 is strongly committed to accelerating the political and economic reforms that began in our country in the 1990s. For the past year, in cooperation with, and with the support of, the IMF, the World Bank, the Asian Development Bank, and donor countries we:

- removed price controls and liberalized wages;
- reduced import restrictions, abolished customs duties—except for strong alcohol and tobacco products—and simplified the visa system for foreign visitors;
- launched a comprehensive privatization program, including both loss-making and profit-making enterprises;
- restructured insolvent commercial banks and tightened banking supervision;
- stopped subsidies to state-owned enterprises; and
- substantially changed tax legislation to create an environment conducive to private sector-led economy growth.

Moreover, the International Finance Corporation made its first investment in Mongolia. Also, in cooperation with the World Bank, we organized an international conference on foreign direct investment in oil, gas, and mining in Ulaanbaatar and approved a liberal and transparent minerals law. By great coincidence, a few days after the conference, Mongolia discovered rich deposits of high-quality oil. Finally, we have started education, health, and social safety net reforms.

For us now the first and foremost priority is macroeconomic stabilization. It is my pleasure to tell you that, as a result of those policy-oriented measures, despite the social pains and even—to some extent—resistance, a number of positive signs are occurring in our economy. These are evident in the fact that GDP growth has been positive for four consecutive years, in the further stabilization of the exchange rate, in the dramatic reduction of inflation for the first time in seven years, and in the substantial increase in the country’s foreign reserves. In addition, since the implementation of a comprehensive restructuring program in late 1996, there has been a real increase in deposits with banks, which indicates that public confidence in the banking sector has been restored.

In the near future, our government plans to deepen structural adjustments and reforms, such as further strengthening the banking system; reducing the budget deficit; tightening fiscal discipline; restructuring the existing public administration and civil service to make them output-oriented, transparent, and competitive; streamlining the tax system by shifting from income taxation to consumption taxation; and improving the
legal and business environment for both domestic and foreign investment, with the objective of ensuring the economy's strong and sustainable growth and improving the living standards of our citizens.

We consider that our first achievements are closely linked to the strong support of the IMF and World Bank, and I am very confident that the Bretton Woods institutions will continue to support and assist fragile but struggling small economies, such as Mongolia—in particular, in the timely implementation of our reform agenda. I would like to support President Wolfensohn’s strong commitment to restructuring the Bank. I have no doubt that his efforts will lead to further improvements in the efficiency of the Bank's operations, will reduce bureaucracy, and will make the World Bank Group a more client-oriented and country-driven international institution.

I sincerely hope that the new three-year arrangement under the Enhanced Structural Adjustment Facility, approved by the IMF's Board of Directors in July 1997, will be helpful to us in implementing our reform agenda in an efficient and timely manner.

I would like to take this opportunity to thank the IMF Board members, its Managing Director, Michel Camdessus, and his staff for their tremendous efforts, patience, and cooperation in successfully concluding the new arrangement. I hope that the Bretton Woods institutions will continue to play an increasing role in helping the world community to prosper and flourish.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MYANMAR

Win Tin

I am greatly honored to have the opportunity of addressing the 1997 Annual Meetings of the World Bank and the International Monetary Fund. At this auspicious occasion, I wish to extend my heartiest congratulations to the government and the people of the People’s Republic of China for successfully holding such a prestigious international conference soon after Hong Kong’s return to its motherland. I also wish to extend my sincere thanks to Prime Minister H.E. Mr. Li Peng, Deputy Prime Minister H.E. Mr. Zhu Rongji, and Chief Executive of the Hong Kong Special Administrative Region, H.E. Mr. Tung Chee-Hwa, as well as to the people of Hong Kong for their warm hospitality and the managements of the Bank and the Fund for their excellent arrangements for the meetings.
Taking this opportunity, I wish to congratulate Mr. Camdessus and Mr. Wolfensohn for their able leadership, under which their respective institutions have made due contributions to the promotion of international monetary cooperation and sustained world economic development.

We are optimistic that world economic and financial conditions are generally favorable for global economic expansion in the coming years. We observe that developments in advanced economies are turning for the better, while an increasing number of developing countries are benefiting from their pursuits of successful market-based reforms. It is most heartening to note that output contraction has been arrested and stabilized in most transition countries.

An overview of the Association of Southeast Asian Nations (ASEAN) shows that rapid growth still highlights the entire region. However, the recent currency turbulence of some countries of the ASEAN region have clearly demonstrated that these destabilization developments go beyond the realm of economic fundamentals and can be attributed to ill-intentioned speculators.

In reviewing the operations of the Fund and the Bank, a new SDR allocation is primarily beneficial for developing and transition economies, for which I am pleased to learn that a compromise solution has recently been reached. Similarly, the Eleventh General Review of Quotas also requires an early conclusion to further expand international liquidity.

Speaking of the debt burden of developing countries, the Fund and the Bank are commendable in creating the HIPC Initiative, which will eventually profit the majority of the least developed countries. Nevertheless, restricting the HIPC Initiative with too many conditions for eligible countries can be counterproductive to its purposes, even though a strong track record for heavily indebted poor countries is essential.

Let me draw your attention to recent developments in Myanmar's economy. Following the successful implementation of the Four-Year Short-Term Plan (from 1992/93 through 1995/96), which achieved an annual average growth rate of 7.5 percent, a Short-Term Five-Year Plan was initiated in 1996/97. Although the growth rate slowed down to 6.4 percent in 1996/97, the trend shows that economic growth proves to be sustainable over the medium term.

These favorable developments entail the further enhancement of market-based reforms in 1996/97 and in the first half of 1997/98. In the monetary sector, the central bank raised its interest rate from 12.5 percent to 15 percent to reflect the market situation. In macroeconomic performance, the inflation rate subsided to 20 percent in 1996/97 from 25 percent the previous year. Improvement in tax administration was further enhanced, while tariff rates were reduced significantly, pursuing the ASEAN customs rules.
In order to be in harmony with the market situation, goods produced by the state sector and those imported are now valued at market prices, depicting a departure from the past practice of pricing such goods based on the official rate of exchange. Foreign direct investment on a stock basis increased $2.8 billion in 1996/97 to a total of $6 billion.

While Myanmar is endeavoring for all-round development in its transitional period, maintaining sustained economic growth with macroeconomic stability is given first priority. Simultaneously, the task of building economic infrastructure, institutional infrastructure, and social infrastructure, which are in immediate need in the market-based system of the country, has been ongoing. In so doing, huge development expenditures have been incurred against the country's limited financial resources, because all multilateral financial assistance to Myanmar ceased in the latter part of 1988.

Multilateral assistance to Myanmar has been unfairly suspended because of untrue reporting by media groups and false allegations by some countries. Nevertheless, Myanmar has persistently proceeded on its path of development, achieving satisfactorily strong economic growth during the past five consecutive years. Had it enjoyed adequate financial and technical cooperation from multilateral institutions, Myanmar's economic growth could have far surpassed its present pace.

At this juncture, I am pleased to mention that Myanmar has cooperated positively with the Fund and the Bank in its 40 years of membership. Even though Myanmar is experiencing times of stringency, as it has been endeavoring for infrastructure development through its own financing arrangements, it has been punctual in servicing all its multilateral loans. Myanmar has already fulfilled its financial obligations to the Fund.

Unfortunately, following misleading allegations and unfair judgments on Myanmar's situation, under the guise of human rights violations by certain countries, it is regrettable that the Fund and the Bank have overlooked the true facts I have mentioned above and are still suspending their financial assistance as well as technical assistance to Myanmar. Although they have neglected Myanmar's relentless efforts for its development, Myanmar has received support from neighboring countries and the ASEAN nations. Our neighboring countries and ASEAN nations warmly, understandingly, and firmly have maintained close cooperation with our country.

Evidently, the warm welcome we received from the other ASEAN countries when we were accepted as its full member bears witness to the fact that Myanmar's image is contrary to that propagated by some countries and the media. Since joining ASEAN on July 23, 1997, Myanmar has been working closely with other ASEAN countries to mutually beneficial effect.

In this context, I would like to point out that the Fund and the Bank were established to provide financial and technical assistance to all member countries based on economic consideration, irrespective of political
perspectives. In view of this, I would like to request that the Fund and the Bank avoid applying double standards and seriously reconsider all the points I have made above, to help resolve the pressing needs of their member country and extend tangible support to Myanmar.

As a responsible member of ASEAN, we are ready to contribute positively towards economic and political stability and harmony in the ASEAN family. By the same token, we are also eager to lend our support and cooperation to the Fund and the Bank in their regular and special operations, particularly on issues of concern to the developing countries as a group.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

Rabindra Nath Sharma

It is a great honor and privilege for me to address the Joint Annual Meetings of the Bretton Woods institutions in Hong Kong in the aftermath of its handover to the People's Republic of China. On behalf of my delegation, I would like to thank the organizers of the meetings for the excellent arrangements and the warm hospitality accorded to us.

Global integration has been spurred by economic and financial liberalization. Worldwide access to markets for goods and financial services has increased. Private capital flows have become a major factor in the realization of the economic potential of developing countries. However, there is growing awareness of the greater susceptibility of economies to external shocks and the wider ramifications of domestic economic and financial imbalances, including the international response that those imbalances elicit. The recent experience of Mexico and the turmoil in the currency and financial markets of Southeast Asia have reminded us of the world we live in. Events have also demonstrated, however, the willingness and ability of the international financial community to come to the assistance of countries in distress and help remedy situations of crisis. Despite strong growth in external private financing to developing countries, the continued decline in official development assistance (ODA) has been worrisome. As the majority of developing countries, including my own, are confronted with the formidable task of nation building, domestic revenue is largely inadequate to finance development programs. Despite various reform measures taken to invite private capital, it will take more years before the private sector can become a viable means of financing projects in our countries.
Allow me to say a few words about the Nepalese economy. The fiscal year ending in mid-July 1997 saw a number of improvements on the financial front. The government deficit and domestic borrowing requirement declined, domestic credit expansion was brought under control, foreign exchange reserves rose, and inflation declined to the lower-single-digit level. At the same time, government revenue mobilization and development expenditure fell significantly short of targeted levels, economic growth was relatively sluggish at about 4 percent, and the performance of key public enterprises continued to be affected by structural weaknesses. For this year our aims include further improvements in reserves, a further reduction in government borrowing, and the imposition of a legal limit on central bank financing. We will make determined efforts to enhance both revenue mobilization and the implementation of priority development projects. We have broadened the tax base in order to raise domestic revenue. Similarly, income and corporate tax rates have been reduced. Customs rates have been rationalized and reduced. It has been decided to implement a value-added tax from mid-November 1997. Privatization, facilitation of foreign investment, and improvements in public enterprise are our other priorities. This year is the first year of the Ninth Five-Year Plan, which embodies poverty alleviation as the main agenda of development. Agriculture and development of the social sector are given high priority.

We welcome the Bank’s effort to help countries combat corruption and improve governance. I am happy to note the satisfactory results obtained in the implementation of the debt-reduction strategy in heavily indebted poor countries by both the World Bank and the IMF. I feel that this program needs to be continued. Nepal has successfully executed the Fund’s macroeconomic stabilization programs, such as the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility (ESAF), which in essence witnessed noticeable improvements in the Nepalese economy. We look forward to joining the next ESAF arrangement soon. We are thankful to the international donor community for their consistent and strong support of our economic development programs. I would like to mention here that the Nepal Aid Group meeting will be held next month in Paris. As in the past, we are confident that we will receive strong support from the members of the Nepal Aid Group.

Before I conclude, allow me to share some of my concerns with the distinguished Governors. We highly appreciate the concern shown in macroeconomic management. While it is a necessary condition, we feel that it is not a sufficient condition for the functioning of the economy of developing nations. Equally important is the concern for raising resources to finance development activities. Prudent management and judicial use of available resources are other important aspects for both the recipients and the donors. However, stringent conditionalities on aid disbursement, com-
plicated reimbursement procedures, donor stress in financing a reduced proportion of development expenditure, and weakness in the selection of appropriate projects should be carefully addressed. Reversing the trend of ODA and significantly improving the economic and social conditions of the people in poor countries is the single biggest challenge for all of us. In the interest of both the industrial and developing countries, the former should pay greater attention to resolving the issues of the latter. The gap between the rich and the poor and the unjust and inequitable economic order should no longer continue to prevail. In this regard, the opinion expressed by Chinese Premier Li Peng deserves our utmost attention. Likewise, the exhortation by Mr. Wolfensohn, “our goal must be to reduce...disparities across and within countries to bring more and more people into the economic mainstream to promote equitable access to the benefit of development, regardless of nationality, race, and gender,” deserves attention by the world community.

While Nepal is committed to sustainable growth by implementing various reform measures, it is necessary that the sequencing and timing of these reforms be realistic. We believe that only dialogue and joint efforts of the member governments, the IMF, and the Bank are likely to produce lasting reforms supporting sustainable development.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE NETHERLANDS

Gerrit Zalm

I want to thank the government of the People's Republic of China and the authorities of the Hong Kong Special Administrative Region for their kind hospitality during the Annual Meetings of the World Bank and the IMF.

Globalization calls for strong multilateral institutions. The past year has proved this point once again. Both the Bank and the IMF accepted challenges in new fields, such as the Initiative for Heavily Indebted Poor Countries, currency developments in some emerging markets, amendment of the IMF's Articles of Agreement on capital liberalization, and private sector development. While the managements and staffs of both institutions stood the test, it is now time for members and shareholders to act with the same vigilance on the provision of minimal necessary financial resources. The Netherlands is ready to do so. The underfinancing of the debt initiative might endanger its successful implementation, which would be particularly unjust for countries with a strong adjustment track record. The
same applies to the Multilateral Investment Guarantee Agency (MIGA), which has already been forced to cut back on the amount of new business, while demand is increasing rapidly. The Netherlands finds of the utmost importance that shareholders provide urgently needed capital as quickly as possible, with an adequate "paid-in" share. We welcome the agreement on the IMF quota increase, which provides the IMF with the necessary resources to finance the future demand for its credit. We also welcome the conclusion of the SDR discussion.

Let me indicate some points of future work for the Bank and the IMF. We welcome the ongoing work on strengthening surveillance, transparency, and early warning mechanisms by the IMF, and the upcoming discussion on new guidelines for post-program monitoring. On cooperation between the Bank and the IMF, while progress has been made, we look forward to the implementation of the financial sector strategy by both institutions and their application of the core principles of the Basle Committee. Thailand exemplifies the catalytic role of IMF financing. We want to preserve this principle in the amendment on capital liberalization—the IMF should not finance large or sustained outflows. I would stress, however, that preventing a crisis is better than solving a crisis. The recent turmoil in Southeast Asia has illustrated once again the necessity of an appropriate sequencing in connection with economic and structural reforms. This highlights capital account liberalization as a sign of strength, not weakness, and liberalization should not therefore imply increased use of IMF resources. On the policy side, we would favor further discussion by the Executive Board of the characteristics of different exchange rate regimes as well as early Board consideration of the paper on lending into arrears.

We welcome the increased attention of the World Bank Group on private sector development and feel that the recent staff proposals are a useful first step toward an integrated private sector strategy. In this strategy the comparative advantages of each member of the World Bank Group—the IBRD, the International Finance Corporation, and MIGA—should be used in order that their respective roles complement and reinforce each other to the fullest extent possible. We continue to support the efforts of the World Bank Group in implementing the reforms stemming from the Strategic Compact exercise. The first monitoring report on this issue already shows promising results. The Netherlands also supports the increased emphasis that the World Bank Group and the IMF have placed, within their respective mandates, on the promotion of good governance and the fight against corruption. We welcome the recently adopted guidelines.

In the near future, the aging population in many countries will require additional resources. Without adequate policy adjustments, public finances will deteriorate. In addition, there will be important implications for the functioning of labor and capital markets, pension systems, and balance of payments. This does not apply only to developed economies. The problem
of aging will proceed even faster in developing countries. Both industrial and developing countries will need to increase incentives to save and invest and to enhance the efficiency of the pension system. We would welcome further policy-oriented work on these issues by both institutions.

In the Netherlands, several initiatives are under way in this area. A separate fund earmarked for future public pension obligations has been set up to channel additional government savings. Policy measures to increase the participation rate of people over 50 are under discussion. This could be achieved by reducing the financial incentives for early retirement and, at the same time, increasing the opportunities for training elderly workers. Privatization of pension schemes and promotion of competition between pension funds are being undertaken.

Finally, I would like to turn to the effects of the beginning of European Economic and Monetary Union (EMU). First of all, EMU will affect certain aspects of the IMF itself, for which we will have to look for practical solutions. In doing so, we must build on existing procedures and precedents on the basis of the guiding principle that the individual membership of countries in the IMF will be retained. No change will be needed in the current rights and obligations of the individual members vis-à-vis the IMF.

Furthermore, EMU will have very important historic implications for the international monetary system and could potentially lead to an improved international financial system. This requires the criteria for monetary and budgetary convergence to be strictly applied at the start of EMU. This should be followed up in Stage 3 of EMU by sound fiscal policies as set out in the Stability and Growth Pact, as well as a firm adherence to the treaty provisions regarding the independence of the European Central Bank. Only in this way can the euro zone become a zone of price stability, and the introduction of the euro will be beneficial for growth and employment in Europe, with positive effects for the world economy.

STATEMENT BY THE GOVERNOR OF THE FUND FOR NEW ZEALAND

Winston Peters

We are now well into this Annual Meeting. There are some prepared comments that New Zealand will provide for the record, but in this speech it is more valuable to reflect on the events and statements of recent days, and venture some conclusions that we may draw from the meeting.
At a time when there has been some turmoil in Asian markets, some people might have thought it awkward that we should meet here in China, in the heart of Asia, to discuss financial issues. As you know, emotions have been running high as different commentators have tried to make sense of recent events. That said, the truth is, this has been the right conference, in the right place, at the right time, with the right leadership.

Because the rest of the world has joined us here in Asia, we can all see with our own eyes the dynamism and excitement of the Asian economies. The recent market fluctuations are simply a passing moment. The real story is the industry, production, and construction that characterize the booming economies in this region. Above all, the real story is the people of Asia, and their efforts. These personal efforts, combined with the capital flows in a global economy, are the secret of success.

Any of us who care to look can see success around us. And, as Premier Li Peng reminded us, “Seeing it once is better than hearing about it a hundred times.” The Premier also gave us some useful principles to think about in the context of international development. He reminded us that the free flow of capital can facilitate growth, and that, like any other policy that helps growth, it can also carry risks.

One risk is the uncertainty that is created by periods of financial instability. However, another, perhaps more serious risk, is the risk of misunderstanding each other in a fast-changing world. We need to relate to each other on a basis of equality because each country has its own social system, cultural tradition, and value system.

It is sad that in the recent exchanges of opinion, some have chosen to question Asian values. This questioning seems to reflect a Eurocentric vision, and a short-term financial focus. This narrow approach is alarming, because any international exchange must be based on mutual understanding and mutual respect. This is as important in financial exchange as it is in diplomacy.

Those who trade in Asian currencies are not merely “taking a position,” as the traders say. They are participating in a social and economic system. The heart of that system is Asian values: these are values of hard work and thrift; values of stability and loyalty, with a long-term view; and values of mutual support in the wider family. These are the values that underpin the dynamism of Asia, and it ill behooves anyone to come from the other side of the world to deride Asian values.

The results of these values are not only to be found in Hong Kong. In the past few days, some of us have visited other parts of China, including Beijing and Shanghai. The same drive and vigor that we see around us can be seen there. The construction cranes of the world are to be found here in Hong Kong, in Shanghai, in Kuala Lumpur, and in a string of other Asian cities. Those cranes are operated night and day, by people who value providing for their families through diligence and application. We should
salute that effort, just like we applaud the efforts of the financial markets to deploy capital around the world.

We know that holding out against change is dangerous. However, we also know that changing so far and so fast that we forget our basic values is disastrous. The Premier’s speech showed a clear way forward, both for China and for the world. Extensive cooperation in a global economy will allow everyone to prosper, but only if we remember the basic values that drive success, and if we have the courage to stick to those values. China is sticking to those values, most of Asia is sticking to those values.

Prosperity also depends on remembering the importance of open information. The lasting benefit from the events in recent months may be a wider understanding in Asia of the importance of open information so investors can make informed decisions. At the same time, traders from Europe and the Americas will need to use such information to distinguish the performance of different Asian countries. After all, no one would shift their money out of Europe because of problems in one country. It is just the same here: problems in one country should not be seen as a problem throughout Asia.

The gain to those who have come from around the world to this conference is that we can all look, see, learn, and understand. It is that mutual understanding and respect that will underpin world growth.

World Economic Outlook

The world as a whole is growing at about 4\(\frac{1}{2}\) percent a year, the highest growth for a decade. World inflation is at its lowest since the early 1960s. The United States and the United Kingdom, early starters in the current phase of global growth, have seen a pickup in growth in 1997. Tight labor markets and high levels of capacity utilization have inflationary potential but to date price pressures have remained moderate. Australia is poised for stronger growth given the interest rate reductions seen over the past year and signs of recovery in the housing market. Japan and continental Europe on the other hand remain laggards in the current expansion. While both are benefiting from stronger exports, structural problems—and in Europe’s case adjustment to Economic and Monetary Union—could work against significant upturns in growth.

Robust growth continues in most of the developing world, particularly in China and much of Asia. However, the currency turmoil that has recently hit the Southeast Asian currency markets serves as a reminder of the vulnerability of emerging market economies to changes in investor sentiment.

Compared with the recent past the world appears to be on a more sustainable growth path. However, there are risks to this upbeat outlook including slower than expected growth in Japan and Europe, the possibility
of lower growth in Southeast Asia, and a correction of the currently strong
major world equity markets.

As an open economy, New Zealand stands to gain from a global eco-
nomic situation of sustained low inflation growth. World trade also con-
tinues to grow at a rapid pace. While the growth in the volume of world
trade has fallen back from the exceptional 9 percent a year seen in 1994
and 1995, trade is still expected to grow at about 7 percent a year both this
year and next. In the short term there are clearly some risks for New
Zealand’s exports given the fragility of the recovery in Japan, our third
largest trading partner, and the potential repercussions on growth in the
Southeast Asian region, a growing destination for exports, stemming from
the recent currency turmoil. Set against this, however, the recent fall in the
value of the New Zealand dollar, if sustained, should help exporters com-
pete in world markets.

New Zealand’s Experience with Labor and Product Market Reforms

An extensive agenda of reforms has allowed the price system to
emerge as the dominant signal for investment, production, and consump-
tion decisions. The major changes implemented include removal of con-
trols on prices, interest rates, and wages; removal of agricultural subsidies
and price supports; removal of quantitative import controls and sharp re-
ductions in tariffs; and deregulation of the oil, banking, and transport in-
dustries. The corporatization and privatization of state-owned enterprises,
in conjunction with the removal of restrictions to competition, has further
liberalized many markets such as telecommunications and aviation. The
labor market—both the private and public sector—has also been deregu-
lated to permit more flexible patterns of wage bargaining to develop.

Recent Instability in Asian Region

Sustained annual growth rates of 7 percent or more enjoyed by many
of the Southeast Asian countries for the past decade have been the envy of
the rest of the world. However, recent months have seen a wave of spec-
ulation against many of the currencies starting in May with sustained pres-
sure on the Thai baht leading to depreciations in Thailand and a number
of other countries in July. Foreign investors focused on weaknesses that
certain Asian countries, namely Thailand, Indonesia, Malaysia, and the
Philippines, were perceived to have in common. Such weaknesses in-
cluded large current account deficits, currencies linked to the U.S. dollar,
and oversupply in property markets.

The currency sell-offs in the region, however, have been more a pro-
duct of guilt by association rather than a result of necessarily shared weak-
nesses. Thailand stands out among the countries affected in that it has
been running a large current account deficit, equivalent to about 8 percent of GDP, financed by a significant amount of short-term capital inflows, very much like Mexico in 1994. Investor concerns were exacerbated by Thailand’s fragile banking system. Spillovers from the crisis in Thailand have been felt by fundamentally more sound currencies such as the Singapore and Hong Kong dollars. There are clear distinctions to be made between Thailand and its immediate neighbors. Indonesia’s current account deficit, for example, is not particularly high while the Philippines is somewhat behind some of the other Southeast Asian countries in terms of development and is not suffering from a property glut.

**IMF Capital Account Liberalization Proposal**

New Zealand strongly agrees with the desirability of greater liberalization of international capital flows. A liberal regime is an important element of a sound policy mix. International capital flows help ensure that resources are channeled to their most productive uses and help investors and savers to diversify their portfolios, thereby increasing economic growth.

The IMF, as the overseer of the international monetary system, is well placed to advise members on the benefits of capital account liberalization, and to ensure that other policies are supportive of this liberalization. The proposed initiative to include restrictions on capital movements within the Fund’s jurisdiction would take the Fund’s role a step further. While we support the sentiment behind this initiative, our final decision will need to take into account:

- the extent to which the proposed initiative duplicates work done by other international agencies;
- the extent to which this initiative replaces lower priority Fund activities (rather than simply adding to the Fund’s existing workload); and
- the relative costs and benefits of the overall proposal.

**New Zealand Outlook**

The economic outlook for the next three years remains positive with robust output and ongoing employment growth. For the year ended March 1997 economic growth was 2.3 percent, and although economic activity actually fell in the March quarter, this was largely due to one-off factors, such as the timing of Easter, which reduced the number of trading days in the quarter. A pickup in growth is expected over the rest of the year, as these factors unwind and looser monetary conditions have an impact on economic activity. Next year strong momentum should be seen in the economy, as a number of factors including increased government spend-
ing, tax reductions, and the lagged impact of easier monetary conditions combine to fuel growth.

**Governance—New Zealand Experience**

Generations of New Zealanders grew up in an environment where the government was protector and provider. Naturally they formed strong beliefs and attitudes about the way the economy operates and the role of government. New Zealanders had high expectations about what the government could do.

Reforms over the past decade have challenged those attitudes and beliefs. And by and large New Zealanders have risen to the challenge.

For example, opening the economy to international competition has provided the opportunity for many of our businesses to boost their performance and reap the rewards a global market provides. Many have seized the opportunity and have proved themselves to be among the best in the world.

Over the past decade, the public sector has been transformed with the introduction of greater transparency and accountability and extraction of government from the various business activities it owned and operated. The government has worked hard to put its books in order and the commitment and professionalism of the public service has helped us to achieve that.

The benefits are evident.

