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To: Members of the Executive Board
From: The Associate Secretary
Subject: **1996 Annual Meetings - Excerpts from Speeches by Governors**

Attached for the information of Executive Directors are the excerpts from speeches by Governors at the 1996 Annual Meetings on matters of interest to the Fund.

The excerpts also serve as background material for the forthcoming discussion on the Work Program of the Executive Board.

Att: (1)

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**EXCERPTS FROM SPEECHES BY GOVERNORS AT THE
1996 ANNUAL MEETINGS ON MATTERS OF FUND INTEREST**

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| <u>3/</u> | Venezuela (Governor Azocar) | Speaking on behalf of the Governors for Latin America - Fund |
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1996 Annual Meetings

Washington, D.C.

Excerpts from Speeches by Governors

1. Globalization

Belgium (Governor Maystadt)

One year ago, speaking to this same gathering, I emphasized the importance of providing adequate financing for development. Such support is essential for promoting the adjustment efforts of the poorest countries and improving the chances that they and their peoples have of taking their places in a rapidly globalizing economy.

Today, I am pleased to see what has been accomplished since last year. Negotiations on replenishments for IDA and the African Development Fund have been brought to their conclusion; the IMF and the Bank are in the process of organizing financial support with a view to providing the poorest countries with additional debt relief; and the Paris Club has announced that it will now be able to provide debt cancellations of up to 80 percent.

... it is by no means enough to supplement the actions of the “invisible hand” market forces by showing support for the poorest countries; in addition, we must ensure that all member countries abide by the same code of conduct. This is the only way to ensure that globalization will continue to be a force for progress in the world economy.

The emerging economies, as the chief beneficiaries of economic globalization, can be expected to take on new responsibilities within the framework of international institutions as well as in the financing of development assistance. If these countries should refuse to take their place alongside the traditional donors and lenders, I fear that the world economic system that will emerge in the next century could well be less supportive and more dangerous than the system that emerged at the Bretton Woods conference.

Thus, in building what Michel Camdessus has referred to as an economy with “three hands” (which are law and justice, the market, and a spirit of community), an environment will be created in which the opportunities afforded by economic globalization outweigh the potential risks.

Republic of Croatia (Governor Skreb)

The world has been developing in the direction of forming trade and currency zones. Globalization, increasing complexity of financial instruments and their rapid growth are some of the visible sides of financial markets today.... Surrounded by conditions of globalization we should know that world markets are becoming more and more cautious and transparent. Mistakes in the economic policy of a country are much more visible, causing stronger far-reaching consequences than before (remember Mexico).

Fiji (Governor Vunibobo)

Let me turn to the issue of globalization. The world markets are being unified through technological advancement and innovation. Significant progress has been made in trade liberalization across the globe. It is encouraging to see many countries adopt Article VIII of the Fund. World trade has increased in leaps and bounds funded by more dynamic capital flows. The World Trade Organization is now firmly in place.

What does this globalization imply for small member countries of the Bretton Woods Institutions like Fiji? We are fully aware that we are a part of the global family, and we accept that there is really no other viable alternative but for us to find our niche in the world market place. We also realize that the key factor to successful integration is competitiveness. Herein, I think, is where, for reasons mainly beyond our control, we are most vulnerable. The biggest constraints that we face in the South Pacific Islands are our isolation from major markets and our small resource endowments.

Gabon (Governor Doupamby Matoka) 1/

As we approach the dawn of a new millennium, global developments give us cause for renewed optimism. In the last ten years the advance of global economic integration has accelerated at a dramatic rate, in step with an expansion in world trade and flows of private capital to a number of developing countries. A broadly favorable international economic environment is thus envisaged for developing countries in the medium-term, fueled jointly by a stable industrial country growth, low inflation and low world real interest rates. Developing countries as a whole are thus expected to grow by over 5 percent per year on average over the next decade.

Huge disparities remain, however, among developing countries and this gives us cause for serious concern. The pace of integration into the global economy has been very uneven among developing countries.

Germany (Governor Tietmeyer)

...both of the Bretton Woods institutions are faced with new challenges at the start of their second half-century of existence. Above all, the integrative forces in the world economy - "globalization" for short - are having an ever stronger impact not only on the institutions themselves but also on their member countries. All around the globe there are impressive examples of how economic liberalization and integration in the world economy are opening up stronger growth and welfare prospects than any other strategy. That is also true of financial markets. For the Bretton Woods institutions it will therefore be important to assist their members in accepting the new economic environment and its challenges, and in turning them to their own advantage.

Greece (Governor Papademos)

... many economies still face problems associated with the restructuring being induced by, inter alia, technological advances and increasing globalization...

India (Governor Chidambaram)

Rapid growth in developing countries is actually strengthening the pace of growth in industrialized countries. Global economic interdependence is broadly reflected in favorable "reverse linkages" between developing and industrial economies.