- New Zealand has enjoyed high, sustained, noninflationary growth over the past five years, and given the government's economic policies and a favorable world economic climate, New Zealand can look forward to a solid economic performance over the next three years.
- Unemployment has fallen from a high of 10.9 percent in 1991 to about 6 percent as the economy grew strongly.
- The government has been able to reduce New Zealanders' taxes, given responsible fiscal management, and New Zealanders can look forward to the legislated tax cuts in July 1998. Beyond 1998, economic and fiscal conditions permitting, the government will plan for further tax reductions.
- The government has been able to increase expenditure in priority areas such as health and education, while reducing government spending as a proportion of GDP.

That said, established beliefs and attitudes are hard to change. The benefits of the reforms have yet to be seen in full.
**Fund Initiative and International Good Governance**

Microeconomic reforms have an important influence on macroeconomic outcomes. We welcome the Fund’s further reinforcement of this notion through the formal policy it has adopted on governance issues. This policy aims to ensure that the Fund takes a more systematic, structured approach to examining governance issues, resulting in a more focused effort, and greater consistency of treatment across the organization. An important element in the policy is strengthened coordination with the World Bank. Many governance issues fall within the Bank’s domain, and the Fund must make sure that it does not duplicate the Bank’s efforts.

**World Bank’s Internal Change—Applicability for the Fund**

Other initiatives under way, such as the good governance proposals, are also commended. Again, transparency of policies and appropriate incentives and sanctions are fundamental for good governance, whether in the public or private sector. The steps the Bank and Fund are taking will help this process, although supporting measures will be required at the local, national, and international level to effect real results.

Like the Bank, we would also encourage the Fund to think systematically and strategically about its priorities, its management practices, and its budgeting and planning processes. To be successful in a rapidly changing international environment, both organizations need to ensure that they have a vision and a tightly focused set of core activities. Continued attention to better coordinating their respective efforts will reduce duplication and the risk of giving conflicting advice to members.

**Strategic Compact**

New Zealand is very supportive of the objectives and motives underlying the Bank’s Strategic Compact. With the growth occurring in private capital flows, the increasing number of countries moving down the road of democracy and economic reform, and the fiscal constraints facing many countries, it is timely for the Bank to look at its development effectiveness and overall efficiency in serving the needs of its clients. While we were initially reluctant to agree to higher funding to achieve the renewal, our interest is now in the results on the ground.

In this regard, I would like to offer some comments on New Zealand’s experience with institutional reform in the public sector. Key lessons were the importance of:

- clear objectives and outcomes—which are quantified and agreed in advance, and focused on core business activities;
- performance indicators and efficiency measures;
• hard fiscal or budget constraints—coupled with the devolution of authority and the flexibility to reprioritize and reallocate resources according to demands. Detailed input controls act to preserve the status quo and stifle innovation; and
• more flexible human resource policies—notably individual contracts that recognize and reward performance, and penalize underperformance.

Although the New Zealand public sector did not face the added goal of staff diversity and representation, we did have the need for some groups of staff with particular skills or attributes that were not readily available. Here a range of solutions come into play—pay a premium, build the attributes from the ground up, contract out, or adapt in other ways. It does not mean all staff have to be treated uniformly.

We also discovered the reform process is not a one-off exercise. It is an ongoing process involving continuous efforts and improvement, moving from the core outwards. Once the major steps have been taken and sound frameworks established, however, the reform, while not self-supporting, is self-driven, guided by the core incentives in place.

The Bank’s long-term income trend also signals the importance of internal efficiencies and greater external development effectiveness. Among the measures being adopted, of portfolio improvement, new product development, and appropriate pricing, our experience has pointed to greater focus and selectivity as guiding principles, supported by the unbundling and appropriate pricing of products and services.

**IMF Performance in the Recent Thai Crisis—Lessons**

Recent instability in the Thai economy has highlighted the useful role the IMF can play in rapidly mobilizing resources in the face of a crisis. This is an important role for the Fund. However, being the proverbial “ambulance at the bottom of the cliff” is clearly much less desirable than playing a preventative role where possible. Since the Mexico crisis, the Fund has carefully scrutinized the adequacy of its surveillance, and has implemented initiatives to strengthen data quality and dissemination. This needs to be kept under active review. More thinking also needs to be done on how to encourage adoption of the Fund’s advice by member countries. This could include closer analysis of the moral hazard element associated with Fund financing.

**Initiative for Heavily Indebted Poor Countries (HIPC Initiative)**

I welcome the progress that has been made on the HIPC Initiative and commend the coordinated efforts of the creditor parties involved. It is ini-
tiatives of this nature that draw on the strengths of the international financial organizations and the combined membership of those organizations. We are also encouraged by recent moves towards distributing the costs between the multilateral development banks and bilateral donors on a fully proportional basis, and urge continued efforts to resolve the African Development Bank’s expected shortfall.

We endorse the pragmatic and flexible case-by-case approach being adopted, but are concerned at the escalation of estimated costs. It is therefore imperative that the pursuit of sound medium-term economic policies and a proven track record remain key for eligibility in order to limit the risks of moral hazard and establish the framework for success.

New Zealand’s support of the International Development Association (IDA) reflects our belief that collectively we can achieve greater results in some areas than we can individually. We support the use of IDA grants for HIPC relief where appropriate. To facilitate this, we have agreed to contribute to the replenishment of IDA.

Private Sector Involvement in Infrastructure

We believe there is a significant role for private sector involvement in infrastructure, in both developed and developing countries, and endorse the Bank’s initiatives in this area. It is important, however, that the Bank focus on those areas where it can contribute the most and resist the temptation to be all things to all people. In this regard, we see the main strengths of the Bretton Woods institutions as assisting governments in achieving macroeconomic stability and creating an enabling environment for private enterprise. Extending this role to private sector advisory services should only be undertaken where there is a clear need, and with due regard for appropriate pricing, taking account of the resource requirements and risks.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Sartaj Aziz

It is a matter of honor and pleasure for me, once again, to represent Pakistan at the Annual Meetings of the Fund and the World Bank Group. The meeting is being held at a moment of history in our host country. The return of Hong Kong, or Xiang Gang, to its rightful owners signals the end of an important phase in the political history of Asia. We join our Chinese
hosts in celebrating this occasion and thank them for the warmth of their hospitality.

We meet in the backdrop of the third successive year of robust global economic growth with an optimistic outlook. The notable feature of this growth is that it is widely shared by all regions, in particular by Africa and the countries in transition, which were suffering from depressed growth for quite some time. The slowing of the inflation rate is another positive development.

This optimistic scenario is, however, overshadowed by other developments. Slow growth in global trade, mainly caused by sluggish imports in some advanced countries, has adversely affected the export performance of many developing countries. Despite signs of improvement, many developing economies continue to suffer from fiscal and external imbalances and structural rigidities. For them, the primary concern is the revival of sustained growth, which should be supported by improved access for their products in world markets and inflow of resources at reasonable terms. Most of them are implementing programs of stabilization and adjustment. For these programs to be meaningful and effective, it is essential that due emphasis be placed on widely sharing the benefits of growth and provisions of safety nets with special consideration for disadvantaged groups. As these countries are opening up their markets, it is prudent that freer access to their products is ensured and advanced countries should desist from using labor standards, environment concerns, and human rights as a disguise for renewed import restrictions.

It is satisfying to note that the net private capital flows to the developing countries have reached a record high of $200 billion last year. This event has, however, been constrained by the spectacle of turbulent financial markets in the Southeast Asian region. While welcoming the inflows of productive long-term investment capital from abroad, the region has simultaneously become hostage to the volatile judgments and aggressive activities of foreign portfolio managers. There is too much footloose capital at play, which moves from one country to the next, forcing them to make policy adjustments that are destructive to business confidence and throw their economies off-track. In many cases, the original set of policies might have been optimal but became unsustainable simply because the countries were caught in the path of a spreading contagion.

It is in this context that we must think carefully about how we should implement the Declaration on Capital Account Liberalization. Our Executive Directors in the Fund have worked hard over the past months to develop the legal and policy framework for giving the Fund a leading role in the orderly liberalization of the capital account, by building in appropriate safeguards and discretion for country authorities. The Fund’s past record in assisting members to accept the obligations of Article VIII under its existing jurisdiction demonstrates flexibility and moderation and we would...
expect nothing less in the exercise of its new jurisdiction. We, however, hope that in developing the transitional provisions and the approval procedures, the Fund will rely to the greatest extent feasible on the judgment of members to pace the sequencing of the liberalization process and that it would eschew deadlines or conditions, particularly in the context of the use of Fund resources.

Among the external forces to which developing countries are exposed in the globalized economy are large and unexpected changes in exchange rates among the major currencies, responding in part to equally unpredictable movements in international interest rates. To argue that there is little or nothing that can be done about them is to accept too quickly the rhetoric of free marketeers who find much private profit in undermining the defenses that have been built by developing countries to husband their own savings and to protect their still embryonic institutions from the onslaught of transnational financial conglomerates.

In this context, there is urgent need for timely information and transparency in capital movements. Perhaps institutions like the Bank of International Settlements can play a more active role in informing central banks about large-scale purchases and sales of their respective currencies. This will enable the countries concerned to take timely measures, if necessary to safeguard their position.

There is a tendency for surveillance to be intensified over the weaker, and not the stronger, members of the international community and to be applied by way of new conditionalities over areas that go under the broad rubric of "good governance." There can be no argument that good governance is an essential ingredient of a sustainable development process. But the legitimacy of the actions in this area must also be preserved and preserving it requires that there should be uniformity in the treatment of members, that they do not appear to be operating in ways that detract from their strictly nonpolitical mandates, and that they do not overstretch their technical capacities by moving into domains far beyond their traditional core competence.

We note with satisfaction the progress made in extending ESAF beyond the year 2000 with the establishment of the Trust for Special ESAF Operations for Heavily Indebted Poor Countries. The donors should now come forward with liberal assistance to ensure the successful implementation of these initiatives. We also commend the decision of the Board of the Fund on the New Arrangements to Borrow (NAB), which will ensure greater availability of resources to deal with exceptional situations.

We view with concern the sharp decline in the net official flows to developing countries in 1996. It is unfortunate that the official development assistance target of 0.7 percent of GNP set some two decades ago still remains a far cry away and that, in the case of many donor countries, there is a persistent decline in their share of GNP devoted to assistance to devel-
oping countries. Private capital flows are no substitute to concessional assistance; the former are directed towards profitable commercial ventures in fast growing economies, while the latter are needed for building human capital and for alleviating poverty in a large number of low income nations. Quality growth, which the Managing Director mentioned yesterday, cannot be achieved and sustained without more rapid progress in social sectors.

Before I conclude, may I say a few words about the current economic situation and prospects in Pakistan. The government that assumed office last February has launched a program of economic revival aimed at restoring stability and accelerating growth. The program makes a basic shift in economic policy with recognition that the fiscal and external imbalances are partly the result of economic slowdown in the preceding four years and that unless basic structural reforms are undertaken to revive the economy, traditional stabilization measures will not be enough to correct these chronic imbalances. The focus of the program is therefore on the revival of economic growth to 6 percent, with emphasis on accelerating industrial growth, which has slumped in the past few years. For this purpose, the maximum tariff rates have been slashed from 65 percent to 45 percent, the rate of general sales tax from 18 to 12.5 percent, and the personal income tax rate halved. Financial and banking reforms have been introduced to liberalize the monetary policy and provide greater autonomy to the State Bank of Pakistan in formulating monetary policy, overseeing the performance of banks and financial institutions, and speeding up the recovery of stuck-up loans. The capital market has been strengthened to promote investment and the mobilization of resources. The process of privatization is being accelerated, and public sector enterprises in the spheres of banking, finance, energy, transport, and communications have been offered for disinvestment. Incentives have been provided for raising agricultural production and productivity by substantially raising the support prices of key items; liberal availability of credit and other inputs; distribution of state land to farmers; and dissemination of results of agricultural research to farmers. Exports are being promoted mainly by reducing anti-export bias and improving the competitive position of Pakistani products in the world market.

The critical issue of containing fiscal deficit is being addressed by controlling expenditure, broadening the tax base and improving tax collection. Through this policy we expect to bring down the fiscal deficit from 6.3 percent to 5 percent of GDP in the current fiscal year.

On the social front, besides a Social Action Program (SAP-II) focusing on basic education, primary health, population welfare, and water supply and sanitation in rural areas, a Program of Poverty Alleviation is also being launched.

The critical issue of governance has been taken up in earnest. The process of accountability has been accelerated by strengthening the legal
and institutional framework; government departments and public sector institutions are being downsized, and their administrative and financial management is being improved; the discretionary powers of officials have been curtailed; and steps have been taken to reorganize and privatize public enterprises.

These policies and measures have been widely appreciated. They have also provided a basis for the initiation of a medium-term economic and financial program with the IMF, supported by World Bank, envisaging financial assistance from the Fund under the Enhanced Structural Adjustment Facility and the Extended Fund Facility. We are determined to see that these programs are implemented in letter and spirit.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR PAPUA NEW GUINEA

Roy Yaki

Introduction

Mr. Chairman, Governors, ladies and gentlemen, it is a privilege for me to address the Fifty-Second Annual Meeting of the Board of Governors of the World Bank and IMF. On behalf of the government of Papua New Guinea, I would like to extend our appreciation for the gracious and warm hospitality displayed by our hosts, the government of Hong Kong Special Administrative Region.

I would also like to applaud the outstanding leadership of Mr. Wolfensohn over the last year. The progress made in implementing the debt initiative for highly indebted poor countries, enhancing collaboration with the Fund on strengthening financial systems, and creating the “Knowledge Bank” are testament to his skilled guidance. I also extend the same to Mr. Camdessus for his leadership in steering the IMF to where it is now.

The success of any reform program is determined by the political will to implement it. Prior to outlining our economic reform program I would like to comment on the state of political affairs in Papua New Guinea.

Political Situation in Papua New Guinea

Papua New Guinea celebrated its twenty-second independence anniversary last week, and as a mark of our growing maturity our sixth gen-
eral elections were conducted in July this year democratically and trouble-free. While the immediate period leading to the elections were marred by civil unrest relating to the Sandline affair, this has served to strengthen our young nation by alerting political leaders that they are accountable and answerable to the people they represent.

The new coalition government formed after the election commands a substantial majority and recognizes that political stability is imperative if consistent policies are to be maintained. I am pleased to announce that the government is confident of retaining political office into the next millennium.

The restoration of peace and normalcy on the war-torn island of Bougainville is the utmost priority of the new government. Progress in relation to the crisis on the island of Bougainville has been slow and difficult but steady. The recent Burnham Declaration advances renewed hope that Papua New Guinea may finally be on the doorstep of peace.

The attainment of lasting peace has substantial social and economic significance. In economic terms it will allow the revival of agricultural production from what was formerly our largest agricultural export-earning province. The issue of the reopening of the huge Bougainville copper mine is not an immediate priority and it will require some time to resolve.

The sectors of health, education, and sustainable resource management are other key priorities of the new government, as these sectors are fundamental to providing our citizens with the means not only to contribute productively and participate in the development process, but also to secure an improved quality of life.

**Economic Situation in Papua New Guinea**

Mr. Chairman, Governors, after an unprecedented crisis in 1994, Papua New Guinea is in the throes of a welcome recovery. The macroeconomic fundamentals point to a restoration of stability with interest rates declining to below 10 percent, inflation currently at 5 percent and declining, and the exchange rate stable against our major trading partners. In 1996, for the first time, we achieved an overall budget surplus of 0.9 percent of GDP. Moreover, our external position is healthy, with reserves at US $554, providing five months of import cover.

In 1997 real growth of GDP is forecasted to be 6 percent, led by strong growth in the mining and construction sectors. The nonmineral sector is projected to grow by 6.6 percent in constant prices, with real growth of 4 percent in the agriculture, forestry, and fisheries sectors, which account for the livelihood of about 80 percent of our people.

Our objective of attaining macroeconomic stability has been achieved, and the next challenge is to realize sustainable and robust growth through the continuation and consolidation of our reform program.
Papua New Guinea's Reform Program

Papua New Guinea has embraced a reformist agenda in the face of considerable opposition and obstacles. While the new government has just assumed office, we are determined that the reforms will continue, under the auspices of our medium-term development strategy for 1997-2002, to set Papua New Guinea firmly on the path of higher income and employment and reduced inequalities in the areas of poverty, income distribution, and access to essential basic services.

The centerpiece of the strategy of restoring domestic stability has been the progressive reduction of the overall budget deficit, as a percentage of GDP, from 5.9 percent in 1993, 2.8 percent in 1994, 0.5 in 1995, and for 1996 a surplus of 0.9 percent.

Fiscal discipline will be sustained, and expenditure-tracking and control mechanisms have been instituted and are being regularly reviewed and refined. The government is paying careful attention to ensuring that resources flow to productive projects and programs, particularly those in the social, infrastructure, and private sectors.

Monetary policy—which, in the past, accommodated the expansionary fiscal policy of the early 1990s—will no longer bear the burden of imprudent fiscal policies. The increased competitiveness of our economy occasioned by the devaluation and subsequent floatation of our currency, the kina, in 1995 will be maintained through the maintenance of low inflation and a stable exchange rate.

However, ours is an unfinished agenda. I would like to briefly outline the key reforms to be undertaken under the next phase of our program. Components of this next phase include the introduction of a national value-added tax, provincial reforms, financial sector and capital market reforms, and public sector and public service reforms.

In the face of diminishing resources, precipitated by declining levels of mineral receipts and budgetary support from the Australian government, revenue flows will be stabilized by increasing the tax base through the introduction of a consumption tax in the form of a national value-added tax. The national value-added tax will eliminate the cascading system of provincial sales taxes and provide a revenue base that is efficient, promotes investment and exports, and is transparent. The tax reforms will be revenue neutral.

Of the competing claims of deficit reduction, tariff and excise cuts, and personal income tax cuts for the new national value-added tax revenues, the second option of rationalizing the current tariff regime will be pursued. The current tariff regime has been used for two objectives: revenue raising and industrial protection, which has led to an inefficient and distortionary indirect tax system and contributed to Papua New Guinea's high cost structure. Beyond the requirement for Papua New Guinea's ac-
cession to the World Trade Organization and Asia-Pacific Economic Co-
operation, there is a need for industry and tariff policy reforms, stemming
from the continued decline in the performance of our private sector, which
is inefficient and uncompetitive on the world stage.

Expenditure restructuring is a central component of the reform pro-
gram. The share of expenditure for consumption will be reduced, and in-
vestment will be increased. The quality of expenditure is also being ex-
amined, and efficiency will be improved by a greater focus on the link
between the budget and the outputs and outcomes.

Public sector and public service reforms are also being pursued to en-
hance the quality, efficiency, and motivation of the public sector. A study
was commissioned by the government, and its recommendations, which
are broadly along the lines of the New Zealand model, are being closely
examined by the government. Specific measures undertaken to date to re-
duce the wage and salaries bill include a retrenchment exercise and the
compilation of a master payroll list to eliminate ghost workers.

In 1995, the constitution of Papua New Guinea was amended with the
passage of the new organic law on provincial and local level governments.
This represented a profound response to the lack of goods and services
that were being delivered to our rural residing populace.

This new organic law decentralizes the process of resource allocation
and emphasizes the bottom-up planning approach. Allowing local govern-
ment units to participate in the planning process ensures that projects and
programs are undertaken that yield benefits that are consistent with our
people's needs. The provincial reforms redirect substantial resources; in
fact, just over 30 percent of the central government budget goes to the
provinces and the rural sector.

The private sector's role in the economy is fundamental to the cre-
ation of jobs and income. For the private sector to flourish the government
will ensure that macroeconomic and sectoral policies are sound, consist-
tent, and transparent.

Restrictions on foreign participation through direct investment are
being eased and the costs for inputs are being lowered through the ratio-
nalization of the tariff structure. The government has divested holdings
and privatized those activities best served by the private sector. The role
of government is now being closely examined and will be focused on
those programs and activities that complement the private sector-led sus-
tainable growth.

Recognizing that international financial flows are now dominated by
private sector capital flows, Papua New Guinea is instituting reforms to its
investment regime to attract these foreign investments. Papua New
Guinea attracts significant foreign direct investment, but the bulk of these
represent investment in our mineral sector with very little linkage to other
sectors.
A national investment policy is currently being formulated that will clearly signal to foreign investors that government will take all measures to facilitate and expedite investments. The broad objectives are, first, to create a more competitive and conducive business environment for Papua New Guinea; and second, to promote sustainable growth through improved and increased upstream and downstream production and processing.

Papua New Guinea has substantial renewable resources and the exploitation of these resources must be consistent with the maintenance of ecological sustainability. To achieve sustainable use of resources, limits have been placed on the annual harvest based on calculated sustainable levels, and environment protection standards are being enforced. Sustainable harvest yields have been set for forest and fisheries resources. Surveillance, however, remains the greatest constraint to our endeavors to halt the rapid depletion of our stock of renewable wealth.

The recent floats for the Lihir mine and the Orogen have confirmed that significant amounts of both debt and equity financing can be realized both domestically and abroad for the right type of project in Papua New Guinea. The major challenge is to harness that potential stock of investment into Papua New Guinea so that the investments are applied not only to very large resource projects, but also to medium- and smaller-sized projects in other sectors of the economy. This role of allocating resources to the most profitable private sector projects is the role taken on by efficient financial and capital markets.

The fundamental objective of our reform program is to develop more efficient and dynamic financial and capital markets, but important sub-objectives include the introduction of new capital and entrepreneurship to the sector, particularly from national sources; development of an appropriate regulatory regime conducive to the growth of investment activities by providing for greater investor protection and confidence; and the broad pursuit of market-oriented and liberalized strategies, while recognizing important elements of market failure in Papua New Guinea that leave the state with an important role in the provision of financial services and credit in decentralized locations.

While we appreciate the support extended to us by both the Fund and the Bank, the implementation of our reform program has been made more intricate than necessary by the desperate policy advice and stance from the two Bretton Woods institutions. Greater coordination, harmonization, and linking between the Fund’s objective of stability and the Bank’s objective of growth is crucial to the adjustment programs.

The government also conveys its appreciation to the Bank on selecting a reputable Papua New Guinea national citizen to head its liaison office in Port Moresby. We are confident that this will enable a closer working relationship between the Bank and the government.
World Bank/IMF Issues

Mr. Chairman, Governors, I wish to commend the Bank and the Fund on their determination to bring the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) to fruition. While Papua New Guinea is classified as a moderately indebted middle-income country we nevertheless can empathize with fellow Governors here whose huge debt burden stifles their ability to pursue their development agendas.

Papua New Guinea with a per capita income of about $850 is classified as a middle-income country. This per capita level is, however, deceptive, as consideration of our social indicators would rank us well below other countries of comparable income. Consequently, Papua New Guinea does not qualify for softer facilities from the Bank and the Fund. The replenishment of the International Development Association (IDA) continues to be a concern for Papua New Guinea as the shortfall is now increasingly being met from the net income of the IBRD. This means, in effect, that Papua New Guinea and other similar countries are financing the IDA borrowers. We would strongly urge that the Bank and the Fund consider options to increase the concessionality of their harder facilities.

We welcome the Bank’s attempt to restructure itself through the Strategic Compact, to better serve its member countries. The key role that the Bank plays in the development programs of developing countries requires the Bank to embrace a medium-term perspective and to see how the world evolves and how best the Bank should adapt itself to attend to the needs of its member countries.

The Multilateral Investment Guarantee Agency and the International Finance Corporation are important facilitators of the flow of private capital investment into Papua New Guinea, and we encourage a more prominent role for both agencies in Papua New Guinea.

Conclusion

Mr. Chairman, Governors, while the outlook remains favorable for Papua New Guinea, the challenge remains to build on the positive actions undertaken to realign Papua New Guinea with a market-oriented regime while maintaining stability on both the internal and external fronts. The government will strive to continue the reforms and firmly establish the foundation for realizing Papua New Guinea’s enormous potential. The Fund and the Bank will remain key external partners in the development of Papua New Guinea, and we look forward to the continuation of a mutually satisfying and fulfilling relationship. The discussions and the contributions by fellow Ministers have been enlightening and fruitful, and I hope that the sum of our contribution will provide tangible benefits for the developing nations.
It is an honor for me to address these Annual Meetings of Governors of the World Bank Group and the International Monetary Fund on behalf of the people and government of Paraguay. Our most cordial greetings to you all. I wish to thank the Chinese authorities for their kind and warm welcome and to congratulate them, and the management of the Bank and the Fund, for the excellent organization of this event.

Many countries in the world, mine included, have made considerable progress toward democracy and economic stabilization, and we are now focusing our efforts on firmly establishing conditions conducive to sustainable development while maintaining the full viability of the institutions of our republics. However, we still face considerable challenges, such as the need for faster economic growth in some regions, greater equity, and better environmental management, all of which must be achieved without drawing attention away from the deepening and consolidation of democracy.

In political, economic, and social terms, the world in which we now live is different from what it was in the recent past. Thus the role of international financial institutions must be solidly based on the principles of equity, partnership, and joint effort so as to enable reform programs to become one of the pillars of broader development, beyond the purely economic sphere.

Allow me to share with you some key aspects of Paraguay’s socio-economic situation, particularly the progress made in consolidating democratic institutions under the current administration.

Paraguay: Economic and Social Situation

In economic terms, GDP grew at an annual average rate of almost 4 percent between 1993 and 1995. Growth slowed in 1996 owing to a combination of factors but is expected to once again reach the range of 4 percent this year. As a result of policy coordination efforts—particularly financial and fiscal policies—and despite the difficulties facing the financial system, inflation declined steadily from 20.4 percent in 1993 to 8.2 percent in 1996, which is considered to be the lowest rate in the last three decades. In August 1997, cumulative inflation stood at 5.3 percent.

Fiscal revenue in the past three years increased in real terms, owing to improved tax collection and timely adjustments in utility prices and rates. This made it possible to substantially increase the resources allo-
cated primarily to education, health, and infrastructure projects. That notwithstanding, performance was good in the consolidated public sector, which accounted for 1.5 percent of GDP on average.

Paraguay continues to follow a prudent borrowing policy, regularly meeting its international financial commitments and maintaining an optimum level of reserves. Net international reserves increased by 52 percent between 1993 and 1996, reaching the equivalent of 11 percent of GDP in December last year, while the external debt grew by only 3 percent to 13.5 percent of GDP in December 1996.

The current government continues to steadfastly promote structural reform and state modernization, which led to the restructuring of much of our legal system. We already have laws against money laundering, a new central bank charter, a new general law on banks, an insurance law, and a regulatory framework for the telecommunications sector, among other legislation.

Bills were submitted to congress on government financial management, capital market regulation, trademarks, patents and copyright, and the creation of a new retirement and pension system. A regulatory framework for water and sewerage and for electricity is in the final stages of preparation for submission to congress. Throughout this process, we faced problems in the financial system but never abandoned our goal of stability and have taken corrective measures.

We are committed to consolidating democracy, evidenced by the establishment of an independent judicial branch comprising a Supreme Court of Justice, a council governing high judicial offices, and a board responsible for the judicial indictment of senior members of the judiciary and electoral justice. All of this represents a major thrust in judicial reform and full respect for citizens' rights.

In the area of education, reforms are under way at all levels, as this is one of the present government's priorities and one of the pillars of development of any country. At the end of last year, legislation was approved for creating a national health system to broaden the coverage of preventive and therapeutic health care by better coordinating the efforts of the various institutions working in the sector. This reform aims at substantially reducing morbidity and mortality rates, particularly for mothers and children.

Now, after a term of four years marked by considerable progress, the results are good. Despite resistance, the economic, social, and political reality of Paraguay has changed, and the new order guarantees an institutional environment for the development of private initiative and investment incentives. It is important for the Bretton Woods institutions to continue supporting state modernization in order to maintain sustainable and equitable growth, create sound social and economic institutions, strengthen financial and capital markets in the region, and improve governance.
Poverty is undoubtedly the greatest threat to peace, democracy, and development. Poverty must be reduced if democracy is to be strengthened, hence the need to make accessible resources cheaper, and to help consolidate economic and social reforms. We therefore urge this forum to be innovative in its quest for mechanisms to improve the timely availability of resources. Clearly, solidarity among the inhabitants of one country helps overcome obstacles more easily. The same applies to regional and international relations. It is the responsibility of the advanced countries to contribute to the development of others with emerging economies, and the valuable assistance provided by traditional donors must be continued.

We are cognizant of the fact that environmental conservation is a priority, but it is a global one and, therefore, the technical and financial resources needed must come from the international community.

Lastly, I must point out that in all the reforms and policies we have been implementing to create an efficient and dynamic state, we have not lost sight of the fact that they are aimed at human beings and, therefore, must be socially and politically viable.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Roberto F. De Ocampo

Hong Kong and the Emerging Tigers

Sense and circumstance chose Hong Kong well as the venue for this year's meetings. Apart from its historic significance to China already much remarked upon, Hong Kong has special significance to Southeast Asia's so-called emerging tigers, including my own country. These countries are currently put to the test by financial markets, the very same markets that have forged Hong Kong from hard rock and hardy men into one of the most dynamic economies of the world.

Many portfolio investors have judged, at least for now, that some emerging countries in Asia have failed the test. A few go so far as to suggest that the so-called Asian miracle is a mirage.

On the other hand, many of our peoples whose lives have been painfully affected by the severe shifts in market sentiments have judged markets as undependable, arbitrary, or, worse, manipulated. Calls for the return of capital controls are increasingly being heard in the region.
The Way Forward

Clearly, neither of these views is right nor will they bring us anywhere forward.

As the markets better differentiate among the emerging Asian countries, this turbulence and economic consolidation over the next one to two years is unlikely to detract from the long-term positive outlook for most of the region. Their governments are pragmatic, and despite what may seem like harsh antimarket pronouncements, governments still adhere to the fundamental principles that have served the region well in the past—such abiding principles as fiscal discipline, encouraging savings and investments, openness to trade, and a continuing emphasis on human capital development.

Volatile capital flows will continue to be a challenge, but the answers are not in a return to controls but in managing these flows better. The answers are not in restricting markets, but in making them work better. The key to this is a higher level of disclosure and transparency so that players act based on timely and accurate information. If they act in partial darkness or are subjected to “information avalanche” they naturally act like herds in panic.

At the same time, market players themselves need to become more diligent in differentiating among the countries in a region. There are few winners in the kind of contagious and self-fulfilling prophesies of doom that start from one country and spread like a virus. There must be room for the multilateral institutions to play a more aggressive role in preventing such a crisis from developing to begin with, or started if it has, to bring in quick assistance to contain its spread—a “quarantine” function so to speak.

Much homework needs to be done to strengthen the resiliency of the recipient economy, especially in the financial sector. It has become abundantly clear that it is not enough to just do the “three d’s”: denationalize, deregulate, and dispose in order to address the inefficiencies of the public sector. Without an appropriate regulatory framework and knowledgeable and competent supervisors, market excesses and private inefficiencies will result. “Steering” requires less manpower than “rowing” but is an expertise that needs to be honed with much effort and care. Nowhere is this more critical than in the financial sector where poor quality of supervision and prudential lapses can exact a heavy toll on the entire economy, especially the most vulnerable members of society. Upgrading the capabilities of regulators must keep apace with the speed of liberalization.

The Philippine Situation

In response to the currency turmoil, we supported greater exchange rate flexibility and enhanced monetary prudence. However, we remain
deeply committed to the foreign exchange liberalization that we have undertaken over the past few years.

We believe that this storm hitting the region is only a temporary setback for the economy and have confidence that the economy will return. Our economic house has been fortified by the fundamental reforms implemented under an IMF Extended Arrangement. We are on track in this arrangement and we are set to exit by year-end.

The currency turmoil has not altered the solid performance of our economy. Fiscal balances are positive; inflation at 4.5 percent as of August remains under control. Export growth is still at an upward trajectory at 22 percent during the first six months of the year, the highest in Asia outside China, while import growth has declined to 10 percent. Our external debt situation has never been better, with debt service payments down to just 12 percent of exports of goods and services. Reliance on portfolio investment as against direct investment has been modest at only 13 percent, compared with a figure far above 50 percent for the rest of the region. Core GDP growth is being sustained at 5.3 percent.

We have also managed to avoid the kind of overheating pressures that have built up in other economies. Overbuilding is far from being a generalized problem. For example, a recent independent foreign-based analyst estimated office vacancy in Manila at only 2 percent (compared with double digits elsewhere in the region).

Relatedly, our banking sector is in good health, reflecting the effects of reforms in the wake of the debt crisis during the 1980s as well as recent policy actions. The banking system has been rated by an independent foreign analyst (Morgan Stanley) as “above average” (in league with Hong Kong SAR and Singapore). The ratio of banks’ nonperforming loans is low at 3 percent and capital adequacy ratio is among the highest in the region at 17.4 percent.

Now what lies ahead? After the Philippines exits IMF guidance later this year, what assurances are in place for the continuation of sound economic programs? Let me summarize our policy: when the markets talk, we will listen. We are committed to ensuring that the financial community, on whom we will continue to count for capital, will be in our minds as we craft economic policy. In a very real way, the financial markets provide a lot of the signals for action traditionally provided by the IMF. This may sound risky and unwise, especially in these times, but in reality it is already the policy of every robust economy in the world.

In this regard, let me detail the specific actions we have taken to reassure financial markets. Over the short term, we have tightened expenditures and increased budgetary reserves. Our banking regulators early this year have already put a cap on lending to the property sector, and have recently required higher provisioning. Renewed impetus has been provided to priority legislation presently in Congress, like the comprehensive tax reform,
 omnibus electricity bill, and amendments to the general banking act and the revised securities act, which address remaining structural constraints.

The Role of the IMF and World Bank

The Bretton Woods institutions have critical roles to play in both preventing excesses by filling market information gaps and containing their consequences through speedy assistance. In this respect, the IMF needs to reinvigorate its surveillance functions and improve its data dissemination. The World Bank Group can be more active in helping develop the capability of supervisors to help strengthen the financial sector, the lynchpin to financial sustainability.

Market and Democracy

Looking ahead, one immediate task is to complete the reforms that underpin our exit from the IMF. The more difficult challenge, and in the long run more important challenge, is to communicate to the financial markets the Philippines' sound economic and political foundations.

It is easy to be distracted by the "noise" arising from our political system. We are committed to democracy, and in this commitment we would draw parallels with our resolve to listen to the messages from the financial markets. Like the financial markets, our young democracy may be subject to some excesses. But listening to the message—and indeed having the mechanism to have the message reach our leadership—ensures that we understand the evolving political consensus. It is a lesson not lost upon us that the countries that have proven competitive in the long run tend to be open democracies with flexible economies.

Conclusion

Let me conclude as I have started, by pointing to Hong Kong as the antidote to those who would get "agoraphobia" from the developments in the regional currency and stock markets recently. There is no substitute to global opening and integration as the way—perhaps the only way—to jump-start our economy out of poverty. Only this gives us technology, markets, and capital. The day is long gone when we can look at financial market liberalization as a desirable "add-on" option in this effort. In a global economy, restrictions merely deflect resources elsewhere. There is, at the same time, no substitute for developing world-class regulatory and supervisory institutions in an ever globally competitive world.

Nothing of the developments of the past months has changed our basic strategy. We intend to welcome and manage these flows by keeping a sound macroeconomy, our exchange rates competitive, and proper pac-
ing of our liberalization efforts. We believe in letting market forces operate for the most efficient to survive. We are committed to full disclosure and transparency for corrective action to be taken in the market constantly.

The Philippines intends to come out of the present crisis strengthened rather than weakened. We intend to turn the present problems to opportunities.

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

Hanna Gronkiewicz-Waltz

May I start by saying how pleased I am to be addressing the World Bank and IMF Annual Meeting here in the Hong Kong Special Administrative Region, which is such a vibrant center, not only of finance, but also of culture. The excellent organization of the meeting taking place just several weeks after the constitutional change enables us to better understand the source of the economic success of this region, the success that we believe can be smoothly continued in the new reality.

In today's world, changes are ever present. In Central Europe, we are going through a historical process of transformation. Our transition, as I often emphasize, has simultaneously involved not only a move from totalitarianism to democracy, but also a move from a planned economy to an open market. Such transformation inevitably affects the lives and future of whole nations and cannot be achieved without the full involvement of the people.

Our own experience proves that it is possible to achieve macroeconomic stabilization and positive economic results—the accepted hallmarks of a successful transformation—in the short to medium term. GDP growth rates of 6–7 percent over the past three years, based on real investment expenditures consistently rising at 20 percent annually, can be accompanied by continuous disinflation, if fiscal discipline and prudent monetary policies are in place. However, we have also found that the process of transformation involves occasional setbacks and that it is not easy to achieve sustained long-term growth. It is essential to deal with problems as they emerge, even if the medicine is bitter, and thus avoid their accumulation that may lead to crisis. To reach and maintain sustainable growth a number of well-recognized factors such as institution building and structural reforms should be involved. The stable institutional framework and flexible economic structure, which are already quite
deeply rooted in Poland, justify my strong belief in the permanency of a right direction of developments in my country.

Most recent experience shows us clearly that various measures thought to be prerequisites for sustainable growth, particularly deregulation of financial markets and liberalization of capital flows, may have multifaceted impact on the country's macroeconomic situation. They can be and usually are beneficial. However, to be successfully implemented, they need to have a suitable environment, and a healthy and strong financial sector is of utmost priority. Premature liberalization or neglecting rules of sound economic policy at a later stage may result in serious harm to the sustainable growth and the entire transformation process. I am glad to observe that some international institutions have put a lot of effort into research and policy advice regarding these issues. The attempts notwithstanding, there is still much to be done to make this new approach widely accepted.

I would also like to emphasize the significance of another, less obvious, factor that is equally essential to the transition process. This vital element is public confidence. To achieve far-reaching change, and to ride out the storms of setbacks, the government needs legitimacy. A legitimate government is one that is confident of the endorsement of the people in whose name it acts. To gain this confidence, a government needs to behave in accordance with proper ethical standards, transparently and irreproachably, to win public trust and support. If the society believes in the transition process and trusts in the government to introduce and develop it, the people will lend their support despite any difficulties, even when unpopular measures are implemented to restore the balance.

For this reason, apart from macroeconomic stabilization and basic structural reforms, ethical standards in implementing economic policies and in conducting business are essential to achieving sustainable growth in the long run. Sound business standards are integral to growth. This is not just true of countries undergoing transition, but also of the ones that have enjoyed economic soundness for many years. Popular trust in a government, based on the existence and maintenance of proper business practice, transparency, and fairness, is of global importance.

In this context, we welcome the Organization for Economic Cooperation and Development's decision in May 1997 to draft an international treaty stamping out business corruption as well as the Development Committee's discussion on the same topic during these meetings. We strongly believe that work on internationally accepted business ethical standards belongs among the basic tasks of the international financial organizations.

This meeting has put forward many issues that require further research and conclusions. I believe that both countries in transition and developing countries may expect guidance from international organizations, such as the World Bank and the IMF. I hope that such guidance will be provided in a timely manner.
It is an honor and a pleasure for me to address these Annual Meetings of the World Bank Group and the International Monetary Fund. First allow me to recognize the unique opportunity that all of us have in meeting in Hong Kong at this time and thank the government of China and the people of Hong Kong for their very warm welcome and magnificent hospitality in this vibrant part of the world. What better place on earth to further strengthen global integration, competitiveness, and international cooperation? China has a unique role in view of its spectacular achievements in this global setting. As President Wolfensohn said this morning, “The big five will achieve unprecedented growth, which, over a longer period of some 25 years, will fundamentally alter the balance of power between countries and the rules of international trade.” Three of the big five are in this region of the world. Their growth prospects are a major factor in the positive global economic outlook we are facing.

Last week, in Bangkok, on the occasion of the first Asia-Europe Finance Ministers Meeting, the objective of a new comprehensive Asia-Europe partnership for greater growth was emphasized, and we had the opportunity to exchange views on the macroeconomic situation and outlook as well as on developments in foreign exchange markets and European Economic and Monetary Union (EMU). At that meeting, we also recognized that the globalization of financial markets, while creating opportunities for an improved global economy, poses challenges for financial supervisors and reinforces the need for sound macroeconomic policies. I am confident that the initiatives we agreed upon in Bangkok, in particular at the level of financial supervision and regulation, customs cooperation, and fighting money laundering, will contribute decisively to a strengthened cooperation between these two important parts of the world, and consequently, will influence decisively the financial world. The global economy makes the attempts of administrative intervention vain and counterproductive, but requires partners, cooperation, and an exchange of information between states and regional areas.

The main event in Europe is the third stage of EMU, which is being carefully prepared and will start on January 1, 1999. At this moment, a large part of the European Union (EU) will have a single currency: the euro. The introduction of the euro, as a low-inflation currency with great economic weight, will be a strong additional step in the process of consolidation of the global economy. Ever since the ratification of the Treaty on European Union by the parliament in 1992, Portugal has been committed, at the highest political level, to adopting economic policies con-
sistent with the creation of a single European currency. In this context, the sustainability of the process of debt and budgetary consolidation, disinflation, and exchange rate stability is a prime objective for the Portuguese authorities, both as a result of the aim to be among the core of the EMU founder countries and because it is essential to the preservation of a stable macroeconomic environment, which is the base for sound growth and job creation. Progress made by the Portuguese economy toward convergence with the other EU economies has been substantial, both at the monetary and budgetary level, so Portugal is now prepared and committed to participate fully in the third stage of EMU from the start. We welcome this major change in the world economic scene as a decisive step toward consolidating development, growth, and free markets.

After some years of slowdown, in 1997, like last year, Portugal’s growth is estimated to be well above the EU average. Growth and real convergence with the other EU economies are sustained by continued buoyancy in private investment and supported by public investment. Moreover, this process has been sustained by exchange rate stability, favorable external price trends, continued moderate growth, and the noninflationary behavior of demand, and it is positively influenced by reforms under way in fields such as taxes, labor market, social security, and health services.

Remarkable opportunities for countries to enhance their development are clearly available and are increasingly reachable as a result of globalization and integration. But, at the same time, governments are confronting a broad range of policy challenges. Markets’ growing sensitivity to domestic and external imbalances has added a new dimension to these challenges, while the discipline that markets impose is a powerful incentive to implement sound macroeconomic policies and pursue structural changes. The agenda of our assembly today addresses some of these challenges.

Promoting private investments in developing countries and undertaking actions to combat corruption and improve governance are some of the challenges. The emphasis on sound financial systems is of crucial importance. In fact, these topics are complementary and part of the only way to promote and sustain growth. We greatly support the emphasis our Bretton Woods institutions are putting on these aspects of the development agenda.

To maintain private sector confidence and to attract private sector investment require the appropriate environment including, inter alia, an efficient and accountable public sector, a transparent and stable legal, fiscal, and policy framework, more coordination of tax rules and policies, and a healthy and sound financial sector. Much remains to be done to relieve the constraints that are limiting private sector participation in crucial sectors of the economy, such as that of infrastructures.

Let me share with you a few features of our experience in this area. After years of wrong state-commanded policies, now, in the context of an ambitious program of modernization and restructuring, an ambitious pri-
Portugal's privatization program has created the appropriate conditions for ensuring an increasing role of the private sector, so that the public sector can focus on strengthening human capital, which is an absolute priority for us. The driving force of this program has been to increase the efficiency of the allocation of resources and competitiveness of Portuguese firms. Although privatization operations are complex, we have come a long way. Banking, insurance, cement, chemical, tobacco, food processing, oil, telecommunications, and energy are no longer dominated by the public sector. No sector is now closed to private initiative. Public utilities, where state monopolies were common, are today liberalized and regulated by independent bodies. In infrastructure, the government has adopted a legal framework for harnessing private initiative and resources. Competition has been introduced in constructing and operating roads and highways. The second Lisbon bridge is a case of build-operate-transfer, which has been successful in keeping costs within budget, and it should be ready on time next spring. As a result of sound macroeconomic policies and strong growth, our domestic financial market evolved in 1997 from emergent to developed, in recognition of the sound conditions of our economy.

We welcome the World Bank Group action program to eliminate the bottlenecks and barriers to private sector involvement in infrastructure. Among those worthy of mention are the initiatives to reduce or eliminate the political risks that private investors face through the expansion of guarantees. Those can greatly contribute to an increase in capital flows to the developing countries. Therefore, we appreciate recent initiatives taken by the World Bank in this area. Furthermore, we welcome progress made toward reaching a consensus on a capital increase for the Multilateral Investment Guarantee Agency (MIGA). As shareholders, we are willing to renew our commitment to the institution and can join the consensus reached on the funding package. We expect a renewed commitment to further promote the international and diversified vocation of MIGA in order to achieve a more balanced portfolio.

Sound and healthy financial systems are another crucial—if not the most important—factor to maintain macroeconomic stability and to promote economic growth and poverty reduction, which remain the ultimate objectives of our institutions as well as of our governments. We strongly endorse the call for a renewed effort from the Bretton Woods institutions to strengthen financial sectors of developing countries. Several weaknesses of the banking systems have been exposed recently. Supervision of the banking system has to be revamped and subject to demanding and efficient patterns and concepts. Quality of the credit portfolio has to be monitored closely to avoid unmanageable levels of nonperforming loans. We call again on the international financial institutions to play their part in contributing to the prevention of the occurrence of this type of crisis. We welcome the emphasis on strengthening the Bank-Fund partnership in this regard.

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The issue of corruption and good governance also deserves great attention; a market economy based on private sector involvement can optimally allocate resources only if decisions on how to allocate resources are undertaken without interference. We welcome the Bank and Fund strategies and guidelines to assist member countries to address issues of poor governance and corruption. The international financial institutions bear great responsibility for promoting a transparent, accountable, and anti-bribery business environment, starting with measures to protect their own portfolio. We strongly encourage the Bank to play its role in strengthening international cooperation in this crucial area. Public confidence is a hard commodity to obtain and to maintain, but it is essential to stability and to social and economic progress. Portugal, for its part, is ready to implement the Convention on International Bribery currently being negotiated at the Organization for Economic Cooperation and Development, when it has been ratified.

Last, but not least, let me comment on one major achievement: the implementation of the debt initiative. As envisaged from the outset, the initiative requires the continuing close collaboration among creditors to effectively deliver the debt relief that eligible countries need to face the demanding agenda for economic and social development. We support those who stand for the expeditious implementation of this process, which is essential to justice and growth all over the world, and we praise all the efforts of the World Bank, the IMF, and member states toward this end.

I am pleased to announce here today that Portugal, as a partner in this process and as a main creditor of eligible and potentially beneficiary countries, will contribute to the HIPC Initiative Trust Fund. We also expect others to do so.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE RUSSIAN FEDERATION

Anatoly Chubais

On behalf of the government of the Russian Federation, it is my pleasure to welcome the participants and guests of the Annual Meetings. The past year has been interesting and complicated, full of important events. Our opinion is that the Bretton Woods institutions have been quite successful in addressing the challenges they have faced. A great deal has been done to maintain stability in the international monetary system and to strengthen the foundations for a healthy balanced growth worldwide, including developing countries and transition economies.
The world economy is, to an ever-increasing extent, characterized by globalization, that is, a growing integration of markets for goods, services, and capital. On the one hand, it enhances the efficiency of allocation of resources globally and thus promotes economic growth. On the other hand, growing interdependence of national economies and financial markets provides for stronger requirements for the quality of domestic economic policies and sharply increases the cost of wrong decisions.

Globalization of financial markets has raised the risk of financial and currency crises in developing countries and transition economies. Private capital inflows have substantially boosted these countries’ economic potential, but at the same time they have demonstrated the vulnerability of their banking systems and the shortcomings in domestic financial regulations. Increased openness of the economy has certainly played a role, too. The true causes and the mechanism of the unfolding of currency crises still remain to be analyzed. Apparently, it was not so much the actions by international foreign exchange speculators, but rather actual mistakes in economic policies that have caused crises. Thus, practically all countries whose currencies came under speculative attacks had been running a substantial current account deficit financed by short-term private capital inflows.

It becomes increasingly important to choose the right exchange rate arrangement, which should allow misalignments to be avoided and thus prevent the national currency from turning into an attractive target for speculators. I am referring not only to the shortcomings of a unilateral peg to just one of the leading currencies, but also to the risk of excessively rigid exchange rate regimes. While the use of pegged exchange rates as nominal anchors is justified at the stage of curbing high inflation—and Russia’s own experience is a good proof of that—a more flexible policy is preferable for open economies where financial stabilization has already been accomplished and economic growth has resumed. Nevertheless, too much of a generalization is counterproductive here, and the choice in favor of one or another exchange rate regime must depend on the specific circumstances of each country.

Among other issues of the world economy, I would like to mention the forthcoming inception of Economic and Monetary Union (EMU) in Europe and the introduction of the euro. It is too early to discuss the exact place and role of the euro in the international system, but in any case this event will certainly influence the development of the world economy a great deal. Russia’s objective interest is to see a stable and dynamically growing Europe, so let me sincerely wish success to the European countries in their integration efforts. Probably, at the stage of introduction of the euro, the industrial countries will need to enhance coordination of their foreign exchange policies in order to avoid sharp volatility.

In the modern world, the role of Fund surveillance tends to increase, and I note with satisfaction that the Fund has been able to cope with the
new challenges. The new focus on the soundness of banking systems was fully warranted. As for new modalities of operation, this year the IMF has already used twice the recently adopted emergency financing mechanism in its efforts to minimize the effects of currency crises.

Should the International Monetary Fund play a substantial role, it will need additional resources. In this context, I welcome the compromise reached on the Eleventh General Review of Quotas. However, I consider the formulas used in quota calculations to be highly unfair and not reflective of the relative country positions in the world economy. Therefore, I would strongly urge the Fund members to revise these formulas as soon as possible and certainly before the next quota review.

I congratulate my colleagues for the decision on the special one-time allocation of SDRs. Several dozen countries will now be able to join the SDR system. I hope that the decision taken will come into effect before too long and that members will start enjoying their new rights in the foreseeable future.

It gives me pleasure to note the progress achieved under the IMF and World Bank’s Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The first few beneficiaries to receive unprecedented international support have been identified. While welcoming a certain degree of flexibility with regard to the specific conditions of countries, I would still consider it important to maintain the basic principles and to prevent an excessive watering down of the criteria for participation in the initiative. We presume that the costs of implementation should be shared proportionally by all groups of creditors. We are slightly concerned at the ongoing upward revisions of the cost estimates and by the lack of clarity about sources of funding.

Russia is prepared to contribute constructively to the success of the initiative, and even to admit that, in a number of cases, our share in the reduction of the external debt burden will be substantially greater than the relative contribution by other creditors.

Allow me also to inform you of the Russian government’s decision to participate bilaterally in the financing of the Enhanced Structural Adjustment Facility (ESAF)-HIPC Trust. We agree to transfer the resources from the SCA-2 account as a grant and to make further contributions, the size of which will be proportional to Russia’s quota in the IMF and to the participation of other donors.

We agree that the Bretton Woods institutions should pay more attention to the issues of good governance and corruption. Sustained growth and social progress are impossible in the absence of an efficient and honest state that sets simple, stable, and equal rules for all market participants and maintains law and order. Having made this issue one of their priorities, the Fund and the Bank must take into consideration all its aspects, ranging from promotion of economic liberalization and sound macro poli-
cies to combating incidents of corruption and abuse of public funds. These are very delicate matters, and I hope that they will be addressed in a balanced and responsible way by treating all members equally on the basis of trust and respect for their sovereignty. The Fund and the Bank should by no means become instruments of political pressure or even competition for individual countries' markets, and it might seem that such a danger cannot be completely ruled out.

Before I conclude, let me say a few words about Russia's economy. We estimate that the situation has begun to improve. The protracted decline in output—that had lasted for almost 10 years—was finally arrested, and next year we expect a resumption of economic growth. This year the rate of inflation is expected to be at the level of about 13 percent, and about 7 percent in 1998. The exchange rate of the ruble has stayed within a predetermined band and has positively influenced inflationary expectations. A decline in interest rates is another important feature of financial stabilization. The yield on government bonds, which used to "crowd out" resources from the real sector, is now just slightly above the level of inflation.

Nevertheless, Russia's economic situation remains quite complicated. I am referring to public finance. We are dissatisfied with tax collection, and on this front no sustainable turnaround has been achieved yet. Certain hopes are associated with an expeditious adoption of a new tax code, which is meant to streamline the tax system and alleviate the tax burden on businesses. Another important area where we have put great efforts covers structural reforms, especially privatization, enterprise restructuring, housing and communal services, social infrastructure, regulation of natural monopolies, and establishment of institutions of a law-governed state.

Russia is successfully implementing a three-year Extended Arrangement supported by the IMF. We appreciate our fruitful relations with the Fund, which greatly contribute to the success of reforms in Russia and improve investors' confidence in the Russian economy.

Russia has decided to adopt the Fund's Special Data Dissemination Standard. Of course, we will take advantage of the transition period. Hopefully, investors will give us credit for increasing the transparency of the Russian economy.

Cooperation between Russia and the World Bank has significantly improved and has good prospects. We are satisfied with the Fund-Bank interaction in the area of structural reforms. In particular, the Bank is rendering helpful assistance to us in the regulation of natural monopolies and resolution of acute social problems. It is carrying out a number of important pilot projects in enterprise restructuring, education, and health, and enhancing the government's economic analysis capacity. We believe that the structural reforms worked out in coordination with the Bank will, in the longer run, help to restore economic growth and to maintain macro-
economic stability, as well as to improve the situation of those groups of the population who have been facing major economic hardships since the early 1990s.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SAMOA

Tuilaepa S. Malielegaoi

It gives me great pleasure to address the Fifty-Second Annual Meetings of the International Monetary Fund and the World Bank, on behalf of our Pacific constituency—Kiribati, the Marshall Islands, Federated States of Micronesia, Solomon Islands, Samoa, and Vanuatu. I note that the Fund and the Bank are close to completing procedures for admission of Palau as the newest member country from the Pacific, and we look forward to their membership in the international community.

I would like to express our sincere appreciation to the Fund’s Managing Director and the Bank’s President for their statements particularly on the internal restructuring of the two institutions, to respond to the changing needs and circumstances of member states in the global economy. The implementation of the Bank’s Strategic Compact and the adoption of the proposals for Adaptable Lending—New Investment Instruments are particular cases in point, as well as the initiatives for greater field contact between the Bretton Woods institutions and their members.

We are encouraged to see from its World Economic Outlook that the Fund believes that the current global economic expansion can be sustained. It notes that there are relatively few tensions and imbalances appearing, which might presage an end to the current economic growth, and further notes that there is still a great deal of slack in the capacity of a number of industrial nations. While growth has been generally widespread across various regions, the recent instability in currency markets and its contagious effect on dynamic emerging markets, and the possibility of higher interest rates in the industrial countries may have implications on projected growth for 1997–98. For our constituency of small island countries, the downside risks to this generally favorable outlook include declining official development assistance (ODA) flows, our inability to tap into private capital markets, and the decline in commodity prices.

On capital account liberalization, we recognize that there may be global benefits to be gained from freer capital account movements; however, we must, because of the size and structure of our small economies, protect against the risks of large, adverse capital flows that might destabilize our external positions. We therefore support the call for longer transi-
tional arrangements to allow developing countries to move towards full liberalization as well as technical assistance to implement these arrangements. Some members of our constituency are already moving towards liberalization of their domestic financial systems. This is being undertaken with great caution, mindful of our absorptive capacities to manage these radical changes to our small economies, while at the same time also ensuring that sound macroeconomic policies are in place to support these changes.

We welcome the Fund and the Bank’s recent adoption of guidelines covering the scope of their role in addressing issues of good governance. There can be no doubt that they have major contributions to offer in promoting good governance to improve the management of public sector resources that support the development and maintenance of a transparent and stable economic and regulatory environment, which is conducive to private sector growth and sustainable development. However, the issue of sovereignty—especially where there is a likelihood that the institutions will be considered to be micromanaging economic processes—remains a sensitive one that will require constructive consultation and dialogue between all parties.

We welcome the agreement reached on the Eleventh General Review of Quotas and the amendment of the Articles of Agreement for a special allocation of SDRs. These developments should provide the Fund with the flexibility to carry out its mandates effectively, as well as respond to major crises. I note with satisfaction that issues and anomalies in the distribution of quotas, as well as the treatment of new members since the last general review in 1990, have been addressed in the current revision.

The collective economic performance of members of the Pacific constituency over the past decade has been poor. Our generally inward-looking, isolationist stance in the past few years has not been successful for economic development and growth. Our economies have also suffered from external, and in some cases, internal climatic and/or financial shocks. Certainly these shocks have been physically and financially devastating and therefore severely disruptive of economic growth. We must not allow such events to dominate our policymaking and our strategic thinking for the future. We must restructure, and develop our economies to take advantage of the benefits of our limited comparative advantages. These policies must be pursued both with vigor and caution given the small and fragile nature of our economies. Clearly the Fund and the Bank have important roles to play in this process to enable us to achieve these strategic goals. We shall therefore need continued financial support and technical assistance from both the Fund and the Bank and our bilateral partners. In this regard we are concerned with the continuing decline in ODA, and the introduction of greater conditionality in Bank lending. In view of the continuing reductions in ODA, the role of the International
Development Association (IDA) will be crucial, and we would encourage donor countries for greater commitment to sustain IDA lending, if developing countries are to successfully implement the reform process, and to improve the underlying economic and human resource base of our economies.

The challenges facing members of the Pacific constituency are not just those of economic policy and reform. These alone are daunting enough. The recent revelations that the polar ice cap is melting at an unprecedented rate and that the presently forming El Niño climatic system is the most severe on record, could test the fragility and vulnerability of the physical environment of the small island nations. These impending changes, coupled with the impact of globalization, liberalization, and increasing international competitiveness on our economic performance overall, will put considerable strain on our small administrations and limited resources. It is in this context that we will continue to seek support of the Bank and Fund of our endeavors.

Finally, I want to thank the government of the People's Republic of China and the people of Hong Kong for their hospitality and generosity in hosting the Fifty-Second Annual Meetings of the Bank and the Fund.

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

Rodrigo de Rato Figaredo

Allow me to begin my statement by thanking our hosts for their superb hospitality. I also applaud the decision to choose Hong Kong as the setting for these Annual Meetings of the International Monetary Fund and the World Bank Group. The choice of location reflects our conviction that the territory of Hong Kong, now returned to Chinese sovereignty, will continue as a major international financial center and bellwether for the market economy.

The Annual Meetings are taking place at a particularly auspicious time for the international economy; global output continues to expand and interest rates are falling in most countries. With such a combination of growth and price stability, this looks to be one of the longest-lasting periods of economic expansion in recent history.

Latin America is no longer the source of anxiety that it once was. The troubles have shifted to Southeast Asia, where recent financial events in Thailand have been arousing much concern at the international level. Supported by the main countries in the region, the IMF has played a decisive role and we trust that the recent agreements will help to restore market
confidence in the economies of the Far East, where economic fundamen-
tals remain favorable.

Spain is keenly interested in ensuring that such crises can be over-
come and it is also committed to building a climate of stability at the in-
ternational level. This is partly because of Spain’s commitment to stabili-
ity and prosperity; however, the Spanish economy has also been engaged
in a far-reaching process of opening up to the rest of the world and is em-
bracing the current globalization trends that are providing such impetus
for world growth. Today, Spain holds substantial investments abroad in
such representative sectors as banking, telecommunications, and basic ser-
vices. These investments, initially concentrated in Latin America, are now
being extended to other regions of the world.

Accordingly, we feel that we should take stock of the current world
situation and, in particular, to the thrust of basic economic policies and the
role of multilateral organizations. We draw the following conclusions.

• First, exchange rates must be able to adapt rapidly to changing con-
ditions in international markets.

• Second, economic policy programs (both fiscal and monetary)
should be compatible with the chosen exchange rate regime and
should foster a credible climate of stability.

• Third, it is essential to implement timely structural reforms to pro-
vide economies with greater flexibility, thereby enabling them to
adapt to a globalized and increasingly competitive world. Deregula-
tion, privatization, liberalization, and competition are key factors
in this new phase of the process.

• Fourth, we must proceed with the orderly liberalization of capital
movements to overcome the current profusion of restrictions and
obstacles blocking the free movement of financial resources, and so
enable the world economy to develop to its full potential.

• These measures should be pursued in accordance with the basic
principles of transparency, accountability, and good governance
featured in last year’s Declaration on Partnership for Sustainable
Global Growth. Only these principles can truly foster the kind of
trust and credibility needed to ensure the optimal functioning of
government institutions and the success of their economic policies.

The International Monetary Fund has a central role to play in this
process. We therefore support the allocation of fresh resources pursuant to
the Eleventh General Review of Quotas; however, we favor changing the
current formula in order to correct anomalies in calculated quotas and
present quotas. We also support an amendment allowing a special alloca-
tion of special drawing rights, and we welcome the Hong Kong Declara-
tion as a major step toward the globalization of capital flows.
Further evidence of this global support for the IMF is to be found in Spain’s participation in the New Arrangements to Borrow and the Enhanced Structural Adjustment Facility. With its contributions in these areas, Spain is demonstrating its commitment to international cooperation and partnership for the benefit of the citizens of the world.

The World Bank is likewise engaged in a reform process; it is our hope that these efforts will make the institution stronger, more efficient, and more attuned to the needs of the global economy and, in particular, the need to conquer poverty in the developing countries. We welcome these reforms and look forward to their successful completion. In particular, a priority of the reform program must be to ensure that the Bank’s corporate culture truly reflects the universal nature of its membership.

Mention should also be made of the agreement to increase the capital of the Multilateral Investment Guarantee Agency, which will enable it to pursue its efforts to assist private investment in developing countries. Spain’s interest in this agreement is understandable, given the volume of Spain’s foreign investment and our country’s commitment to resolving the problems facing the less developed countries.

Both Spain and the European Union, to which we belong, are facing the new challenges of the world economy with some confidence and with a firm commitment to making a meaningful contribution to the new international economic order.

In fact, European Economic and Monetary Union (EMU) will be a stabilizing force in the world economy in two ways: first, it will establish a broad-based common currency that will promote equilibrium in the international monetary system; and second, its commitment to stability will ensure sound economic policies in the EU member countries, help create an environment of low interest rates, and so promote cheaper money policies conducive to economic growth.

For this reason, the countries of the European Union must redouble our efforts and pursue timely modernization of labor markets as well as the markets for the production of goods and services. The principles I mentioned earlier—namely, deregulation, privatization, liberalization, and competition—are likewise prerequisites for ensuring the success of the EMU and safeguarding its contribution to global equilibrium and stability.

These, then, are the principles that are guiding Spain’s policies; I am pleased to say that the results have been very encouraging in terms of promoting job creation and enhancing prosperity. Our current economic policy is based on steadfast, meaningful efforts to achieve fiscal consolidation. This adjustment has been achieved without raising the tax burden, a situation that is expected to continue in the years to come.

Our second policy focus has to do with efforts to liberalize the goods and factor markets and privatize public enterprises. In this connection, I should mention labor market reform, achieved through social dialogue,
which has created a climate of confidence with a very beneficial impact in terms of job creation and ensuring stable economic recovery. This policy of promoting deregulation and competition within Spain’s economy is a vital step in ensuring that, once Spain is inside the EMU, any problems affecting the Spanish economy will be absorbed by a flexible pricing system that minimizes their impact on output and employment.

These policies have led to economic growth above inflation and the European average, with the result that employment is being created at a rate of approximately 3 percent, in an environment of price stability—Spain’s inflation is below 2 percent a year—with a current account surplus and a declining public deficit.

We are living in an era of rapid and sweeping changes. This process is confronting us with a succession of new challenges; however, it is also a source of major opportunities for achieving stable growth, sustained economic development, and widespread prosperity. If we are to accomplish these unquestionably ambitious objectives, we must stand ready to shoulder our respective political responsibilities.

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

G.L. Peiris

I join my colleagues in expressing our most sincere gratitude to the government and the people of the People’s Republic of China, in particular to the government of the Hong Kong Special Administrative Region and the Hong Kong Monetary Authority for the excellent arrangements made for these meetings in this magnificent city and for their most gracious hospitality.

It is encouraging that the world economy has continued to grow steadily with relatively low inflation. The commitment to contain inflation by many countries, including our own, through a reduction of fiscal deficits has shown positive results. This would suppress inflationary expectations, lead to more stable financial and exchange markets, and help sustain the high growth rates.

The proposed European Economic and Monetary Union (EMU), with the euro becoming the single currency in the region with the dawn of 1999, would undoubtedly be a milestone and a turning point in the world economic and monetary relations. We hope that it would promote an economically stronger Europe and make a greater contribution to global pros-
perity. The implications of EMU and the euro for international exchange and financial markets need to be carefully watched.

We believe that the risks and challenges due to rapid globalization need to be addressed through sound macroeconomic management and strengthening of the financial system. We welcome the timely efforts of regional and multilateral cooperation in assisting affected countries recently. In particular, we commend the Fund for its prompt response in extending assistance to such countries under its emergency procedures. Nevertheless, let me emphasize that it is extremely important to have in place a more coordinated approach by the multilateral and regional financial institutions in this area.

Turning to the Bretton Woods institutions, we note with great satisfaction the progress achieved by the Fund and the Bank in 1996 and in 1997. We congratulate the two institutions for their commendable performance, in particular the Managing Director of the Fund and the World Bank Chairman for their able leadership.

We are also very encouraged by the progress the two institutions have been able to achieve, in collaboration with other multilateral and bilateral creditors, in implementing the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). However, despite the great enthusiasm and the hard work that has been put into this initiative by the Fund and the Bank, and the excellent cooperation they have got from other creditors, there is the risk that delivery of relief might not materialize as ultimately envisaged if adequate funds are not mobilized in time for this initiative. Furthermore, we are deeply concerned that paucity of resources might derail not only the HIPC Initiative but also the interim Enhanced Structural Adjustment Facility. I would therefore urge my colleagues here to make a firm commitment of their assistance to the initiative as early as possible, so that the momentum created for delivery of relief under this most innovative initiative would not be dissipated.

We commend the Fund’s Executive Board for reaching a consensus on the issue of a special one-time allocation of SDRs. We are pleased that a resolution to amend the articles to give effect to this one-time allocation for a more equitable distribution of SDRs among the participants has been already adopted in this assembly. We wish to reiterate, however, that this amendment should in no way diminish the existing power of the Fund to make general allocations in the future when the need arises.

We also commend the Fund for reaching an agreement on a quota allocation under the Eleventh General Review of Quotas. We are, however, somewhat disappointed that under the proposed formula for allocation of quotas, the voting power of the developing countries would decline. We would, therefore, urge strongly that any future allocation of quotas should adequately reflect the increasing weight of the developing countries in the global economy. To this end, we would encourage the Fund to evolve a
more rational formula for calculation of quotas before the next General Review of Quotas.

As regards two other important issues on which the Fund’s Executive Board is presently conducting deliberations, namely, capital account convertibility and governance, while we appreciate the progress so far made, we would caution the Board to proceed very carefully in these two complicated and sensitive areas.

While we support in principle the present efforts of the Fund to amend the articles to bring capital account transactions too under its jurisdiction, we wish to voice some concerns in this regard. As we are aware, the financial systems in most of our developing member countries, particularly the banking systems, are not yet fully developed. These have to be further developed and strengthened before countries could open up their capital accounts. The amendment should therefore provide for a gradual process of liberalization, in tandem with a country’s progress in its structural reforms. Moreover, even after liberalization of its capital account, a country should have the liberty to reimpose such controls in times of financial turmoil or in the interest of national or international security. Also, we believe that foreign direct investment is not an area that should come under the Fund’s jurisdiction under the contemplated amendment.

With regard to the issue of governance, we are aware that the World Bank and several other international financial institutions are also presently deliberating on this issue. While we support, in principle, the Bretton Woods institutions placing increasing emphasis on governance issues in their relations with member countries, we would caution that their attention should be confined to such aspects of governance as would have a bearing on the economic performance of a country; they should also steadfastly adhere to the principle of evenhandedness of treatment in dealing with such sensitive issues.

Turning to the World Bank, we wish to express a special word of appreciation for the tremendous efforts the President, Mr. Wolfensohn, has been making under his Strategic Compact to change the culture of this institution and to convert it into a highly dynamic organization, fully sensitive to the aspirations and needs of the millions it is mandated to serve. We appreciate the many innovative improvements he has introduced to the system and in particular the integration of social aspects of development in all Bank-funded programs. We wish him all success in these efforts.

In view of the rapid decline of official development assistance over the years, the crucial role the International Development Association has to play as a vehicle of assistance to the poor hardly needs emphasis. We would therefore urge the donor community to support it to adequately discharge this increasing burden.

Finally, let me speak a few words about my own country, Sri Lanka. Our economy has continued its steady growth in the first half of this year.
after its pickup in the latter half of 1996. Investor confidence, both do-
mestic and foreign, has strengthened resulting in a rapid expansion of in-
vestment. Manufacturing and service sectors are growing steadily and ex-
port performance is robust. At this rate, we hope we would be able to
achieve the projected growth rate of 6.1 percent this year in contrast to a
3.8 percent rate last year. Inflation is on a downward trend and is currently
at 7 percent. Both the fiscal deficit and external current account deficit are
projected to decline progressively. On the structural front, privatization
and financial sector reforms have been accelerated. In particular, financial
institutions including banks are being strengthened through closer super-
vision. We have been able to retire a significant portion of our public debt
recently with the proceeds from privatization. We would be making every
effort to sustain these positive trends in the economy in the medium term,
and indeed, to improve upon them.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SWAZILAND

Themba N. Masuku

On behalf of my delegation and myself, it gives me great pleasure
and honor to make a statement on this year’s occasion of the Annual Meet-
ings of the World Bank Group and the IMF.

The Economy

The Kingdom of Swaziland is a small open economy with a popula-
tion of about a million people, and a real GDP averaging $324.4 million
in the past three years. Swaziland’s economy has been growing at an av-
erage real rate of 2.6 percent over the past five years, with a declining ve-
locity. Such growth has been backdropped by high population growth
rates (recording 3.2 percent a year), declining real capital inflows (both
private and official bilateral and multilateral), and rising inflation. A direct
consequence of this economic performance has been declining standards
of living, growing unemployment, and a general impoverishment of the
people of Swaziland. Currently, the rate of unemployment is estimated
above 30 percent. This is quite high for an economy of less than a million
people. With a large young population, Swaziland is faced with a high so-
cial dependency ratio.

The threat of globalization is quite “real” in Swaziland. Its impact is
going to be twofold. First, as it is in a free-trade area with South Africa,
under the Southern African Customs Union (SACU), Swaziland—together with the other smaller member states—is expected to take a faster lane in adjusting to the General Agreement on Tariffs and Trade requirements. This will be a difficult and costly exercise for the economy of Swaziland. Second, real threats are being observed on Swazi industries, engaged both in the domestic and external markets, as competition is likely to overwhelm them. This competition will offer little assistance to the problem of unemployment facing the economy. To a great extent, this will have far-reaching implications on revenue generation.

The government and the people of Swaziland do realize that there exists an urgent need for the economy to adjust to this new world trade order. This process has already started, in earnest, with a robust and objective public sector reform, under the themes, “Economic and Social Reform Agenda” (ESRA) and the “National Development Strategy” (NDS). These are two complementary programs, where the NDS is designed to forge long-term strategies for the economy, while ESRA synthesizes short-term programs for implementation within a specified time frame of two to three years. Both of these are closely monitored with performance targets. Nonetheless, Swaziland remains concerned about the uncertainty regarding the success of its adjustment, in the light of unfolding events in the world arena.

These concerns take us directly to two related challenges that face Swaziland, namely, competition from neighboring economies, its ability to attract the requisite capital for funding its developmental programs and the lack of a sufficient human resource base.

**Flows into Swaziland**

Like the rest of Africa, Swaziland is deeply concerned about the decline in capital flowing to the region, in particular, official development assistance (ODA) resources. I can single out International Development Association (IDA) allocations in this regard. Owing to its relative economic size and a low population, which together translate into high levels of per capita income, Swaziland finds itself unable to access IDA funding of its developmental programs. This classification ignores numerous crucial constraints faced by small landlocked countries such as Swaziland, such as absence of scale economies, insufficient skills, high levels of ecological fragility, etc. These constraints coupled with the effects of the new world order, deal an unsustainable blow on not only the economy of Swaziland, but also similar economies. It is our plea, therefore, that these be reconsidered for more concessionary financing, in order to successfully achieve their developmental programs. An alternative to the factors being considered for such funding could be a creation of programs that will push
these economies further away from the fringes, in order not to be threatened by the possibility of falling back into the net.

Over the previous five years, since 1993/94, grant finance to government operations has averaged 2 percent of revenue. An improvement in these flows can be greatly appreciated, taking cognizance of the need to remain independent.

After noting this development, there has been a shift in policy emphasis in order to sufficiently grow the economy from reliance on official to private capital flows. The government of Swaziland has remained cautious about the nature of capital flowing into the economy. Attention has been put on non-debt-generating forms of capital, such as equity capital flows. While private capital flows, in particular foreign direct investment, have increased in nominal terms, these have declined in real terms as a result of high levels of inflation. Foreign direct investment has been growing at a rate of 3.1 percent over the period, while inflation has recorded an average of 11.3 percent. The implications of this cannot be overemphasized.

Another very significant reform initiative that Swaziland is undertaking relates to governance. In this respect, a constitutional commission has been put together to review the country’s constitutional process, which it is hoped will not result in a loss of credibility and will maintain wide acceptability. The government of Swaziland welcomes the recent announcement by the Executive Board of guidelines covering the role of the IMF in issues of governance. It is hoped that the advice and technical assistance that the IMF has been offering will be extended and further enhanced by this move.

Even though exchange controls have been relaxed in South Africa, offering wider options for South African capital and thus reducing potential flows to Swaziland, we view this step as an opening of wider financial integration for a more efficient allocation of resources among other benefits. Swaziland fully welcomes these developments as proponents of liberalization and is geared to fully follow suit in the spirit of the Common Monetary Area (CMA) arrangement, with the aim of delivering a high level of capital account convertibility. Significant strides have already been taken in this direction under the Financial and Investment Sector Coordinating Unit of the South African Development Community (SADC) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, with its headquarters in Harare.

Much as the Swazi government realizes the fundamental need to generate private capital flows, it also notes that this should not be a substitute for ODA flows. I say this because the infrastructural provisions are still quite lacking in the economy, and they need urgent enhancing. Only government can ensure the delivery of such services, which in turn applies significant pressure on public resources. After a history of budget sur-
pluses, the government has started recording deficits reaching a level of 4.5 percent of GDP in 1996/97 at an average cost of borrowing of 13.7 percent—local loans—and 6 percent—foreign loans, excluding exchange risk. Deficits are set to increase in the coming years as large developmental projects come on stream, making it even more important to access concessional funding.

The government of Swaziland is considering more creative forms of financing, one of which is to develop and deepen the domestic financial market. In this front, Swaziland commissioned a detailed financial sector study in 1994 whose main objective was to reform the sector in line with various challenges facing the economy, in order to provide the “necessary growth dynamic within the Swazi economy.” An issue in the international capital markets is another option, but one that will be constrained by exchange rate volatility. In this light, the government of Swaziland has already put together a borrowing strategy, which will be implemented in the next budget.

The above notwithstanding, the government has embarked on a number of schemes to harness domestic savings towards wealth developing and enhancing programs, with the sole aim of empowering and increasing reliance on indigenous investment. These involve guarantees for small business enterprises, exporting industries, and public enterprises. A significant amount of domestic savings find their way out of the economy. As part of the initiative of harnessing savings, Swaziland is consciously putting together market-based structures that will attract these resources back into the economy to fund development.

**International and Regional Comparison**

Swaziland’s rather forlorn prospects are taking place amid a backdrop of impressive regional and international economic performance. World output growth is expected to improve further in 1997, to record 4.4 percent from levels of 3.7 and 4 percent in 1995 and 1996, respectively. Growth has also been impressive at the developing country level, and even more impressive for countries in Africa, whose performance has been upbeat since 1994–95. Africa recorded its best performance in 1996, when it recorded 5 percent. While growth in Africa is expected to grow at 4.75 percent in 1997, prospects for Swaziland are quite modest.

While advanced countries view the globalization process with the belief that it harms the interests of workers, especially unskilled, through immigration, trade, and capital flows, it is our belief that the gains far outweigh the costs to these countries. I will agree with the view of the IMF that “... rather than attempting to limit globalization, the appropriate policy response, is instead, to address the underlying structural rigidities that prevent labor markets from adjusting. ...” Education and training are the
best ingredients to this exercise and Swaziland would benefit greatly from such an initiative. I am confident that Swaziland is not alone in this thought, as recent World Economic Outlook data reveal that low-income countries are faced with low stocks of human capital, poor resource bases and political instability. These are crucial complementary factors for growth and development.

Conclusion

The task facing Swaziland in particular, and the SADC region in general, is onerous. We shall need all the assistance we can get from the world community. What we remain cognizant of is the need to access capital that will not threaten current debt levels and thus its sustenance.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR SWITZERLAND

Kaspar Villiger

At the outset, I would like to thank the Chinese authorities for their kind hospitality and excellent organization of our meetings.

The present situation of the world economy and the outlook for the coming years are bright. In most of the advanced economies, stability-oriented macroeconomic policies over the past years have led to historically low inflation rates and substantial fiscal consolidation. Economic growth is picking up in all countries. In most developing countries, strong adjustment efforts and ambitious reforms are bearing fruit. Solid economic growth is now a widespread phenomenon and emerging market economies have continued to forge ahead. In most transition economies, positive signs now prevail before the figures for economic growth.

However, as is always the case with statistics, averages hide a large part of the economic reality. While some advanced economies continue to struggle with high unemployment rates, currencies of various emerging market and transition economies have come under severe pressure. Furthermore, a number of these countries have experienced severe setbacks stemming from unresolved political and economic problems.

Turning to the International Monetary Fund, I note with satisfaction the progress that has been made in strengthening surveillance. By enhancing the focus of bilateral and multilateral surveillance and by paying increased attention to crucial areas such as the soundness of the financial sector and good governance, the Fund’s role has been strengthened. Im-
important steps have been taken to achieve the goals we have set in the Declaration on Partnership for Sustainable Global Growth. In this context, we should remind ourselves that sustainable growth also means taking into account the effects of policy measures on a country’s natural resource base. I would like to invite the Fund to include this aspect in its surveillance activities.

I welcome the efforts made to increase the Fund’s transparency. In this respect, I appreciate the initiative to release press information notices summarizing Article IV consultations upon request of the interested countries. The success of this initiative shows that it fills a true gap in the information policy of the Fund. Further steps should be made in direction of more transparency.

I note with satisfaction that the Executive Board has reached, after years of intense discussions, an agreement on a special one-time allocation of SDRs, which will put all member countries on the same footing. I hope for a swift amendment of the Fund’s Articles of Agreement.

The recent years have been characterized by a huge increase of international capital movements. Many emerging economies have strongly benefited from large capital inflows. We should be careful not to condemn this phenomenon in the wake of the recent developments in Southeast Asia. These have only underscored how crucial a number of preconditions are for a successful capital account liberalization. We fully support the Statement on the Liberalization of Capital Movements, which stresses this point. The Fund is well placed to assist in the establishment of an orderly liberalization and I encourage the Executive Board to speed up the conclusion of this important issue.

I welcome the recent decision to increase quotas. In order for the Fund to be able to fulfill its mandate, resources should broadly keep pace with the world economy. As the recent developments have shown, demand for Fund resources can increase unexpectedly.

I warmly welcome the rapid progress in the implementation of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Six countries have embarked on the process. This underscores that the HIPC Initiative is now really under way. However, I am worried both about the rising cost and the fact that financing assurances for the Enhanced Structural Adjustment Facility (ESAF)—HIPC Trust have not been as forthcoming as expected. I urge all members to contribute in order to ensure a fair burden sharing.

I would also like to reiterate that the initiative represents an exceptional effort by the international community for countries who are ready to deepen their adjustment efforts. Debt relief under the initiative should mark the completion of comprehensive structural reforms, which should enable the country concerned to eliminate growth-impeding debt over-
hang. In this respect, it is important to carefully and objectively assess and to provide the necessary debt relief to accomplish this goal.

Since the last Annual Meetings, the World Bank has decided to embark on a far-reaching program called the Strategic Compact to effectively further its capacity to fight poverty. This reform program affects not only the organization of the Bank, but almost all its activities. Three aspects appear to us to be particularly relevant: first, the development of new lending and assistance instruments; second, the increase of operational resources having a direct impact on project quality; and third, the focus on tasks for which the Bank has comparative advantages. As to this last point, I would like to encourage the Bank to take into account the work done by other multilateral organizations, especially in the area of capacity building.

One important goal of the Strategic Compact is to fight corruption. I welcome the initiative of the Bank to put corruption on the international agenda and to address this issue in a comprehensive way. The Bank will have to make sure that its procurement rules are rigorously applied and assist the borrowing countries in strengthening their implementing capacity. But it will also need to keep a close eye on the dynamic nature of corruption. This requires the Bank to scrutinize its policy and adapt it frequently.

Turning to the Development Committee, we should seize the opportunity that these meetings offer to discuss important matters affecting the Bank, such as IDA allocations, share allocations, or grants to countries and regions in need of reconstruction. To give guidance on such important subjects to the Board of Executive Directors would not impair its prerogative because the Board would retain the right to make proposals to the Ministers and to act on the guidelines as the Executive Directors deem necessary.

Finally, I would like to mention a subject of constantly growing concern to our chair: the increasing disparity of income in the countries of Eastern Europe and Central Asia. We have all seen that there is no magic solution to the transformation process and that it is very painful for large segments of the populations concerned. The ongoing deterioration of social indicators in this region, however, is particularly troublesome. There is a danger that some countries in this part of the world will evolve into a two-tier society leading to social turmoil and consequently endanger the modest economic progress achieved so far. Accelerating structural reforms in order to obtain sustainable economic recovery and putting in place in parallel targeted social safety nets is therefore crucial in those countries.

Let me end by expressing the appreciation of the Swiss authorities to the management and staff of both institutions for their dedication, their skill, and for the impressive quality of the work performed during the past year. Our concern is that these institutions could be submitted to political interferences. In order to preserve their efficiency and reliability, they have to be governed by their Articles of Agreement and not by the current political agenda.
It is a great pleasure and honor to have the opportunity to make for the first time a presentation on behalf of the Republic of Tajikistan at this memorable meeting. I would like to thank the Chairman of the meeting for the opportunity to speak today and thank the government of China and the authorities of Hong Kong for their hospitality and cordial welcome.

Following the collapse of the former Soviet Union, Tajikistan became an independent republic on September 9, 1991. For the most part, our country was unprepared for this new political reality, and the disintegration of the former central planning system aggravated the deepening economic crisis. Moreover, a number of adverse political factors resulted in a civil war, which broke out in 1992 and peaked from mid- to end-1992. With varying degrees of intensity, the armed conflict lasted for four years.

The civil war and the massive economic decline as a result of the transition from a centrally planned to a market economy, combined with a lack of significant economic adjustment, until the mid-1990s, have had a serious negative impact on the physical infrastructure, economic assets, and human resources of Tajikistan.

All the above resulted in a sharp economic decline, increased unemployment, and abject poverty. At the end of 1996, the estimated GDP was only about 40 percent of its 1991 level. Many industries are operating at less than a quarter of their previous capacity.

In the agricultural sector, the production of cotton—the main agricultural staple and the main source of foreign exchange and fiscal revenues—plummeted threefold in comparison with the late 1980s. Recently there has been an increase in the production of wheat due to the liberalization of wheat prices, implemented at the end of 1995 and the beginning of 1996.

Unemployment in Tajikistan, which, according to World Bank estimates, is 40 percent, is the highest among the Commonwealth of Independent States (CIS) countries. Per capita income in Tajikistan is $330. About 80 percent of the population of Tajikistan lives in abject poverty, defined as the lack of basic necessities, making it one of the 20 poorest countries in the world. However, Tajikistan has not even been granted the status of least developed country but is fully eligible for International Development Association (IDA) programs.

In the face of the deepening economic crisis, the government of Tajikistan introduced the national currency in May 1995, which enabled promotion of an independent monetary policy. At the end of 1995, the...
government of Tajikistan approved an economic reform program, which defined four top priorities: macroeconomic stabilization, structural reforms in the agricultural sector, privatization of state-owned enterprises, and continued provision of a minimal level of social protection to the population.

All this brought about positive results in the field of trade and price liberalization, regulation of exports and foreign exchange transactions, and the establishment of a regulatory framework, aimed at accelerating privatization and attracting foreign investments into the country.

In 1996, with assistance from the World Bank and the International Monetary Fund, Tajikistan improved its macroeconomic policy. Tightened controls over credit expansion, the liberalization of the foreign exchange market, and measures to improve the budgetary situation by broadening the tax base and reducing subsidies decreased inflation from 2,000 percent in 1995 to 40 percent in 1996. The exchange rate was also stable throughout the year, following a sharp decline in the second half of 1995. Tajikistan reached agreement with its foreign creditors on debt restructuring, the debt having been accumulated over a short period of time and reaching $850 million at the end of 1996.

However, by the beginning of 1997 the positive results achieved during 1996 had been lost. The implementation of the economic reform program was affected at times by the worsening of the political situation, which led to the suspension of programs supported by international organizations.

Another reason for the worsening of the economic indicators in 1997, notwithstanding GDP growth, was the slackening of budgetary discipline and control over credit expansion at the end of 1996 and during the first half of 1997. This resulted in a decline in the exchange rate, an increase in inflation, and arrears of expenditure from the state budget.

On October 31, 1996, at the request of the government of the Republic of Tajikistan, the first Consultative Group meeting was held, during which $185 million was pledged for balance of payments support, technical assistance, and investments for 1997. However, the better part of this assistance has not been disbursed owing to fluctuations in the monetary policy that coincided with the deterioration of the economic situation at the beginning of 1997 and suspension of the implementation of a number of programs supported by international organizations.

This situation only confirms the fact that maintaining and strengthening the progress achieved in the difficult search for ways to ensure peace and national accord—through peace negotiations conducted under the aegis of the United Nations that ended on June 27, 1997 and resulted in signing of the General Agreement on Peace and National Accord in Tajikistan—are essential for successful and swift implementation of reforms in the country. These reforms are aimed at overcoming the eco-
nomic crisis and at ensuring the development of Tajikistan as a democratic, secular state under the rule of law, with a strong economy.

The urgency of the task of restoring macroeconomic stability in the short term is obvious. The high inflation rates, large budget deficit, sizable trade distortions, high foreign debt, and reduction of the role of the banking system in the provision of financial intermediation services are hindering the growth of private investment and distorting market incentives. It is our intention to accelerate the implementation of land reform and the privatization of state-owned property.

However, it is becoming increasingly obvious that the successful implementation of measures of macroeconomic stabilization and structural adjustment is impossible without international support for Tajikistan's leadership efforts to implement the General Agreement on Peace and National Accord in Tajikistan. The National Reconciliation Commission, which includes representatives both of the government and the former United Tajik opposition, is presently operational in Dushanbe.

Today Tajikistan is in urgent need of international support and financial assistance for economic rehabilitation and development, which would form the basis for ensuring stability not only in the Republic of Tajikistan, but also in the vast Central Asian region.

I would therefore like to urge the World Bank and the IMF, as well as the other international organizations and the donor countries, to consider the possibility of extending additional financial support to the Republic of Tajikistan.

The government of the Republic of Tajikistan estimates that the implementation of the General Agreement on Peace will require an additional $80 million during 1997–98.

At the same time, stabilization of the economic situation, acceleration of privatization, and market-based adjustment in agriculture would provide a sounder basis for improving social conditions, tackling poverty issues more efficiently, and renewing the flow of private investments into the economy. Strengthening the peace process and accelerating economic adjustment constitute two interconnected and interdependent processes.

The Republic of Tajikistan is rich in mineral, water, and energy resources, and has a considerable potential in labor resources. A legal and regulatory framework conducive to foreign investment has been established. The utilization of this potential with the assistance of the World Bank and the IMF, the donor countries, and the foreign investors could to a large extent solve the socioeconomic problems of both Tajikistan and its neighboring countries, as well as the water and energy problems not only of all the Central Asian countries, but also, in part, of Afghanistan, the People's Republic of China, the Islamic Republic of Iran, and Pakistan, as well as of the Aral Sea.
I would also like to express the enormous gratitude of my people and of the government of the Republic of Tajikistan to Mr. Wolfensohn and Mr. Camdessus, to the donor countries, and to the other international organizations for the assistance and support provided so far. I would like to assure you that the government of the Republic of Tajikistan is firmly committed to securing peace and national accord and to implementing market adjustments in the economy at an accelerated pace. I am convinced that, in order to ensure these transformations, the Republic of Tajikistan will receive all the support and assistance it needs.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Thanong Bidaya

I deem it an honor and a privilege to address the 1997 Joint Annual Meetings. On behalf of the people and the government of the Kingdom of Thailand, I would like to particularly express our appreciation to the government of the People’s Republic of China and Hong Kong for the excellent arrangement for the meetings.

It is most imperative to present before this meeting Thailand’s bold and substantive program to overcome the present macroeconomic and financial sector problems and financial disruption that is confronting not only Thailand but also all other Asian economies.

I wish to also express our deep and sincere appreciation to the IMF, the World Bank, the Asian Development Bank, Japan, and all Asian and Pacific friends for their timely support and assistance extended to us in overcoming these problems. We are confident that Thailand will return to its former long-term sustainable growth path by the year 2000.

Our program of action is divided into two concurrent phases. The first phase is macroeconomic stabilization and rehabilitation of the financial sector. Both are designed to address the issue of restoring confidence in the viability and stability of the Thai economy and the Thai financial system. The second phase will deal with medium-term prospects for sustainable growth, improving competitiveness of the Thai exports, and industrial restructuring.

On the macroeconomic front as regards the reduction of the current account deficit from 8 percent in 1996 to 5 percent in 1997, and 3 percent in 1998, the first part of the reduction has been carried out by cutting the budget for FY 1997 by over 100 billion baht and instituting the value added tax increase from 7 percent to 10 percent. For FY 1998, we aim for a fiscal surplus of 1 percent of GDP, and the budget has been approved this
week by the parliament consistent with this objective. Additionally, state enterprise investments will be reviewed and reprioritized with the assistance of the World Bank and the Asian Development Bank to focus on the most essential investments.

The problems of financial sector rehabilitation are a major concern and many questions have arisen on the strategy to achieve an early and comprehensive solution. We regard our present difficulties as offering the opportunity to solve the fundamental problems of the system in a transparent way so that it can better manage the risk and rewards of large capital inflows.

In August, we agreed with the IMF on the basic principles of our strategy to rehabilitate the financial sector as an integral part of achieving broader macroeconomic stability and sustainable economic growth. Now, we are moving rapidly to finalize the details of the strategy, which began with the suspension of 58 finance companies that were financially weak and in difficulties. The central objectives briefly are:

- to restore confidence of depositors, creditors, and investors in the financial sectors;
- to restore the solvency, profitability, and liquidity of the broader financial system;
- given the large need for recapitalization, more stringent rules of loan classification and provisioning, and the limited availability of local capital limits on foreign participation will be liberalized in order to broaden potential sources for capital injection;
- to effect medium-term reforms in legal, regulatory, supervisory, and public disclosure practices, and to strengthen the structure of the financial system and create stronger incentives for market discipline;
- all shareholders and creditors of subordinated debt will take the first hit in the burden of rehabilitating financial institutions and payments of their losses;
- in the suspended companies, creditors will also take share in these losses; and
- uniform rules will be applied, and strict criteria will be set on the suspended finance companies regarding reopening, merger, liquidation, and repayment of liquidity support from the Financial Institute Development Fund.

The principle of socializing debt will be avoided. However, if necessary, the use of public funds to rehabilitate the ailing financial institutions will be minimized and be tied to strict conditions to avoid moral hazard.

The restructuring process will be directed and coordinated centrally by the Bank of Thailand under the supervision of the Minister of Finance.
and will directly have the full support of the Royal Thai government. Our goal is to establish a strong and viable financial system, complemented by the most stringent international standard criteria, which will restore the full confidence of both domestic and international creditors and depositors. This will be a firm and durable basis upon which normal credit flows and investments both into and within Thailand can be resumed and maintained for private and public investments.

Because of the urgent need to make concrete decisions now to restore confidence, I have set a deadline for completing all details of this strategy, which is being formulated with technical assistance from teams of the World Bank and the IMF by October 15, 1997. On that date, I intend to announce the full details that will determine our future policy on this issue, and it will be binding for all agencies concerned. There is full political consensus on these issues, and there should be no further doubt, or question about, the direction in which we are determined to move. I believe that this will restore full confidence on the part of all concerned.

Confidence is a two-way street where one cannot exist without the other. I would like to reassure market players, friends, and well-wishers in the international financial community that the Royal Thai government will forcefully address the underlying factors that have contributed to the current crisis. We shall and must solve the immediate issues of financial sector reforms and the restoration of normalcy and calm in the value of the baht. We pledge that we shall never waver from any and all actions required to restore stability, confidence, and prosperity to our people, the region, and the rest of the world.

The task is clear. The targets have all been agreed upon. The understanding and partnerships of the world financial leaders, both public and private, to stand by us will be the hallmark of true international financial cooperation. We look for your continued hand of friendship and support in this task to restore peace and calm for the Association of Southeast Asian Nations, Asia, and the world.

Let me now turn to the issues related to the policies and operations of the Bank. I wish to congratulate the Bank for another year of successful operation under the leadership of Mr. James Wolfensohn and his vision, which is embodied in the Bank’s Strategic Compact. We firmly support the Strategic Compact, which is now under implementation, and look forward to the tangible result, particularly in terms of effectiveness and results on the ground. However, such changes should not create higher burden to the clients in terms of higher costs for the Bank’s products.

On official development assistance (ODA), we recognize the falling trend, which stands at about $41 billion in 1996 compared with $51.7 billion in 1995. However, while the private capital flow to developing countries continues to be on the rise, which is a welcoming trend, the destination of the private flow tends to be limited to a few emerging markets. We,
therefore, would like to urge the donor communities to redouble their efforts to reverse the decline in ODA, especially at this time when the majority of developing economies are undergoing reform.

With regard to the Bank's product, we welcome the development of lending and guarantee products aimed at tailoring to various client needs and encouraging the Bank to continue to improve these lending products so that borrowers can better manage their outstanding debt. In addition to greater choice of products, further improvement in the Bank's response to client needs for both lending and nonlending products should be strengthened.

We support the Bank's policy regarding the allocation of net income and urge the Bank to continue according high priority to waivers for interest and commitment charges as an appropriate way to ensure equitable distribution of benefits of the Bank's operations.

Let me now turn briefly to Fund matters. We welcome the agreement achieved in the Eleventh General Review of Quotas and, as a recent beneficiary of Fund resources, would strongly urge for its expeditious ratification. We also welcome the agreement obtained on the issue of SDR allocations. This will ensure that members can enjoy the fruits of an equitable share of international liquidity.

On capital account convertibility, given the complexity and sensitivity of the issue, in particular in view of the recent currency turmoil in the Southeast Asia region, we would be more comfortable if the Fund would proceed in a more cautious and gradual manner. In addition, we believe that giving the Fund jurisdiction over the capital account should not be construed as an obligation for members to liberalize, but rather for the Fund to ensure the orderly and smooth operation of international flows. In this regard, we believe that a number of aspects of the recent currency turmoil belies the issue of externality—for example, investors, confidence in a country or a region is to a significant extent determined by factors beyond a country's control, namely, the contagion effect—and therefore calls for the Fund, as a multilateral institution, to coordinate and perhaps internalize such externality. Moreover, efforts should be made to devise an appropriate mode of monetary operation to deal with the dilemma of exchange rate versus growth effect of high interest rate policy to ward off currency attacks.

In conclusion, on behalf of the Royal Thai government, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the Fund's expeditious approval of the request for our Stand-By Arrangement, and for the overwhelming support we have received from bilateral creditors, international development institutions, namely, the IBRD and the Asian Development Bank, and members of the Bank for International Settlements. The spirit of solidarity and faith shown at the Tokyo Meeting and subsequent financial assistance demonstrate the
strong international consensus underlying the efforts to help Thailand during this most difficult period. Thailand is fully cognizant that the process of adjustment will clearly take time. We wish to reaffirm our commitment to this strong program. The help, goodwill, and support of the international community will gradually and ultimately bring the Thai economy back on a sustainable and balanced growth path.

**STATEMENT BY THE GOVERNOR OF THE BANK FOR TONGA**

*Kinikinilau Tutoa Fakafanua*

I welcome the opportunity to address this gathering of distinguished delegates and esteemed representatives of the World Bank, the International Monetary Fund, and other financial institutions. I would like to express my deep appreciation for the hospitality and arrangements made by the government and the people of Hong Kong, and the staffs of the World Bank and the IMF, for this meeting.

These Annual Meetings provide us with the opportunity to discuss common interests and problems that link many different people from many different economies and walks of life. We note that, despite the recovery of the world economy in recent years, many of the problems and issues facing the smaller emerging island countries represented here today remain.

The economic climate for development assistance at the global level has steadily become less favorable, with only a handful of donor countries exceeding the UN target for official development assistance of 0.7 percent of GNP. In the face of declining aid flows, most countries of the South Pacific region, including the Kingdom of Tonga, are developing a framework that will encourage foreign direct investment as an alternative source of capital for development.

Tonga has experienced an average GDP growth rate of about 1–2 percent in the recent past. For the last two years, inflation has remained below 3 percent and, despite the rapid decline in the level of foreign reserves, has been stabilized above the benchmark of three months of import cover.

Like many small island countries in the South Pacific, Tonga is vulnerable to the effects of natural catastrophes, such as cyclone Hina, which struck in March of this year. While the effect of the cyclone is tolerable, it has caused a real setback to the overall economic activity in the agricultural sector. This incident reminds us of the vulnerability of our economic and social development to natural calamities, which can undermine our ef-
forts to sustain economic growth and living standards at a reasonable level.

In addition to consolidating and extending the current public sector reforms and improving the soundness of the banking system, the government is initiating policies to stimulate economic growth in the future and to focus on improving the climate for private investment.

The government of Tonga considers it important that the government and the private sector work together to establish the most appropriate way to stimulate investment, with the clear understanding that in the final analysis, economic viability is the critical criterion for guiding investment. While it may be argued that there is no blanket international formula that leads to rapid economic growth and while that intangible "confidence" of foreign investors is required, it too escapes a global relevant characterization and definition.

To achieve a level of economic growth acceptable to multilateral development institutions, it is not just a matter of creating an enabling environment or of stabilizing the main macroeconomic indicators. There are other important factors in the growth equation, such as the linkages between economic growth and social development and economic growth within the context of economic vulnerability, given our geographical location, size, and topographical layout. As you are aware, the Kingdom of Tonga is located within the world's largest ocean; there are 515 kilometers between the most northerly and most southerly islands of the Kingdom; and Japan, our largest export market, is 12,180 kilometers away.

These are linkages we ignore at our peril and at the risk of political dislocation and social upheaval. It is the mitigation of this risk, in our view, that ought to be the basis of future programs of development assistance to our country.

So, while we work to strengthen our economy and economic performance, the pressures of structural adjustment and the implementation of the fundamental changes necessary for the transition to a market-driven economy that will enable us to compete in the new global environment must not be considered in isolation from our social development and economic vulnerability. For the government and people of Tonga, growth alone is not sufficient—the pattern and quality of growth are also important considerations.

We look forward, in the course of our regular consultations with the staffs of the Bank and the Fund, to a greater focus being given to addressing the issues of the underlying causes of economic and environmental vulnerability, which hinder the achievement of our social and economic developmental aspirations.

To conclude, I wish the Bank and the Fund another successful year of operations, and we look forward to continued future cooperation.
STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKEY

Günes Taner

I have the honor of addressing you on the occasion of the Annual Meetings of the World Bank and the International Monetary Fund. At the outset, allow me to congratulate the heads of both institutions on another successful year.

According to the latest estimates, output will increase 4.5 percent during 1997 and 1998. This marks the fourth wave of rapid growth since the 1970s. The growth of output is accompanied by a check on inflation in almost all countries. The progress made in the transition countries, the high growth of East Asia—though hindered by recent financial crises—the recovery in continental Europe, and the strong outlook of the U.S. economy all indicate that the global expansion of output will continue. However, recession periods following high-growth years are a lesson to be learned from history. Therefore, although at present there is no indication of a slowdown, developments must be watched carefully by every country.

A reduction in the budget deficits of industrial countries, especially in Europe for the expected European Economic and Monetary Union, is welcome progress for all of us. Another issue to be tackled is the inflation level. Although the world is experiencing the lowest inflation rates since the 1960s, inflationary pressures must be kept under strict control, especially in countries where resource utilization rates are high. High capital inflows to emerging market countries and the reduction in the yield difference also indicate the increasing involvement of developing countries in world capital markets. However, the latest experiences of Thailand and the Czech Republic further reinforce the belief that a healthy financial system, as well as sound macroeconomic policies, is essential for sustainable development.

Unemployment still occupies the highest priority for governments in many developed countries. It should be emphasized that trade with countries with low labor costs is not the source of prevailing unemployment in Europe. Rather, the structure of the job market and unemployment schemes stands as the basic reason for high unemployment, especially in continental Europe.

The progress of developing countries is also remarkable, with 6.5 percent real growth. Efficient implementation of prudent macroeconomic policies is vital for keeping the pace of development. The recent pressures on Thailand serve to warn all developing countries with considerable external deficit positions. The soundness of financial systems in the country has crucial importance especially under crisis conditions.
Macroeconomic stabilization, trade liberalization, and the introduction of free market economy practices can be regarded as preconditions for sustained growth. But in order to continue on a path of growth, a second wave of reforms targeting social development should be initiated immediately after results of the first series of reforms are obtained. We are pleased to see the rising share of developing countries in world output, which indicates the increasing share of these countries in the world’s welfare.

The recent discussion on capital account convertibility is also notable for the IMF’s future role. The policy accepted by the Board regarding the governance issue is welcomed, but the rights of the member countries should not be impinged upon in any way. Regarding the Fund’s transparency policy, the practice of issuing press information notices is also a positive step to make the views of the Fund public. We also support the IMF’s New Arrangements to Borrow, as they would put the Fund in a more solvent position in the event of a need to provide supplementary resources.

Let me now brief you about the recent developments in the Turkish economy and Turkey’s medium-term outlook. Growth of output was about 7.9 percent last year, while we see a figure of 6.0 percent for the first half of 1997, indicating a slowdown in the economy. The balance of payments figures for the first quarter of the year are in line with our expectations, and the current account deficit, while standing at $4.4 billion at the end of 1996, was $1.3 billion in the first quarter of 1997.

As of the end of August 1997, the inflation rate was about 85 percent a year, which reveals that there has been no success in reducing inflation. The rate of 57 percent, targeted by the previous government, could not be reached for various reasons. As of July 1997, the realized stock value of foreign direct investment stood at $9.663 billion and the committed amount was $21.449 billion.

Looking at other main economic indicators, we observe that, as domestic borrowing doubled during the last year, foreign borrowing increased by $2 billion. The hope of a balanced budget, even for the first half of the year, has vanished. As of the end of July, the budget deficit reached 978 trillion Turkish liras, and it is now estimated that the budget deficit at the end of the year will be about 2.5 quadrillion Turkish liras. A supplemental budget is under preparation.

The new government is fully committed to the principles of market economy and will try to ensure, both domestically and internationally, that state intervention in the markets will stay at a minimum level and will permit free market forces to determine the course of action.

For Turkey, 1998 will be an important year in many respects. The new government’s tasks include endeavoring to achieve a reasonable eco-
nomic growth rate and restraining inflation, while simultaneously imple-
menting the structural reforms for long-term stability.

We are aware that curbing inflation necessitates courageous decisions in order to achieve simultaneous and drastic transformations in many areas. Therefore, concerted and coordinated efforts are needed on the one hand, to effectively reduce the public deficit, which is a main cause of inflation, and, on the other hand, to restructure and reinstitutionalize major government agencies and do away with the negative pressures of inflation. To this end, the treasury and the central bank signed an accord on July 30, 1997, which limits short-term advances extended to the treasury by the central bank, gives freedom to the central bank in setting short-term inter-
est rates, and provides the necessary grounds for the effective application of the monetary program in 1998 by the central bank.

The policy declaration of the new government proposes the acceler-
ation of structural reforms. Emphasis will be placed on privatization and reform of the social security system. In addition, unregistered economic activities will be examined closely and tax losses and evasion will be min-
imized. Tax rates will be reduced in certain areas, as the tax base will be widened. A tax reform will be initiated that will safeguard against erosion of tax revenue by inflation.

Privatization is a structural transformation for the Turkish economy, and, therefore, speedy privatization is crucial. In this regard, Turkey has had a significant delay in privatization in the past. But legal and institu-
tional arrangements should be implemented in order to protect the con-
sumer and employees. Within this regard, the sale of GSM licenses and power plants has crucial importance.

The treasury announced the domestic borrowing program in the last week of August and received feedback in terms of a reduction in interest rates of 5–5.5 percent. Furthermore, the treasury realized the first reverse auction, in August 1997, to smooth the disbursement schedule. An advi-
sory board, consisting of the members of the Turkish Banks Association, the Association of Money Managers, and the treasury representatives, has been formed.

Transparency and the timely announcement of economic data will be provided. In this respect, we are eager to collaborate with the IMF in the Special Data Dissemination Standard Project.

The structural shortcomings in the financial sector will be eliminated, and a more efficient supervisory mechanism will be established. Efforts to privatize state-owned banks will be accelerated. In this regard, priority will be given to the independence of the central bank and the autonomy of the largest public bank, Ziraat Bank.

In conclusion, let me express my gratitude to the Joint Secretariat for its excellent preparatory work, which has contributed so much to the suc-
cess of these meetings.
STATEMENT BY THE GOVERNOR OF THE BANK FOR UKRAINE

Sergiy L. Tigipko

The delegation of Ukraine supports the main new initiatives, which were extensively discussed during the meetings of the Interim and Development Committees. The decisions and outlines adopted will allow the Bretton Woods institutions to carry on their traditional and new functions in the fast changing world with dignity and more effectiveness. We hope that the radical increase of effectiveness, influence and authority for both the IMF and the World Bank will take place in the nearest, and not too distant future. We also hope that our feelings are shared not only by the leaders of the Bretton Woods institutions, but by all delegations, on the active position of which the pace of implementation of these new ideas is dependent.

We feel the importance with which the transition economies were dealt with in these Annual Meetings. Even the most successful of them are now facing the problems resulting from the implementation of the second phase of the radical reforms and integration into the world economic and monetary financial systems. Those problems, in our view, should not only be acknowledged, but should be placed in a focus of constant monitoring and surveillance. The difficult transformation process should be studied not only by academic circles, but also by international financial institutions, which have acquired a unique practical experience. This experience is a global legacy and we think that the greater transparency and openness is needed not only for the international financial system and the system of governance of the member countries, but also for the Bretton Woods institutions themselves. We witness a significant move in this direction in the area of expansion of the presence and the depth of the dialogue in the field, greater flexibility and responsiveness to the needs of the borrowers, and adaptation of the lending instruments in accordance with the current developmental demands. Nonetheless, the public demand for the dissemination of the acquired analyses of successes and failures of the reform on specific groups of countries with similar problems is not completely satisfied. The fuller practical implementation of the IMF and the World Bank’s management concept of the new public role probably requires more time.

The transition economies are grateful for the contribution of the international financial institutions for the development and strengthening of their market economy institutions, inter alia, in the financial sector. We would also like to stress the importance of the cooperation with the IMF and the World Bank in the building up of the institutional capacity in the area of civil service. We in Ukraine sometimes experience difficulty in the implementation of our joint initiatives due to the lack of qualified specialists trained in accordance with international standards. As a country that
embarked on the road of reforms later than others, Ukraine is now coping with the problems of the second phase of reforms placing emphasis on the structural changes, and consolidation of the achievements of the first phase of stabilization. Inflation will be brought down to 10 percent a year this year compared with 10,000 percent only three years ago. Despite the problems and limitations to our export imposed by our trade partners, the trade balance of Ukraine is constantly improving. Ukraine continues to have one of the lowest levels of tariff protection in the region, and we are removing the final obstacles in the path to broader trade liberalization. The exchange rate has remained nominally stable for almost two years in an environment of expansion of exports and structural improvements. In parallel with the increased money demand, in response to the regained trust in the macroeconomic policies of the state, the banking system has also been consolidated.

Next year we plan to complete a broad tax reform, and speed up the structural reform in parallel with maintaining the exchange rate as a nominal anchor of the financial stability. We continue to work thoroughly on the quality of our budgetary system, reforming the public sector and solving the problem of budgetary arrears’ minimization. This will increase the payment discipline in the economy and will enable us to move the structural reforms in the important sectors for the improvement of the investment climate and conditions both for the domestic and foreign investors. Even the first steps in this direction have brought about an increase that only in this year’s foreign investments amounted to more than 70 percent compared with the previous one. The transparency and openness of our privatization program is improving. We practically completed the small-scale business privatization. Moreover, 5,000 large-scale enterprises have been privatized. We have embarked on the implementation of the complex of measures on deregulation of entrepreneurial activities, and demonopolization of the key sectors of the economy. This will create an environment conducive to the success of our program to combat corruption and bureaucratic abuse, as well as secure the gradual process of legalization of the still widespread shadow economy. Now after the adoption of the new legislation we will proceed with the regional government reforms.

However, we have not achieved the post-crisis stable economic growth in all sectors of the economy. We are fully aware that this constitutes the main risk for the possible weakening of the public support for the reforms. The living standards of the majority of the population have not significantly improved for several years in a row. This is used by the political opponents of the reform who are interested in slowing or even curtailing some of them. The resumption of growth on a new healthy basis under these conditions becomes a first priority and challenge. It is here that we most feel the support of the international community, primarily the Bretton Woods institutions.
We are now cooperating with the International Monetary Fund in the framework of the temporary Stand-By Arrangement that has strong structural elements. After the enactment of several important laws on the tax and budgetary reform and the improvement of the financial sector we intend to embark next year on the implementation of a large-scale medium-term program supported by the Extended Fund Facility. While implementing it, we expect to stop being a constant net recipient of the IMF financial resources.

Since the last Annual Meetings, we have added to the World Bank portfolio five new loans and two guarantee operations totaling $1.2 billion. We have concentrated our attention on those sectors that would most contribute to the attainment of radical structural changes in the economy of Ukraine, maximum realization of its potential in the energy and agro-industrial sectors, and the expansion of the export capacity of the country.

Our delegation would like to express its deep gratitude to the leadership of the IMF and the World Bank for maintaining an active dialogue with Ukrainian partners in the environment when the reform efforts of the executive branch were not always supported by the legislature. We sometimes faced problematic situations that were skillfully dealt with by the good offices of President Wolfensohn and Managing Director Camdessus and the staff of the Bank and the Fund. We would like to extend assurances of our interest to continue such a constructive dialogue in the future.

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

Gordon Brown

These are the first Annual Meetings that I have attended as Chancellor of the new U.K. government and as U.K. Governor of the Fund. I would like to start by thanking the staffs of the Hong Kong authorities, the World Bank, and the IMF for the excellent organization of these meetings, and I would also like to pass on the thanks of Clare Short, U.K. Governor of the World Bank.

It is particularly appropriate that the world’s two major international financial institutions should be meeting here in Hong Kong, one of the world’s largest trading economies and leading financial centers in the midst of the fastest growing and most dynamic region of the world—and to be doing so in 1997, which is such an important year for Hong Kong.
The World Economy

The challenge facing us all is to have sustainable growth and employment for the long term, free of instability. We now understand that our shared objectives of high and stable levels of growth and employment—the same bold objectives as those of our predecessors 50 years ago—have to be achieved in a quite different world of highly mobile capital and much greater trade flows. It is a world in which long-term stability in monetary and fiscal policies—low inflation and sound finances—is a precondition for high levels of growth and employment. And it is an international economy where countries will raise investment funds only by pursuing prudent policies that enjoy international credibility.

For some countries, high and unsustainable levels of debt make it very difficult for them to participate in this new global economy. Poverty and unsustainable debts in poor countries affront us all and demand action from the richest countries to take account of the needs of the poorest. I believe it is time to give added impetus to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) so that all eligible countries that meet the tough conditions will have embarked on the process of debt relief by the new millennium. This proposal is now firmly on the international agenda. I am pleased that we are all committed to seeking further progress in the HIPC Initiative.

As this program of debt relief is implemented, and barriers to trade and capital flows continue to be dismantled, more and more countries will find themselves able to benefit from the growth and jobs that inflows of new investment bring. But as they do so, they will find that it is more important than ever to pursue sound policies that promote stability and growth.

We now live in a world where instability anywhere can rapidly become a threat to stability everywhere. That is why this week we have considered important initiatives to bring greater stability to the international economy. The turbulence in the Southeast Asian economy has brought to our attention this week a truth that applies to us all—that, in addition to the pursuit of prudent policies, nothing is more important for maintaining stability than effective decision making based on openness, transparency, and accountability.

More openness and transparency in decision making will create a flow of information and a consistency in rules and procedures that can help avoid the kind of market turbulence we have seen. It adds to public understanding of difficult economic decisions and deters undue interference by sectional interests—and, at its most extreme, corruption. That is why I am pleased that the IMF will now consider a code of good practice that can promote not just a more effective flow of financial and economic...
information, but also agreed rules and procedures that promote openness and consistency in economic decision making and reporting.

Opening Up the U.K. Economic Policy

Openness in economic policymaking builds confidence and credibility. But, by bringing government closer to the people, the resulting dialogue and debate helps to build a sense of common economic purpose—something that has been lacking in Britain for decades. That is why a commitment to greater openness in decision making has been at the heart of the reforms that the new British government has introduced over the past four months:

- a new monetary framework that is more transparent, open and accountable; and
- a new and more open fiscal framework with a credible deficit reduction plan.

Monetary Stability

During the past two decades, U.K. governments have adopted and then abandoned a succession of short-lived monetary policy targets—sterling M3, M4, M0, and the ERM. And, far from delivering monetary stability, Britain has suffered the most volatile inflation record of any Group of Seven country in the past 10 years.

I want the British economy to enjoy the far greater underlying strength that comes from a base of high levels of growth and employment alongside low and stable inflation. That is why almost my first act as Chancellor was to establish a wholly new framework for monetary stability in the United Kingdom. Our new framework gives operational independence to the Bank of England for setting interest rates to meet the government’s inflation target, while enhancing accountability and ensuring policy is conducted in an open way.

By introducing more rigorous, precise, and open procedures for monitoring inflation performance, including the open letter system, which requires the Bank to write to the Chancellor with an explanation if inflation moves significantly away from its target, I believe we now have one of the most open monetary policies in the world.

Progress has already been made in building our anti-inflation credibility. Long-term interest rates and inflation expectations have fallen.

At the Interim Committee, I announced a further step in the direction of openness in economic policymaking—the decision to publish a quarterly report on our foreign exchange reserves, including our outstanding forward position and a full set of annual accounts. So we are literally opening the books.
Fiscal Stability

As with our approach to monetary policy, so in fiscal policy we have established clear rules, a new discipline, openness, and accountability. We have set tough rules for fiscal policy:

- First, the golden rule—that, on average over the economic cycle, the government will borrow only to invest.
- Second—that, as a proportion of national income, public debt will be held at a prudent and stable level on average over the economic cycle.

Our tough approach to public borrowing, embodied in a five-year deficit reduction plan, is being underpinned by a comprehensive review of the way each government department spends its money. We are also drawing up the first register of all public sector assets in our country, to ensure the British people get the very best out of the nation’s assets.

Together, these tough fiscal rules, this deficit reduction plan, and this root and branch review of public spending will ensure a historic break from the “short-termism” and expediency of the past. Our fiscal policy will be all the more credible for being open and accountable.

Immediately upon coming into office, I invited an independent body—the National Audit Office—to review the assumptions and conventions behind our budget arithmetic. They will have a continuing role in future budgets. And in November, I will publish a consultative paper spelling out the state of the economy and progress made towards the government’s objectives—to provide the basis of the next budget in the spring. This “green” or provisional budget—another example of openness in economic decision making—is designed to stimulate public debate and build consensus around the way forward for the British economy.

U.K. Economic Prospects

The task everywhere is to secure high and sustainable levels of growth and employment. In particular, I want to move the British economy from decades of stop-go economic instability to a new era of high and stable growth and employment with low inflation. Our challenge, therefore, is to steer a long-term course toward sustainable growth. That will not be easy because we inherited an economy that was not only in danger of overheating but where tackling fundamental long-term challenges—underinvestment, education and skills, and welfare reform—had been neglected for too long. We will never allow a repeat of the boom-bust cycles of the past, in which, every time the British economy expanded, capacity constraints, underinvestment, and skill shortages triggered inflationary pressures.
Already we have made significant progress. We have quickly established our new framework for monetary stability combined, of course, with necessary rises in interest rates to curb inflationary pressures. It is a new system that is generally recognized to be working well.

Second, and I believe just as significant, is the new long-term stability we have determined for the public finances. We published a deficit reduction plan for five years in our July budget, welcomed by the IMF as representing a "significant fiscal tightening." This means, from a public sector borrowing requirement of 7 percent of GDP four years ago, we are now set to achieve a public sector borrowing requirement of 1¼ percent in the current financial year and ½ of 1 percent in the next. There is no room for complacency regarding our public finances. We will maintain strict discipline in public spending, and I have insisted that, across the board, public sector pay settlements must be guided by firmness and fairness.

Third, we have taken measures to tackle long-term underinvestment in both capacity and skills, including a cut in corporation tax to its lowest ever level. But we still have much to do in structural reform to encourage a more dynamic economy through increased competition and through reforms in welfare and employment policy. We are committed to a wholesale modernization of the welfare state, combining new opportunities for the unemployed with new responsibilities.

Of course, I have been concerned that, as a result of both international and domestic forces, our exchange rate has affected the prospects for British industry. But what industry fears most of all is a return to the stop-go instability of the past, and the best prospect for industrial investment is to get the economy back on track to sustainable growth with low inflation. In past economic cycles, the British economy has swung from overheating to recession, apparently unable to steer a steady course of sustained growth between these extremes. Our challenge is to deliver higher levels of sustainable growth without taking risks with inflation. We will have to be tough in enforcing discipline on spending over the next year, remain vigilant in monetary policymaking, and act speedily to achieve welfare state and employment reform. I will not disguise the problems that we inherited, in particular the strength of consumer demand and the threat of inflation. But with the tough action we have taken to cut the deficit and reform the Bank of England, I am now more optimistic that we are on course to get the economy back on track next year.

Stability in Our Relations in Europe

To gain the confidence of long-term investors required us also to demonstrate stability in our trading relationships. The new U.K. government has also given our categoric commitment to a future in the European
Union—with whom half our trade is done—and we have engaged in a more constructive dialogue with our European partners about the challenges that we all face—including the challenge of creating more jobs. For Britain, it is vital that we have stability in our relations with Europe. Europe is where we are, where we trade, and where we make our living. Sixty percent of our trade and 3.5 million jobs depend upon the single market.

This government has put our relationship with Europe beyond any doubt: Europe is where we are and where we will stay. We are committed to a constructive partnership with our European neighbors. We will play our full part in equipping Europe for the challenges that lie ahead.

This government has begun a debate about EMU in the United Kingdom. And we are helping British businesses to prepare for the practical changes that will be necessary to accommodate a single currency whether or not the United Kingdom joins.

We are also helping Europe face another major challenge—the challenge of creating job opportunities, providing work incentives and improving the skills of our people. It is a tragedy that there are 18 million unemployed people in Europe—half of them have been unemployed for more than one year. Over the past 10 years, 6 million jobs have been created in Europe compared with 46 million in America.

We in Europe must share our experience and expertise in reforming our welfare systems and promoting long-term flexibility and adaptability in our markets, especially our labor markets. And we must tackle obstacles to dynamism. We need a new approach in Europe to promote employability, a workforce that is more skilled and better able to adapt, and a new welfare state where attention is given to the creation of jobs, making work pay, and the skills ladder.

Conclusion—Europe in the Global Economy

Let me end where I began—by emphasizing the importance of our dependence upon each other and the importance of international cooperation to maintain an open economy. At a time when Europe is engaged in important reforms to prepare for monetary union and to reform our markets, it is crucial that we do not become insular but remain open to the world and outward looking. This is a further reason that it is good for me and my European colleagues to be meeting this year in Hong Kong.

I believe I speak for all the European Finance Ministers here today when I say that Europe is firmly committed to open trade and greater international cooperation. This internationalism, which the IMF and World Bank represent, is a force for good that we are determined to uphold and that we believe, working together, we can enhance. For, at these meetings we have discussed together tasks and challenges that will not be properly resolved if we do not all address them together.
Regional concerns must never replace international commitments. Urgent reforms close to home must not breed insularity. For I believe that the agenda of structural economic reform upon which Europe is embarked represents not a retreat from the world, but a means by which we play a fuller part in it.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR THE UNITED STATES

Robert E. Rubin

Good afternoon. It is a pleasure to be representing a second Clinton administration at the Annual Meetings of the IMF and World Bank. It seems particularly fitting that they are being held in Hong Kong, a city that has become such a strong symbol of the dynamism and openness that has transformed Asia these past three decades.

Barely a generation ago, the people of Hong Kong were among the poor of the world; today, their real per capita income is among the world’s highest. As in so many parts of Asia, this spectacular growth was built on a commitment to hard work, sound policies, open markets, the free flow of information, and the rule of law. The presence of the entire international financial community here this week speaks to the importance of Hong Kong sustaining that commitment in the years to come.

There is now a broad-based international consensus that the strong free market fundamentals and sound governance that spurred prosperity in Hong Kong hold the key to sustained growth in every country. And there has been remarkable progress in many, many countries in recent years. However, there are still far too many people who live in poverty. They should be the focus of our attention as we go forward.

The World Bank recently forecast that the world economy would grow by nearly $3\frac{1}{2}$ percent a year during the next 10 years—the fastest pace since the 1970s oil shock. But, as recent events in Southeast Asia have reminded us, there is little room for complacency—in any country, very much including our own. We all face important challenges if we are to build on recent progress: challenges to make the policy changes needed for strong and steady growth, to strengthen international financial markets, and to tackle poor governance and corruption, which still thwart development in many countries. Let me just say a few words about each of these.

To promote strong and durable growth, governments need to do more than just endorse the sound policies I mentioned a few moments ago—
they must follow them. As we in the United States learned the hard way, this often means difficult steps to cut public borrowing, and tackle inflation. And it means—to this day, in our case—actively resisting those who would have us put up new barriers between ourselves and the world outside, rather than opening our own and others' markets to spur faster growth.

Difficult as these policies are, the evidence strongly suggests they are the right ones. Our own country has enjoyed low inflation, steady growth and rising employment these past five years, by following what was basically a difficult but, we believe, sound policy path. We still, however, have many challenges to meet, such as upgrading our education system, reviving our inner cities, and maintaining fiscal discipline.

We have also seen enormous progress in many emerging economies in recent years, much of it fueled by closer international integration. Closer links to international markets have brought a dramatic increase in developing country trade. Increased financial market integration has also played a critical part in this increased prosperity, by providing increased investment and investment funds. And in Hong Kong the international community has reasserted its commitment to see that part of integration proceed further.

Substantial steps have been taken at the meeting in Hong Kong toward making capital market liberalization a basic purpose of the IMF and to extend the Fund's jurisdiction to include capital movements. As we all recognize, liberalization of the capital account must proceed carefully alongside the development of strong policies and financial system regulatory regimes—but proceed it must if the global economy is to realize its true potential for growth. We believe the same end will be advanced by opening financial systems to foreign participation, and all the capital and expertise that that implies. I do not think there is any question that there was an almost unified view, at the many meetings I have had here in Hong Kong with developed and developing nations, that we must not allow the turbulence that can occur in the wake of crises divert us from the crucial goal of closer financial integration. Rather, we must implement national policies and work with our international institutions to let us realize the opportunities that global financial markets provide—and to manage the risks, both through prevention and, when necessary, response. Let me also say, at this point, that we in the United States are deeply committed to the economic well-being and financial stability of the nations of Southeast Asia, and we look forward to working with these nations and the IMF to achieve those purposes.

A commitment to sound macroeconomic policies on the part of all governments is the global economy's best safeguard against financial crises of the kind that have reverberated around Southeast Asian markets in recent months. But important though these policies are, they are not suf-
ficient. Particularly among the emerging economies, though for all of us, there is an urgent need to strengthen the legal and supervisory infrastructure underpinning the financial market—to promote growth and preserve stability.

Development of a sound financial system is a difficult task. It takes sustained efforts, on many fronts. Once again, success in this area will depend ultimately on national authorities having the will to take the steps necessary to develop healthy and efficient financial systems. But the international community can also help. And here in Hong Kong it has moved to support those efforts.

First, we have moved to give markets and supervisory authorities greater capacity to spot problems at an early stage and provide forewarning of crises. Financial markets, perhaps even more than any other kind, are critically dependent on the free flow of comprehensive, timely, and accurate information. When investors are well informed, their actions will reinforce good policies and encourage timely adjustment of policies as the need for such adjustments arises. Failing to disclose information in a timely manner does not lessen the chance of problems occurring. Sooner or later, adverse conditions will make themselves known anyway—deferring disclosure simply allows problems to build up and become more severe, as well as damaging credibility. Here in Hong Kong the United States has sought to build on recent IMF moves to increase transparency, by expanding the coverage of its new Special Data Dissemination Standard.

Second, the international community has strengthened the IMF’s ability to help countries meet the challenges of a global financial market—not merely through the Fund’s surveillance and policy advice, but through its financial support for strong policy adjustment efforts when crises occur. I am particularly pleased that we have reached agreement on increasing the Fund’s resources, which will enable it to provide exceptional support as warranted. I welcome, too, the heightened awareness at the World Bank of the role it can play in financial sector reform programs.

Finally, I would like to recognize and applaud the efforts of Jim Wolfensohn and Michel Camdessus to act on their commitment to making good governance—and the fight against corruption—a central priority of the World Bank and IMF. Their candor and initiative have generated a long overdue debate about these issues—and with it a recognition that the costs of corruption often fall disproportionately on the poorest and most vulnerable.

Both institutions are working to make reduced corruption just as integral to their assessment of countries as more traditional concerns such as tariff reform, investment liberalization, and the like. But responsibility here does not just lie with developing countries. Developed countries also have an obligation to combat the supply side of equation. I welcome the
important steps to tackle corruption that the Organization for Economic Cooperation and Development has been taking—and strongly urge all of the member countries to make good on their recent commitments in the months ahead.

Let me stress one point: putting the fight against corruption right at the heart of our efforts to promote development is not only a moral necessity. It is an economic one. Corruption results in distorted allocation of resources. And new laws and supervisory systems to safeguard stability must be accompanied by credible—and honest—authority to enforce them. But there is also a broader point. This year's World Development Report provided an important reminder that the new global emphasis on freeing markets has not lessened the need for a strong and effective state—quite the reverse. Each country’s capacity to take on the major challenges I have mentioned today will rely critically on the credibility of its policymakers and public institutions. And corruption undermines that credibility.

In the end, good governance, including the rule of law, will be absolutely essential for realizing the benefits of this new global economy, and managing the risks. More generally, if we work together—at meetings such as this one—and individually, to develop and implement the sound policies needed for growth, and to build the strong institutions needed to safeguard stability, I believe we have the opportunity to achieve widespread sustained growth and prosperity in the years ahead, and real progress for the far too many who still live in poverty.

STATEMENT BY THE GOVERNOR OF THE FUND FOR VIETNAM

Le Duc Thuy

First, allow me, on behalf of the Vietnamese delegation, to extend our warmest greetings and best wishes to the Chairman, the IMF Managing Director, the President of the World Bank, the distinguished Governors, and all other participants present here today. I would like to take this forum to express Vietnam’s high appreciation for the efforts of Mr. Camdessus and Mr. Wolfensohn in promoting the activities of these two institutions.

I would like to share my view with other Governors in commenting that world economic growth has continued at a satisfactory pace, supported in particular by buoyant growth in some industrial countries and in many emerging market countries. Another positive factor is the generally
low inflation rate, which is likely to continue to be subdued. This trend and tight fiscal policy will help maintain the interest rate at low levels. It is interesting to note that capital flows to emerging market countries, especially private capital, have been generally well sustained at a high rate. Some of the poorest countries in Africa have achieved progressive economic growth thanks to strong structural adjustment efforts. Meanwhile, an event drawing much attention recently is the currency turmoil in some Southeast Asian economies, which have grown rapidly for many years. This event highlights the need to strengthen policy consultation and economic and financial cooperation in the region. Furthermore, economic and financial developments during the past few years may call for the review of some policies, facilities, and other cooperation arrangements between the Fund and the Bank and member countries as well as those among member countries themselves.

Since the normalization of their relations with Vietnam in October 1993, the Fund and the Bank have continued to provide vigorous support and assistance to Vietnam in terms of policy advice, financing medium-term economic programs, infrastructure, and socioeconomic projects and providing a range of technical assistance. This support has played an important role in helping Vietnam maintain high economic growth and control inflation in the past years. With the assistance of the IMF, Vietnam has successfully implemented the first and the second annual arrangements under the Enhanced Structural Adjustment Facility. About $360 million has been disbursed from this program. The World Bank also continues to provide Vietnam with strong support in fiscal year 1997. Until now, the Bank has approved 13 loans for projects and a structural adjustment credit for Vietnam, with total commitment of almost $1.6 billion.

In pursuing our economic reform policy, during the past year we have significantly improved the legal framework for a market-oriented economy by promulgating key legislation, which will form a basis for the sound and efficient development of the banking and financial sector in Vietnam. For the time being, the Vietnamese government will concentrate its efforts on formulating and implementing key structural reforms, creating a new impetus for further economic development. The structural reforms are focusing on three main sectors: financial, trade, and state-owned enterprises.

Vietnam’s economic developments in 1997 have been favorable. The projected real GDP growth rate is over 9 percent, inflation will be contained at 5–6 percent. Export growth for the first half of the year was 27 percent, and the net increase in international reserves surpassed the target. Monetary policy continues to be carried out in a cautious manner. Inflation remains low, and the exchange rate is being adjusted flexibly and is becoming more market based. At the same time, Vietnam is accelerating its economic integration into the world economy. In addition to exist-
ing commitments under the Asian Free Trade Agreement, application for membership in the Asia Pacific Economic Cooperation and the World Trade Organization, as well as efforts to finalize a bilateral trade agreement with the United States, shows Vietnam's determination to build an open and internationally competitive economy. Recent developments in the region enhance Vietnam's awareness of the importance of accelerating the reform process, thus improving efficiency in our use of resources, raising domestic savings and investment rates, and reducing our vulnerability to external shocks.

Though still facing major challenges, we are confident that with the efforts of the entire nation in combination with the valuable support of friends throughout the world, including two large international financial institutions—the IMF and the World Bank—Vietnam will succeed in achieving the goals of industrializing and modernizing the country.
CONCLUDING REMARKS

STATEMENT BY THE GOVERNOR OF THE FUND FOR AUSTRIA

Klaus Liebscher

Fellow Governors, Mr. Chairman, Mr. Camdessus, Mr. Wolfensohn, ladies and gentlemen, it is a great honor to accept on behalf of Austria the Chairmanship of the Joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group for the coming year. This demanding task has been fulfilled in an able and efficient manner by our current chairman, Mr. Mohammed K. Khirbash, the Governor for the United Arab Emirates. I would like to express our gratitude and our appreciation for his excellent management of our meetings.

For Austria, 1998 will indeed be notable: the 1998 Annual Meeting in Washington, D.C., will coincide with Austria’s presidency of the European Union when we will also face the challenges of completing the Economic and Monetary Union and of enlarging the European Union.

The world economy has seen a year of low inflation, progress in budget consolidation and fairly high growth. Economic growth is especially well established in some industrial economies, while the transition countries seem—at last—on the way to an economic upturn. The developing countries are also showing encouraging progress. Some economies, particularly in Asia, are suffering short-term reverses but their medium-term outlook still seems bright.

Both from their sustained efforts over the past half-century and their quick response whenever crises arise, we know what the International Monetary Fund and the World Bank can achieve. The achievements of the past year and the success of the Hong Kong meetings have again demonstrated the problem-solving capacity of the Bretton Woods institutions. The two institutions, now truly global, are a perfect team to keep the world economy on a path of sound macroeconomic policies leading to a robust international monetary system and sustainable development. The initiatives on our agenda for the coming year show that the Fund and the Bank are serious about ensuring that their past successes are carried forward into the future.

Mr. Camdessus, Mr. Wolfensohn, and the staffs of the International Monetary Fund and the World Bank Group deserve our appreciation of their past efforts as well as our continued willingness to stand by them and
support their future work. The challenges of an unfolding global economy, and particularly those enunciated here—attaining high-quality growth and ensuring inclusion—will be an important part of the agenda of the two institutions, not just for the coming year but also for the coming decade.

In closing, I would like to thank the government of the People’s Republic of China and the authorities of Hong Kong who have made this year’s Annual Meeting an event to be remembered for warm hospitality and perfect organization. I look forward to seeing you next year in Washington.

STATEMENT BY THE PRESIDENT OF THE WORLD BANK GROUP

James D. Wolfensohn

Thank you very much, Mr. Chairman. May I start by thanking you for your exemplary leadership during these meetings. As head of the World Bank, I very much appreciate it. But I would also like to express my personal thanks and my great gratitude to you.

I also want to express my thanks to the government of China and the authorities here in Hong Kong. I think that all of us would agree that these have been a quite remarkable series of meetings. We have all been deeply impressed by the environment here and by the warmth and the generosity of the reception that we have received. I certainly go away with a sense of great energy and excitement.

For us at the Bank it has been an excellent meeting. We were able to put to you the message of the Bank. It is a message that relates to poverty. It is a message that relates to inclusion. And most important, I think, it is a message that says, “Let us not wait. Let us focus on the issues now, because every day we wait makes the task more difficult.” I hope that we have been able to demonstrate that the Bank has a real sense of urgency on the question of poverty and that the issue of poverty is not something that is confined to poor countries. It is something that is meaningful to all of us. As leaders of all sections of the world, we have to move now. I believe that with its reorganization, the Bank is gearing itself to improve on what we have done in the past and to give all our work precisely this focus.

We are looking not just at projects, but at national and regional strategies. We are trying to focus on the fundamental issues of education and health, and social development, built on top of the important investments that are necessary in infrastructure. We are trying to engage in this fight on the basis of a medium-term commitment, not as something that can be done in one year or two, but on the basis of a strategy that we really stick with. That strategy is economic, social, and environmental. All I can say
CONCLUDING REMARKS

is that the reactions to that statement have been really terrific. I have discovered that many, many people feel the same way, and that our community is united in this sense of moving forward. I am thrilled about that.

I think we have had some marvelous moments here. In Premier Li Peng’s opening speech, he said, “Seeing it once is better than hearing about it a hundred times.” That is a Chinese proverb with which I think we can all agree. Seeing this region and seeing Hong Kong, the “one country, two systems,” is certainly something that we can now believe, and I think it served as a very reassuring message to all of us that Hong Kong will continue as it has before.

At the Development Committee, under the admirable chairmanship of Driss Jettou, I think we had very good results. First, we focused on the HIPC Initiative, and I think that all of you here and the members of the Development Committee were approving of the work that we and the Fund have done during this past year. I am very grateful that the Indonesian government came in with a contribution of $10 million to the Trust Fund—the first such contribution from a developing country. Belgium, Portugal, and Sweden have also made pledges, and it would be my hope that other countries will follow suit. I would urge you all to take this up. The issue is not just one of joining the club. For ourselves and the Fund it is essential. We must try to get rid of the debt overhang, and for that we need bilateral donors to assist us with the Trust Fund. I really hope that many of you will give this favorable consideration in the period ahead.

On the Multilateral Investment Guarantee Agency (MIGA), as I think you all know, we have had a pretty tough year in trying to reach a conclusion. The very success of MIGA has meant that we need more capital; that capital requirement was set at $1 billion, and we have had a lot of argument this year as to how to do it. Fortunately, at the Development Committee we were able to agree that it will be in two parts: $150 million coming from a grant from the Bank, and then, most significantly, that we should move forward in the coming months to approve a $150 million contribution from shareholders, in addition to $700 million in uncalled capital. I hope we can move forward on this, and I would urge Governors to give it support so that we can bring it to closure at our spring meetings.

The other very important development was on the private sector. I think everybody in this room agrees that the private sector is now central to the economic base of development, and central to the base of technology, skill, and know-how, and we gave a lot of attention to this. The most important thing for us is that we are bringing together the Bank, the International Finance Corporation, and MIGA with a single “window,” so that you can come to the institution and make a request for help or advice or support, and you do not have to find your way around all the buildings. You can find somebody with whom you can deal. We are trying to make the place customer friendly. I think this is a development that we are all pleased about and we are going to try and make it work during this coming year.
I was thrilled with the debate on corruption. I think it is astonishing that in one year we should have come from being scared to mention the word to having it as the central item on the Development Committee agenda. I do not think anyone underestimates the difficulty of eradicating corruption completely. But what is significant is that we are focusing on the corruptors and the corruptees; trying to make corruption illegal, in fact, criminal. In this past year, we have seen that with the activities of the Group of Seven, the Organization for Economic Cooperation and Development, and the International Chamber of Commerce. There is absolutely no doubt that governments that have problems with corruption feel very much strengthened by the fact that there is pressure on this subject. This is not the Bank coming in as a policeman; this is the Bank trying to respond to the needs of countries that want to do something about corruption. I think that the support that Governors gave to our efforts and the efforts of the Fund can only strengthen the hand of the people in countries that are concerned about this scourge and want to take action. I must say that I appreciated the support that Governors have given.

I had a series of meetings with regional Governors, which were very productive. With the Latin American and Caribbean Governors I talked about the current economic situation in Latin America, but we have also put on the Bank’s agenda the problem of the El Niño issue. This is an environmental problem that could be enormous, and we are talking to the governments in Peru, Ecuador, and Bolivia. It is a real issue that we face not only in the region, but throughout the world. If we want yet another demonstration that we live in one world, El Niño surely provides one, and we are trying to prepare in advance.

We had good meetings with the African Governors. With the African Governors our focus was on the issue of capacity building. This is an initiative taken by the African Governors to build capacity in their governments and in their private sector, and it is an African-led issue. I think it is extraordinarily promising, and I have told the Governors that we are ready to support them in any way possible to bring about the results they want. The responsibility is the responsibility of the African Governors. I have put it squarely on their plate. They are very happy to grasp it, and my guess is that we will have a significant advance on this and that the subject will, I hope, be taken up by the African heads of government early next year.

Against the backdrop of recent regional financial problems, it is not surprising that we focused extensively at our meetings on strengthening our work in the financial sector. I think there was virtually unanimous agreement on the part of Governors that the Bank should improve and strengthen its capacity in terms of financial sector support. Everybody agrees that crisis gives a focus to a financial problem, but it is in the years that come after and the years that precede crises that you can make the most difference: improving supervision, improving regulation, and strengthening the financial system, the legal system, and the regulatory
system. That involves a lot of hard work. We were encouraged to proceed with our plans to supplement our existing team and, most important, to work wholly and completely in conjunction with the excellent efforts that the Fund is taking in terms of its own supervisory role. We will be working closely with the Fund and trying to supplement their efforts in those areas where we think we can make a contribution.

As to the change program at the Bank, I am delighted to say that it was hardly on the agenda. Last year we were subjected to quite a lot of heat about our renewal and the so-called Compact. I think most of you as Governors are now giving us a chance to try to get it done. I do not think everyone is convinced that we are there yet, but there was very strong evidence of support for what we are doing. I am very grateful to Governors for that support, because we are doing something that is making a huge difference in our institution. I need your support. We are not there yet, but I do believe that there is a big change in our institution, and that the most important thing about it is that it is designed to serve your needs. This is not just a consultant-led internal reorganization. This is driven by the needs of the clients, and what we are trying to have is an organizational system that really responds. As I have said to many of you, we provide the cheapest money in the market. There is no cheaper source of funding. There should be a queue around our building. If there is not, it is because we are doing something wrong. So what we are trying to do is to make it so attractive that you will be beating down our doors, not only for money, but also for help, and we look forward to that in the months and years ahead.

We are, of course, delighted, Dr. Liebscher, at your nomination and acceptance of the Chairmanship this year. We look forward very much to working with you and your colleagues in preparation for next year’s Annual Meetings in Washington.

May I close simply by saying, as always, a word of thanks to my colleague, Michel Camdessus, for our partnership, and may I say to all of you how much we look forward to working with you this year and to seeing you in Washington next year.

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

*Michel Camdessus*

Mr. Chairman, Governors, ladies and gentlemen: This has been quite a fruitful Annual Meeting—not least because of the excellent facilities our
hosts have provided us and the way in which they have organized everything so splendidly. During the past few days, we have had extensive, thought-provoking discussions about the challenges of global markets. And we have made substantial headway in equipping the IMF to help its members meet these challenges. Recent developments in several South-east Asian markets have, of course, been ever present in our minds. Yet this beautiful, dynamic city of Hong Kong has been a constant reminder of what can be achieved in a free and open economy. Against this backdrop, four major themes have emerged.

First, you have expressed your conviction that global opening and integration offer the only path to greater global prosperity. Many have cautioned against allowing market turbulence to divert us from the critical task of fostering closer financial integration. Indeed, many of you have pointed to the role that the free movement of capital can play in accelerating investment and growth. Notwithstanding the problems of recent months, this region testifies to the benefits that can spring from the productive use of capital inflows over the longer term. These recent events should not cloud that reality.

Second, in full recognition of these long-term benefits, you have reconfirmed that the time has come to give the Fund a mandate to promote the orderly liberalization of capital movements, and thereby add a new chapter to the Bretton Woods agreement. In so doing, you have echoed the bold vision contained in the Interim Committee’s Hong Kong statement—a vision of orderly, lasting liberalization backed by sound national policies and a solid multilateral system for surveillance and financial support. That bold vision—as the Interim Committee has said—will be implemented cautiously.

You have also given considerable attention to what this liberalization must entail. Many of you have emphasized the need for adequate flexibility to take account of countries’ differing stages of economic and financial development; I can assure you we have this requirement clearly in mind. Many have also pointed to the need to strengthen domestic banking systems and the important role that IMF technical assistance can play in this regard. Here, too, I can confirm that the Fund and the Bank will work closely with members to help strengthen financial systems and disseminate best practices on the basis of the new framework for financial sector soundness.

And all of you have recognized the vital importance of sound economic policies and the continuing need for strong Fund surveillance. Again, we will continue to do all that we can to ensure that our policy advice is timely and on the mark. And we will stand ready to give financial support to countries’ adjustment efforts, when warranted.

I know that a number of you still have concerns about contagion and speculative pressures and are asking yourselves what more could be done
to limit their effects. Having had these meetings here in Asia, we now understand those concerns better. Several of you have also come with ideas about how the interactions between governments, markets, and the international institutions could be made to work more smoothly. We will be reflecting on these ideas over the coming months. But, as you may recall, the Governor from the Philippines has offered a good starting point for our reflection. He said, “Volatile capital flows will continue to be a challenge. But the answers are not in a return to controls, but in managing these flows better. The answers are not in restricting capital markets, but in making them work better. And the key to this is a higher level of disclosure and transparency so that players act based on timely and accurate information.”

Governor Brown of the United Kingdom made the same point in a slightly different way. He said, “The turbulence in the Southeast Asian economy has brought to our attention a truth that applies to us all—that, in addition to pursuing prudent policies, there is nothing more important for maintaining stability than effective decision making based on openness, transparency, and accountability.” Many others of you have also stressed this point.

This brings me to the third conclusion that emerged from your discussions: the vital importance you attach to good governance in all its dimensions. Not so long ago, this subject was virtually taboo in the multilateral institutions; today, it is on everyone’s lips and, I hope, at the top of everyone’s agenda. There can be no doubt but that good governance, including the rule of law, is absolutely essential—both in order to realize the benefits of this new global economy and to manage its risks. As I have heard so many of you say, good governance is not only a moral necessity, it is an economic one, as well. For this reason, you can count on the IMF to play its part in promoting good governance in all member countries in accordance with the mandate you have recently given us.

Fourth and finally, you have emphasized that when problems do emerge, as surely they will continue to do, the Fund must be ready to respond with its financial support. We were able to do this in Thailand. Your agreement to increase IMF quotas by 45 percent will substantially enhance our ability to continue meeting our systemic responsibilities. The decision on a one-time equity allocation of SDRs, through an amendment of the Articles, is also an important breakthrough, allowing all members to participate in the SDR system on an equal footing. Meanwhile, during these past few days, the number of countries adhering to the New Arrangements to Borrow (NAB) has increased to 15, with credit arrangements of over SDR 15 billion. I do hope that participants that have not yet taken the steps needed to adhere to the NAB decision will do so, so that these supplementary credit lines can enter into force as soon as possible.
Governors, all of you have expressed strong support for the poorest countries struggling to be included in the global economy. Yet, there is a major piece of our financial architecture that is still incomplete—the financing needed to ensure a continuous role for the Enhanced Structural Adjustment Facility (ESAF), and the Fund’s contribution, via ESAF, to the joint Initiative for Heavily Indebted Poor Countries. We must rectify this. I am deeply gratified by the contributions that have been made to the interim ESAF, a number of which come from low-income countries and very small economies that want to express their solidarity with the poorest. But I am also troubled that we are still far from our goal, with important deadlines facing us in the next few months. I urge all those who have not yet done so to give their full, unconditional support to ESAF. I also urge everyone to join a consensus that will permit us to bring this effort to a successful conclusion. The Fund must have the means to support the adjustment efforts of those most in need.

Here let me add one additional point. I would not like to leave the impression that progress in Africa has been overshadowed by turmoil in Asia. I would not want the African governors to leave Hong Kong feeling that their concerns had been left on the back burners in our kitchens. So let me refer back to what I said about Africa in my opening address: growth on the order of 4½ to 5 percent is progress, but we must do more and better.

In closing, let me once again thank the government of China and the Hong Kong Monetary Authority for the professional way in which these meetings have been organized and conducted. Let me also thank our able Chairman, Governor Khirbash from the United Arab Emirates, and congratulate the Governor from Austria, who will succeed him. Finally, I wish all of you well until we convene again next year in Washington.

CONCLUDING REMARKS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE BANK AND THE FUND FOR THE UNITED ARAB EMIRATES

Mohammed K. Khirbash

As Chairman of the Boards of Governors, it is now my duty to bring these deliberations to a close. It has been a great privilege to have served as the Chairman of the Boards of Governors of the Bank and the Fund. I would like to take this opportunity to thank everyone for the support and kindness extended to me during my tenure. On behalf of all of us, I would
also like to thank Premier Li Peng for his words of encouragement and the government of China and the people of Hong Kong for their warm and generous hospitality.

As these 1997 Annual Meetings draw to a close, I would like to review briefly some of the major themes that have emerged from our discussions and their implications for our two partner institutions. We have all recognized, I think, that the increasing globalization of the world economy has brought great benefits in terms of economic growth and poverty reduction. But we have also recognized what Mr. Wolfensohn said at the beginning of our discussions, that too many people in too many countries have yet to enjoy the fruits of success. It is also clear that the increasing interdependence of national economies and financial markets requires what Mr. Camdessus has described as an even more far-reaching sense of national responsibility and international solidarity. In this context the need for strong partnerships both between our two Bretton Woods institutions and more broadly with national governments, other multilateral and bilateral institutions, nongovernmental organizations, and the private sector has never been greater.

In my opening remarks I highlighted three areas where a strengthened common effort between the Bank and the Fund is of great importance—financial sector cooperation, governance, and the Initiative for Heavily Indebted Poor Countries. During our deliberations, Governors have noted with satisfaction the strengthened ability of the IMF to help countries meet the challenges of a global financial market and the increased collaboration between the Fund and the Bank in strengthening the financial sectors of member countries. You have agreed that the Bretton Woods institutions should pay more attention to issues of governance and corruption and you have welcomed the strategies and guidelines recently issued by both institutions. Finally Governors have commended the Bank and the Fund for the progress made on the HIPC Initiative and have emphasized the importance of an equitable sharing of the financial costs of the initiative among all creditors.

Turning specifically to the Bank, Governors have indicated their strong support for the objectives of the Strategic Compact. You have applauded Mr. Wolfensohn for this initiative and have noted that the first progress report confirms that real change is taking place. You now look forward to seeing the tangible results of the Compact in terms of improved results on the ground. Governors have welcomed the Bank Group’s increased focus on private sector development and the development of an expanded range of guarantee and other lending and nonlending services in support of private sector development. You have also welcomed the action program for infrastructure development presented to the Development Committee and the increased focus of the Bank on capacity building, particularly in Africa. Governors have indicated their satisfaction with the
A consensus that has been reached on addressing the Multilateral Investment Guarantee Agency's resource constraints and have urged all relevant parties to come to closure on the details of the capital increase before the next Development Committee meeting in April 1998.

In respect of the Fund, Governors have adopted a resolution on an amendment of the Articles. The amendment will provide a special one-time allocation of SDRs. All members will then have an equitable share of SDRs, including those countries that have never received allocations of SDRs since they joined the Fund. You have welcomed the agreement that has been reached by the Fund's Executive Board on the Eleventh General Review of Quotas and look forward to speedy completion. Governors have also agreed that the Fund should play a central role in promoting the orderly liberalization of capital movements and you have indicated that the Fund should give high priority to the work on an amendment of the Articles. In this context you have emphasized the importance of adequately designed approval policies and transitional arrangements.

Before adjourning, I would like to express my appreciation to Mr. Wolfensohn and Mr. Camdessus, to the staff of the Joint Secretariat, and to their counterparts in the Hong Kong Monetary Authority for their hard work and dedication, which have helped make our gathering here in Hong Kong such a success. I would also like to extend my best wishes to the Governor for Austria, who succeeds me as Chairman of the Boards of Governors.

I would conclude by once again thanking everyone and wishing all a safe journey home. The 1997 Annual Meetings of the World Bank Group and the International Monetary Fund are hereby adjourned.
DOCUMENTS AND RESOLUTIONS OF THE BOARD OF GOVERNORS
SCHEDULE OF MEETINGS

Sunday
September 21 9:30 a.m. — Interim Committee
2:30 p.m. — Interim Committee

Monday
September 22 9:00 a.m. — Joint Development Committee
3:00 p.m. — Joint Development Committee

Tuesday
September 23 10:00 a.m. — Opening Ceremonies
Address from the Chair
Annual Address by President, World Bank Group
Annual Address by Managing Director, International Monetary Fund
3:00 p.m. — Annual Discussion

Wednesday
September 24 9:30 a.m. — Annual Discussion
3:00 p.m. — Annual Discussion
6:15 p.m. — Joint Procedures Committee
6:30 p.m. — MIGA Procedures Committee

Thursday
September 25 9:30 a.m. — Annual Discussion
Following the conclusion of the Annual Discussion
Procedures Committees’ Reports
Comments by Heads of Organizations
Adjournment

1Meetings of the Joint Development Committee were held jointly with the Board of Governors of the Bank. The sessions of the Annual Meetings were held jointly with the Boards of Governors of the World Bank Group.

2Fund only.
PROVISIONS RELATING TO THE CONDUCT 
OF THE MEETINGS

Admission

1. Sessions of the Boards of Governors of the World Bank Group Organizations and the International Monetary Fund will be joint and shall be open to accredited press, guests, and staff.

2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

Procedure and Records

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.

4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.

5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the President of the World Bank Group, the Managing Director of the International Monetary Fund, and the Secretaries.

6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Member.

Public Information

7. The Chairman of the Boards of Governors, the President of the World Bank Group, and the Managing Director of the International Monetary Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.
AGENDA

1. 1997 Annual Report

2. Report of the Chairman of the Interim Committee
   (Fund Document No. 4)

3. Report of the Chairman of the Joint Development Committee
   (Fund Document No. 5)

4. Financial Statements and Audit Report
   (Appendix X of 1997 Annual Report and
   Fund Documents Nos. 6 and 7)

5. Administrative and Capital Budgets for Financial Year
   ending April 30, 1998 (Appendix IX of 1997 Annual
   Report and Fund Documents Nos. 7 and 8)

6. Special One-Time Allocation of SDRs—Proposed Fourth
   Amendment of the Articles

7. Selection of Officers and Joint Procedures Committee
   for 1997/98
REPORTS OF THE
JOINT PROCEDURES COMMITTEE

Chairman—United Arab Emirates
Vice Chairmen—Czech Republic, Malaysia
Reporting Member—Uganda

Other Members
Argentina, Burkina Faso, People’s Republic of China, Colombia, Costa Rica, France, Germany, Japan, Kyrgyz Republic, Madagascar, Netherlands, Norway, Russian Federation, St. Lucia, Samoa, Saudi Arabia, Senegal, United Kingdom, United States

Report II¹

September 25, 1997

Mr. Chairman:

At the meeting of the Joint Procedures Committee held on September 24, 1997, items of business on the agenda of the Board of Governors of the International Monetary Fund were considered.

The Committee submits the following report and recommendations:

1. 1997 Annual Report

The Committee noted that provision had been made for the annual discussion of the business of the Fund.

2. Report of the Chairman of the Interim Committee²

The Committee noted the presentation made by the Chairman of the Interim Committee.

The Committee recommends that the Board of Governors of the Fund thank the Interim Committee for its work.

¹ Report I dealt with the business of the Boards of Governors of the Bank, IFC, and IDA. Report II and the recommendations contained therein were adopted by the Board of Governors of the Fund in Joint Session with the Boards of Governors of the Bank, IFC, and IDA on September 25, 1997.
² See pages 34–37.
3. Financial Statements, Report on Audit, and Administrative and Capital Budgets


The Committee recommends that the Board of Governors of the Fund adopt the draft Resolution set forth in Fund Document No. 7.  

Approved:

/s/ Mohammed K. Khirbash /s/ Jehoash S. Mayanja-Nkangi  
United Arab Emirates—Chairman Uganda—Reporting Member

Report III

September 25, 1997

Mr. Chairman:

The Joint Procedures Committee met on September 24, 1997 and submits the following report and recommendations:

1. Development Committee

The Committee noted that the Report of the Chairman of the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Bank and Fund pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively (Bank Document No. 3 and Fund Document No. 5).  

3Resolution No. 52-5; see page 280.  
4Report III and recommendations contained therein were approved by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 25, 1997.  
The Committee recommends that the Boards of Governors of the Bank and the Fund note the report and thank the Development Committee for its work.

2. **Officers and Joint Procedures Committee for 1997/98**

The Committee recommends that the Governor for Austria be Chairman and that the Governors for India and Nicaragua be Vice Chairmen of the Boards of Governors of the World Bank Group and of the Fund, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Austria, Azerbaijan, Brazil, Cameroon, Canada, Côte d’Ivoire, France, Georgia, Germany, Greece, Guatemala, India, Japan, Lebanon, Micronesia, Mozambique, Nicaragua, Philippines, Poland, Saudi Arabia, the United Kingdom, the United States, and Zambia.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Austria, and the Vice Chairmen shall be the Governors for India and Nicaragua, and that the Governor for Zambia shall serve as Reporting Member.

Approved:

/s/ Mohammed K. Khirbash  
United Arab Emirates—Chairman

/s/ Jehoash S. Mayanja-Nkangi  
Uganda—Reporting Member

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RESOLUTIONS

Resolution No. 52-1

Amendment of Section 5 of the By-Laws of the Fund

The Executive Board resolved on November 25, 1996 that action on the amendment should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on November 27, 1996 for a vote without meeting:

RESOLVED:

That Section 5 of the By-Laws shall be amended by adding the following paragraph:

"(e) the World Trade Organization shall be entitled to send a member of the Secretariat as an observer to meetings of the Board of Governors."

The Board of Governors adopted the foregoing Resolution, effective January 8, 1997.

Resolution No. 52-2

Salary of the Managing Director

The Executive Board resolved on December 11, 1996 to recommend an adjustment in the salary of the Managing Director:

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on December 12, 1996 for a vote without meeting:

RESOLVED:

That, effective January 16, 1997, the annual salary of the Managing Director of the Fund shall be two hundred twenty-four thousand, six hundred and fifty dollars ($224,650).

The Board of Governors adopted the foregoing Resolution, effective January 13, 1997.
Resolution No. 52-3

Direct Remuneration of Executive Directors and Their Alternates

Pursuant to Section 14(e) of the By-Laws, the 1997 Joint Committee on the Remuneration of Executive Directors and Their Alternates on June 27, 1997 directed the Secretary of the Fund to transmit its report and recommendations to the Board of Governors of the Fund. The Committee’s report contained the following proposed Resolution for adoption by the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on July 7, 1997 for a vote without meeting:

RESOLVED:

That, effective July 1, 1997, the annual rates of remuneration of the Executive Directors of the Fund and their Alternates pursuant to Section 14(e) of the By-Laws shall be as follows:

(i) As salary, $140,950 per year for Executive Directors and $120,260 per year for their Alternates;

(ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 14(f) of the By-Laws), $9,000 per year for Executive Directors and $7,200 per year for their Alternates.

The Board of Governors adopted the foregoing Resolution, effective August 18, 1997.

Resolution No. 52-4

Special One-Time Allocation of SDRs
Proposed Fourth Amendment of the Articles of Agreement

WHEREAS the Interim Committee of the Board of Governors has invited the Executive Board to propose an amendment of the Articles of Agreement of the International Monetary Fund providing for a special one-time allocation of SDRs to allow all participants in the Special Drawing Rights Department to receive an equitable share of cumulative SDR allocations; and

WHEREAS the Executive Board has proposed such an amendment and prepared a report on the same;
NOW, THEREFORE, The Board of Governors, noting the said Report of the Executive Board, hereby RESOLVES that:

1. The proposals for modifications (Proposed Fourth Amendment) that are attached to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved.

2. The Secretary of the Fund is directed to ask, by circular letter, telegram, or other rapid means of communications, all members of the Fund whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the Proposed Fourth Amendment.

3. The circular letter, telegram, or other communication to be sent to all members in accordance with 2 above shall specify that the Proposed Fourth Amendment shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having eighty-five percent of the total voting power, have accepted the modifications.

Attachment to Resolution No. 52-4

Proposed Fourth Amendment
of the Articles of Agreement
of the International Monetary Fund

The Governments on whose behalf the present Agreement is signed agree as follows:

1. The text of Article XV, Section 1 shall be amended to read as follows:
   (a) To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights in accordance with the provisions of Article XVIII to members that are participants in the Special Drawing Rights Department.
   (b) In addition, the Fund shall allocate special drawing rights to members that are participants in the Special Drawing Rights Department in accordance with the provisions of Schedule M.

2. A new Schedule M shall be added to the Articles, to read as follows:

Schedule M
Special One-Time Allocation of Special Drawing Rights

1. Subject to 4 below, each member that, as of September 19, 1997, is a participant in the Special Drawing Rights Department shall, on the 30th day following the effective date of the fourth amendment of this Agree-
ment, receive an allocation of special drawing rights in an amount that will result in its net cumulative allocation of special drawing rights being equal to 29.315788813 percent of its quota as of September 19, 1997, provided that, for participants whose quotas have not been adjusted as proposed in Resolution No. 45-2 of the Board of Governors, calculations shall be made on the basis of the quotas proposed in that resolution.

2. (a) Subject to 4 below, each country that becomes a participant in the Special Drawing Rights Department after September 19, 1997 but within three months of the date of its membership in the Fund shall receive an allocation of special drawing rights in an amount calculated in accordance with (b) and (c) below on the 30th day following the later of: (i) the date on which the new member becomes a participant in the Special Drawing Rights Department, or (ii) the effective date of the fourth amendment of this Agreement.

(b) For the purposes of (a) above, each participant shall receive an amount of special drawing rights that will result in such participant's net cumulative allocation being equal to 29.315788813 percent of its quota as of the date on which the member becomes a participant in the Special Drawing Rights Department, as adjusted:

(i) first, by multiplying 29.315788813 percent by the ratio of the total of quotas, as calculated under 1 above, of the participants described in (c) below to the total of quotas of such participants as of the date on which the member became a participant in the Special Drawing Rights Department, and

(ii) second, by multiplying the product of (i) above by the ratio of the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of the participants described in (c) below as of the date on which the member became a participant in the Special Drawing Rights Department and the allocations received by such participants under 1 above to the total of the sum of the net cumulative allocations of special drawing rights received under Article XVIII of such participants as of September 19, 1997 and the allocations received by such participants under 1 above.

(c) For the purposes of the adjustments to be made under (b) above, the participants in the Special Drawing Rights Department shall be members that are participants as of September 19, 1997 and (i) continue to be participants in the Special Drawing Rights Department as of the date on which the member became a participant in the Special Drawing Rights Department, and (ii) have received all allocations made by the Fund after September 19, 1997.

3. (a) Subject to 4 below, if the Federal Republic of Yugoslavia (Serbia/Montenegro) succeeds to the membership in the Fund and the
participation in the Special Drawing Rights Department of the former Socialist Federal Republic of Yugoslavia in accordance with the terms and conditions of Executive Board Decision No. 10237-(92/150), adopted December 14, 1992, it shall receive an allocation of special drawing rights in an amount calculated in accordance with (b) below on the 30th day following the later of: (i) the date on which the Federal Republic of Yugoslavia (Serbia/Montenegro) succeeds to membership in the Fund and participation in the Special Drawing Rights Department in accordance with the terms and conditions of Executive Board Decision No. 10237-(92/150), or (ii) the effective date of the fourth amendment of this Agreement.

(b) For the purposes of (a) above, the Federal Republic of Yugoslavia (Serbia/Montenegro) shall receive an amount of special drawing rights that will result in its net cumulative allocation being equal to 29.315788813 percent of the quota proposed to it under paragraph 3(c) of Executive Board Decision No. 10237-(92/150), as adjusted in accordance with 2(b)(ii) and (c) above as of the date on which the Federal Republic of Yugoslavia (Serbia/Montenegro) qualifies for an allocation under (a) above.

4. The Fund shall not allocate special drawing rights under this Schedule to those participants that have notified the Fund in writing prior to the date of the allocation of their desire not to receive the allocation.

5. (a) If, at the time an allocation is made to a participant under 1, 2, or 3 above, the participant has overdue obligations to the Fund, the special drawing rights so allocated shall be deposited and held in an escrow account within the Special Drawing Rights Department and shall be released to the participant upon discharge of all its overdue obligations to the Fund.

(b) Special drawing rights being held in an escrow account shall not be available for any use and shall not be included in any calculations of allocations or holdings of special drawing rights for the purposes of the Articles, except for calculations under this Schedule. If special drawing rights allocated to a participant are held in an escrow account when the participant terminates its participation in the Special Drawing Rights Department or when it is decided to liquidate the Special Drawing Rights Department, such special drawing rights shall be canceled.

(c) For purposes of this paragraph, overdue obligations to the Fund consist of overdue repurchases and charges in the General Resources Account, overdue principal and interest on loans in the Special Disbursement Account, overdue charges and assessments in the Special Drawing Rights Department, and overdue liabilities to the Fund as trustee.
(d) Except for the provisions of this paragraph, the principle of separation between the General Department and the Special Drawing Rights Department and the unconditional character of special drawing rights as reserve assets shall be maintained.”

The Board of Governors adopted the foregoing Resolution, effective September 23, 1997.

Resolution No. 52-5

Financial Statements, Report on Audit, and Administrative and Capital Budgets

RESOLVED:

That the Board of Governors of the International Monetary Fund considers the Report on Audit for the Financial Year ended April 30, 1997, the Financial Statements contained therein, and the Administrative Budget for the Financial Year ending April 30, 1998 and the Capital Budget for capital projects beginning in Financial Year 1998 as fulfilling the requirements of Article XII, Section 7 of the Articles of Agreement and Section 20 of the By-Laws.

The Board of Governors adopted the foregoing Resolution, effective September 25, 1997.

Resolution No. 52-6

Appreciation

RESOLVED:

That the Boards of Governors of the World Bank Group and of the International Monetary Fund express their sincere appreciation to the Government and people of the People’s Republic of China and to the Hong Kong Special Administrative Region for their gracious and warm hospitality;

That they express their gratitude for the outstanding facilities at the Hong Kong Convention and Exhibition Centre which were made available for the meeting in Hong Kong; and

That they express particular appreciation to the Governors and Alternate Governors for China and to their associates for the many contributions which they have made toward ensuring the success of the 1997 Annual Meetings.

The Board of Governors adopted the foregoing Resolution, effective September 25, 1997.
Interim Committee of the Board of Governors
on the International Monetary System

PRESS COMMUNIQUÉ

September 21, 1997

1. The Interim Committee held its forty-ninth meeting in Hong Kong, China, on September 21, 1997 under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium.

2. The Committee welcomed the generally favorable prospects for the continued expansion of world output and trade. There are, nevertheless, risks that confront individual countries and that could also affect the world economy, if not decisively addressed.

- In the advanced economies as a group, growth with low inflation is projected to continue. However, sustained fiscal consolidation remains a challenge for many countries, requiring resolute policies over the near and medium term. Exchange rates among the major currencies should reflect economic fundamentals bearing in mind the importance of avoiding large external imbalances. In countries that have reached high levels of resource use, including the United States, monetary policy will need to guard against the reemergence of inflation. In continental Europe, monetary policy should remain consistent with sustained expansion of domestic demand. The challenge for Japan is to achieve the objective of domestic demand-led growth with a supportive stance of monetary policy while proceeding vigorously with its structural reform program and further consolidating its fiscal position over the medium term. High levels of structural unemployment in several European countries point to the pressing need for more determined efforts to increase efficiency and adaptability in labor and product markets and to reform tax, social benefits, and other entitlement systems.

- The growth performance and prospects of developing countries as a group have strengthened in recent years. However, further improvements are needed in many cases to achieve significant reductions in poverty. This highlights the need to maintain macroeconomic discipline and accelerate structural reforms, including “second-generation” reforms aimed at strengthening public administration and financial sector management, developing human
capital, promoting basic infrastructure, and fostering a conducive and transparent environment for private investment.

- In some emerging market economies, large external imbalances and fragile banking systems have adversely affected investor confidence and exacerbated the risks emanating from volatile capital movements.

- In the transition countries, growth has resumed following good progress, in most cases, with macroeconomic stabilization and structural reforms. Strengthening growth performance depends on speeding up legal, institutional, and other reforms that encourage private economic activity and investment. To safeguard and build upon the achievements thus far, inflation will in most cases need to be lowered further through disciplined macroeconomic policies.

3. The Committee welcomed progress made toward a successful European Economic and Monetary Union (EMU) that contributes to stability in the international monetary system. The economic convergence achieved in Europe and the strong commitment to start EMU on schedule constitute a sound basis for securing a smooth transition to the euro on January 1, 1999. The best way to ensure a solid and stable EMU will be for its participants to demonstrate not only their commitment to the fiscal requirements of the Stability and Growth Pact, but also their resolve to attack the root causes of Europe’s high unemployment.

4. The Committee reaffirmed the vital contribution of globalization to economic growth worldwide. Adherence by all members to the policy guidelines set out in the Committee’s “Declaration on Partnership for Sustainable Global Growth” is essential to ensuring that all share in the benefits of globalization. The Committee welcomed the recent adoption by the Fund of guidelines on governance issues as well as the ongoing efforts to enhance the soundness of financial systems, notably the establishment of the “Core Principles of Effective Banking Supervision” developed by the Basle Committee in conjunction with the supervisory authorities in a number of emerging market economies.

5. The Committee noted that recent disturbances in Asian financial markets have again underscored the importance for policymakers in all countries to ensure the internal consistency of macroeconomic policies, strengthen financial systems, and avoid excessive external deficits and reliance on short-term foreign borrowing. Although the impact of recent financial market turmoil on some of the countries affected is expected to result in a slowdown of growth in the near term, the countries’ economic fundamentals remain solid and their longer-term outlook is favorable, provided the required adjustment policies are sustained. The Committee also
noted that the recent Asian experience has illustrated that rising capital flows may require some adaptation of exchange rate arrangements to changing circumstances. Regardless of a country's exchange rate arrangement, the maintenance of appropriate macroeconomic and structural policies consistent with the arrangement remains crucial.

6. The Committee commended the Fund for its prompt and effective response to the events in Asia, welcomed the support provided by the region, and invited the Executive Board to examine what further lessons could be drawn for the Fund's work and to report its findings to the next meeting of the Committee. In this context, the Committee recognized that the recent developments raised a number of analytical issues, including on the prevention of crises and contagion effects. The Committee stressed the importance of openness and accountability of economic policymaking, and of transparency, to achieving policy credibility and confidence building in a globalized environment. It would be useful for the Fund to work in this area, including the possibility of developing a code of good practices. Timely and accurate economic information are also needed to improve the functioning of markets. The Committee welcomed the Fund's Special Data Dissemination Standard and the recent voluntary release of Press Information Notices on the conclusions of Fund surveillance in individual members, making an important contribution to transparency. The Committee looked forward to the strengthening of the Fund's Special Data Dissemination Standard.

7. The Committee reiterated its view that an open and liberal system of capital movements, supported by sound macroeconomic policies and strong financial systems, enhances economic welfare and prosperity in the world economy. The Committee adopted the Statement on "The Liberalization of Capital Movements Under an Amendment of the Fund's Articles," and considered that an amendment of the Fund's Articles will provide the most effective means of promoting an orderly liberalization of capital movements consistent with the Fund's role in the international monetary system. The Committee requested the Executive Board to accord high priority to completing its work and submitting a report and a proposed draft amendment to the Board of Governors.

8. The Committee welcomed the agreement reached by the Executive Board on both the size of the increase in quotas under the Eleventh General Review and on the method to be used to distribute the overall increase in quotas. The Committee agreed that:

- the present total of Fund quotas would be increased by 45 percent;
- 75 percent of the overall increase would be distributed in proportion to present quotas;
15 percent of the overall increase would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members; and

the remaining 10 percent of the overall increase would be distributed among those members whose present quotas are out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 percent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the Fund's liquidity over the medium term.

The Committee requested the Executive Board to submit before the end of this year a proposed resolution for the approval of the Board of Governors to effect the agreed increases in quotas. The Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review.

9. The Committee welcomed the agreement reached by the Executive Board on an amendment of the Articles to provide all members with an equitable share of cumulative SDR allocations through a special one-time SDR allocation amounting to SDR 21.4 billion, which will double the amount of SDRs already allocated. Accordingly, it recommends the adoption by the Board of Governors of the proposed Resolution.

10. The Committee welcomed the recent progress made in the implementation of the HIPC Initiative, including the decisions, in principle, of the Executive Boards of the Fund and Bank to provide assistance to Uganda, Bolivia, and Burkina Faso, and the preliminary discussions on Côte d’Ivoire, Guyana, and Mozambique. The Committee encouraged countries that could qualify under the initiative to expeditiously take the necessary adjustment measures to benefit from this special assistance.

11. The Committee welcomed the continuing efforts to help secure the resources needed to complete the financing of the ESAF and HIPC Initiatives. It noted that, in light of the bilateral pledges received or in prospect, and the need to continue making commitments under the HIPC Initiative, further steps to secure the timely funding of these initiatives would have to be considered soon.

The Committee will meet again in Washington, D.C., on April 16, 1998.
STATEMENT OF THE INTERIM COMMITTEE ON THE LIBERALIZATION OF CAPITAL MOVEMENTS UNDER AN AMENDMENT OF THE ARTICLES

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investment, growth, and prosperity. Provided it is introduced in an orderly manner, and backed both by adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The IMF’s central role in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the Fund’s proposed new mandate as bold in its vision, but cautious in implementation.

2. International capital flows are highly sensitive, inter alia, to the stability of the international monetary system, the quality of macroeconomic policies, and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient utilization of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the chances of success, not only for each country but also for the international monetary system.

3. These efforts should lead to the establishment of a multilateral and nondiscriminatory system to promote the liberalization of capital movements. The Fund will have the task of assisting in the establishment of such a system and stands ready to support members’ efforts in this regard. Its role is also key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.

4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the Fund’s Articles that would make the liberalization of capital movements one of the purposes of the Fund, and extend, as needed, the Fund’s jurisdiction through the establishment of carefully defined and uniformly applied
obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavor. Flexible approval policies will have to be adopted. In both the preparation of an amendment to its Articles and in its implementation, the members’ obligations under other international agreements will be respected. In pursuing this work, the Committee expects the IMF and other institutions to cooperate closely.

5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to Fund resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the Fund and other sources. The Fund will continue to play a critical role in helping to mobilize financial support for members’ adjustment programs. In such endeavors, the Fund will continue its central catalytic role while minimizing moral hazard.

6. In view of the importance of moving decisively towards this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership on these basic guidelines, the Committee invites the Executive Board to give a high priority to the completion of the required amendment of the Fund’s Articles of Agreement.
# INTERIM COMMITTEE

## INTERIM COMMITTEE COMPOSITION

*as of September 21, 1997*

Philippe Maystadt, *Chairman*

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<tr>
<th>Name</th>
<th>Country</th>
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<td>Ahmad Mohd Don</td>
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<td>Ibrahim A. Al-Assaf</td>
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<td>Erik Åsbrink</td>
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<td>Gordon Brown</td>
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<td>P. Chidambaram</td>
<td>India</td>
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<td>Carlo Azeglio Ciampi</td>
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<td>Peter Costello</td>
<td>Australia</td>
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<td>Dai Xianglong</td>
<td>People’s Republic of China</td>
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<td>Rodrigo de Rato Figaredo</td>
<td>Spain</td>
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<td>Marcel Doupamby Matoka</td>
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<td>Sergei Dubinin</td>
<td>Russian Federation</td>
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<td>Roque B. Fernández</td>
<td>Argentina</td>
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<td>Abdelouahab Keramane</td>
<td>Algeria</td>
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<td>Mohammed K. Khirbash¹</td>
<td>United Arab Emirates</td>
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<td>Pedro Sampaio Malan</td>
<td>Brazil</td>
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<td>Justin C. Malewezi</td>
<td>Malawi</td>
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<td>Paul Martin²</td>
<td>Canada</td>
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<td>Philippe Maystadt³,⁴</td>
<td>Belgium</td>
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<td>Hiroshi Mitsuzuka</td>
<td>Japan</td>
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<td>Robert E. Rubin</td>
<td>United States</td>
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<td>Dominique Strauss-Kahn</td>
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<td>Kaspar Villiger</td>
<td>Switzerland</td>
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<td>Theo Waigel</td>
<td>Germany</td>
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<td>Gerrit Zalm</td>
<td>Netherlands</td>
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**Alternate attending for the member:**

¹Sultan Bin Nasser Al-Suwaidi
²Gordon Thiessen
³Jean-Claude Juncker
⁴Wolfgang Ruttenstorfer
Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉ

September 22, 1997

1. The fifty-sixth meeting of the Development Committee was held in Hong Kong, China, on September 22, 1997 under the chairmanship of Mr. Driss Jettou, Minister of Finance, Commerce, Industry and Handicrafts of Morocco.¹

2. Helping Countries Combat Corruption and Improve Governance. Ministers agreed that corruption and weak governance undermine macroeconomic stability, private sector activity, and sustainable development objectives, and may erode international support for development cooperation. They emphasized that corruption is a global problem that requires complementary actions by all countries. While stressing that member governments have the primary responsibility for combating corruption and strengthening governance, they welcomed the more active involvement of the Bank and the Fund, each within their respective mandate, in responding to member governments’ requests to strengthen their institutions and performance in these areas, including the introduction of greater transparency in the public sector. They welcomed the relevant strategies and guidelines recently issued by the Bank and the Fund. The Committee stressed the importance of a consistent and evenhanded approach, as well as the need to take governance issues and corruption explicitly into account in lending and other decision making when they significantly affect project or macroeconomic and country performance. The Committee asked that the Bank and Fund report to the Committee in a year’s time on the implementation of their respective strategies and guidelines.

3. Ministers invited other multilateral development banks (MDBs) to develop similar strategies and guidelines. The MDBs were encouraged, as

¹Mr. Zhu Rongji, Vice Premier of the People’s Republic of China; Mr. James D. Wolfensohn, President of the World Bank; Mr. Michel Camdessus, Managing Director of the International Monetary Fund; and Mr. Antonio Casas González, Governor of the Central Bank of Venezuela and Chairman of the Group of Twenty-Four, addressed the plenary session. Observers from a number of international and regional organizations also attended.
a matter of urgency, to establish procurement procedures and oversight mechanisms of the highest standard and as uniform as possible, including antibribery provisions. Ministers noted the ultimate responsibility of borrowers for ensuring fair and effective procurement, and stressed the importance of MDBs increasing their assistance to help build borrower capacity and accountability.

4. Ministers welcomed the efforts under way in other international and regional bodies to coordinate efforts to combat corruption. In particular, the Committee encouraged governments to criminalize international bribery, in an effective and coordinated way.

5. Multilateral Investment Guarantee Agency (MIGA). Ministers reiterated their support for MIGA's continued growth in response to the expanding demand for its services. They welcomed the consensus on addressing MIGA's resource constraints by means of a three-part funding package comprising an IBRD grant of $150 million, paid-in capital of $150 million, plus $700 million of callable capital. Ministers urged the IBRD management and Board of Executive Directors to move swiftly to implement the $150 million grant. Ministers urged MIGA's Board to reach agreement on implementation of the remainder of the package. They also urged the MIGA Board to reach clear understandings on core policy issues as soon as possible. These measures would relieve MIGA's short-term financial constraints and provide it with a sustainable capital structure for the medium to long term. Ministers urged the MIGA Board and other relevant parties to come to closure on the capital increase by the time of the Committee's next meeting in April 1998.

6. Private Involvement in Infrastructure. Ministers welcomed the World Bank Group Action Program designed to strengthen the Group's ability to increase private participation in infrastructure in the context of its overall objectives to support poverty reduction and sustainable development. While ministers recognized that governments continue to play a significant role in infrastructure investment, they emphasized the important and increasing opportunities for more active private sector involvement. Ministers encouraged the Bank Group to strengthen its catalytic role through early and effective implementation of the Action Program's comprehensive range of assistance in the areas of finance, advisory services, risk mitigation, and knowledge and information. The Committee stressed the importance of coordination among the Bank Group based on agreed country frameworks and strategies.

7. Implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC). The Committee welcomed the further progress that had been made in implementing the initiative to support governments that show strong commitment to reform. The Committee also encouraged
eligible countries to undertake the policy actions necessary to put them on
the path to securing debt relief. Decisions to provide assistance of about
$0.9 billion (in present value terms), which will generate debt service re-
duction of about $1.5 billion, have been made for Bolivia, Burkina Faso,
and Uganda; decisions on Côte d'Ivoire, Guyana, and Mozambique are ex-
pected in the near future. Ministers stressed the importance of adequate in-
terim financing by all creditors. The Committee expressed appreciation for
the continuing close collaboration among creditors in implementing the ini-
tiative, including understandings among them on the approach to bur-
den sharing. Ministers also appreciated that bilateral contributions of about
$100 million had already been made or pledged to the HIPC Trust Fund
(administered by the World Bank), and urged other governments to con-
tribute as well. They also encouraged international financial institutions
which have not yet finalized mechanisms for participation in the initiative
to do so as soon as possible. Ministers noted that additional resources will
be needed to help finance the African Development Bank's full participa-
tion in the initiative. They also noted the need for additional resources to
finance the Fund's contribution to the HIPC Initiative for countries beyond
those noted above and, more generally, the need to complete the funding
of the Enhanced Structural Adjustment Facility.

8. Strategic Compact. The Committee welcomed the progress made
in beginning to meet the Compact's ambitious objectives to strengthen the
Bank's effectiveness, as reflected in Management's first semiannual
progress report to the Executive Directors.

Ministers noted the importance for macroeconomic stability and growth of
strengthening the financial systems of developing countries, as recent
events have shown. They welcomed an increased emphasis on this area in
Bank and Fund operations. Ministers viewed enhanced cooperation be-
tween the Bank and the Fund as an urgent priority and welcomed the re-
cent agreement guiding increased collaboration to help member countries
strengthen their financial systems.

10. Note of Appreciation. Ministers expressed their deep appreciation
for the warm hospitality provided by the Chinese authorities and the Hong
Kong Monetary Authority.

11. Next Meeting. The Committee's next meeting will be held on
April 17, 1998 in Washington, D.C.
DEVELOPMENT COMMITTEE

DEVELOPMENT COMMITTEE
COMPOSITION

as of September 22, 1997

Driss Jettou, Chairman

Ibrahim Abdul Karim
Ibrahim Al-Assaf
Anthony A. Ani
Eduardo Aninat
Halldor Asgrimsson
Franz Blankart
Gordon Brown
P. Chidambaram1
Anatoly Chubais
Carlo Azeglio Ciampi
Peter Costello
Driss Jettou2
Liu Zhongli
Pedro Sampaio Malan
Paul Martin3
Raul Matos Azocar
Philippe Maystadt
Hiroshi Mitsuzuka
Mar’ie Muhammad
N’Goran Niamien
Robert E. Rubin
Carl-Dieter Spranger
Dominique Strauss-Kahn
Gerrit Zalm4

Bahrain
Saudi Arabia
Nigeria
Chile
Iceland
Switzerland
United Kingdom
India
Russian Federation
Italy
Australia
Morocco
People’s Republic of China
Brazil
Canada
Venezuela
Belgium
Japan
Indonesia
Côte d’Ivoire
United States
Germany
France
Netherlands

Alternate attending for the member:
1Montek Singh Ahluwalia
2Abdeltif Loudyi
3Huguette Labelle
4Jan P. Pronk

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ATTENDANCE

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## EXECUTIVE DIRECTORS, ALTERNATES, AND ADVISORS

<table>
<thead>
<tr>
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<th>Alternate Executive Directors</th>
<th>Advisors to Executive Directors</th>
</tr>
</thead>
<tbody>
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<td>Jose Antonio Costa</td>
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</table>
LIST OF ABBREVIATIONS

ADB  Asian Development Bank
ASEAN  Association of Southeast Asian Nations
BIS  Bank for International Settlements
CARICOM  Caribbean Community and Common Market
CGCED  Caribbean Group for Cooperation in Economic Development
CIDA  Canadian International Development Agency
CIS  Commonwealth of Independent States
CMA  Common Monetary Area
ECB  European Central Bank
EMU  Economic and Monetary Union
ERM  exchange rate mechanism
ESAF  Enhanced Structural Adjustment Facility
ESRA  Economic and Social Reform Agenda
EU  European Union
GATT  General Agreement on Tariffs and Trade
GDDS  General Data Dissemination System
GDP  gross domestic product
GNP  gross national product
HIPC Initiative  Initiative for Heavily Indebted Poor Countries
IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
IDB  Inter-American Development Bank
IFC  International Finance Corporation
IMF  International Monetary Fund
MDB  multilateral development bank
MIGA  Multilateral Investment Guarantee Agency
NAB  New Arrangements to Borrow
NDS  national development strategy
NGO  nongovernmental organization
ODA  official development assistance
OECD  Organization for Economic Cooperation and Development
PIN  Press Information Notice
SACU  Southern African Customs Union
SADC  South African Development Community
SAP  Social Action Program
SAR  Special Administrative Region (Hong Kong, China)
SCA-2  Second Special Contingency Account
SDDS  Special Data Dissemination Standard
SDR  special drawing right
SOE  state-owned enterprise
UN  United Nations
WTO  World Trade Organization