Islamic Republic of Iran (Governor Mohammad-Khan)

The world economy is increasingly being shaped by the processes of globalization and liberalization. Restructuring of the global economy and of national economies through structural adjustment has been driven by the promise that higher growth rate will translate into improved standards of living for individuals and the world community as a whole. Although, the current world economic outlook presents an optimistic appraisal of the prospects of world economy and reveals that certain countries in the developing world have made substantial progress in economic development, however, there is now concern that the convergence and divergence consequences of the globalization and liberalization are accentuating income disparities in the world economy, with most of the benefits accruing to the already industrialized and a relatively small number of newly industrialized economies, while the weaker developing countries and the least developed countries have become poorer and progressively marginalized from the mainstream of the world economy. The ability of these countries to create a stable macroeconomic environment is being weakened by declining terms of trade and susceptibility to fluctuations in international commodity prices and interest rates. The growing reliance of commodity exporting countries on a narrow band of commodities being produced by an increasing number of low-income countries, has increased their vulnerability to external shocks and pressures, a phenomenon that calls for more international support and particular efforts by the Bretton Woods institutions.

Israel (Governor Frenkel)

In an era of globalization, a notion that was so well emphasized by the Managing Director yesterday, we are now in the midst of it. Global markets; goods markets are global; service markets are global; capital markets are global. The market for ideas is global, and also migration is now much more prevalent.

These facts mean that we have much more consensus today about what does it take to do good economic policy. We do not have anymore the debate of the old times between populism and professional economics but, rather, it is more and more recognized also among policymakers that good economics is basically good politics. But because of the fact that we have global markets, we have spillovers, and the spillovers are quick because capital markets are responding very rapidly. And, therefore, it requires a renewed focus on multilateralism. This is the framework that provides the rationale for strengthening our multilateral organizations, the very fact that borders do not recognize anymore knowledge, pollution, terror, as well as good consequences of economic policies.

Japan (Governor Kubo)

...until almost a quarter of a century ago, the world economy and international trade were supported by the postwar exchange rate system. When that collapsed, we were launched on an uncharted voyage. Since then we have experienced extraordinary changes in the world economy. There has been a dramatic increase in the volume of international capital transfer. Increasingly integrated financial markets have created new financial products one after another. There has been regional integration, such as with the European Union and other such blocs. And the emerging economies have started to play a key role in the international economy.

This has meant a considerable expansion of the world economy and trade. But you could argue that it has also resulted in the heightened risk that a financial crisis in one market may have an immediate and contagion effect on other markets. Similarly, you might point out that exchange rates are now subject to abrupt fluctuations. To minimize the risks, while promoting policy coordination among the industrial nations and close cooperation in exchange markets, we have a number of mechanisms, for example, cooperation among regulatory and supervisory authorities and better settlement systems....

The stabilization of exchange rates, at the same time, is of global concern: it is no longer of interest simply to the industrial nations. It follows, then, that policy coordination and cooperation in exchange markets since the Plaza Accord are no longer limited to the industrial nations. The emerging economies of Asia and other developing countries must also have a voice. It is in this context that the monetary authorities in Japan have strengthened collaboration with their counterparts in the Asia and Pacific region. The foreign exchange reserves of the Asian nations amount to almost 40 percent of the world's total foreign exchange reserves. It is

therefore of great significance to the global economy that this region is working toward a framework to maintain exchange rate stability and that it is doing so through meetings of the APEC Finance Ministers and cooperation among monetary authorities in the Asia and Pacific region. Naturally, Fund surveillance capability could, and indeed should, play a part in such a regional framework....

...a quarter of a century ago the whole world was launched on an uncharted voyage, puzzled and concerned. At the time, and from this very podium, Japan's Minister of Finance, Mikio Mizuta, called for closer international cooperation. Allow me to quote from a statement he made on September 28, 1971.

"The greater the difficulties lying ahead of us the stronger the need for closer cooperation. I strongly urge that all of us do our utmost to contribute to forming a solid common front to overcome the crisis."

During the twenty-five years that have followed, the world economy has been increasingly integrated, and the emerging economies have become the key engine for the growth of the world economy.

Today, we are faced with the impending new millennium, and the need for cooperation is far greater than it ever was. Today, everyone, not simply the industrial nations but also the emerging economies and other new players in the international economy, must join hands in redefining our rights and responsibilities to ensure better management of the international monetary system and sustainable growth, while strengthening international cooperation even further.

I strongly hope that the Fund and the Bank will continue to remain at the heart of such international cooperation, thus ensuring that future generations inherit a vital world economy.

Korea (Governor Seung-Soo Han)

Termed *seggyehwa* in Korean or globalization in English, this concept extends well beyond conventional economic liberalization. Indeed, its broader purpose is to fully integrate Korea into the emerging global civilization of the 21st century. In this spirit, Korea will continue to contribute to the efforts of the Fund and Bank to address the challenges currently facing the world economy and to prepare for their enhanced roles in the 21st century.

As we all know, the world economy is being integrated at a pace and in a way never experienced than ever before. The technological advance in communications and the coming of an information age will serve to accelerate the integration of the global economy in the 21st century.

In this new environment, the IMF and the World Bank will continue to be just as important to global economic prosperity and stability as they were in the immediate post-World War II years, if not more so. That is assuming, of course, that they continue to adapt creatively and in a timely manner to changing circumstances.

Lao People's Democratic Republic (Governor Phomvihane)

We welcome the continued acceleration over the past decade of the pace of global integration. The widening and intensifying of international linkages in the trade and finance.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

In view of the increased globalization of the economy and the continuous expansion of economic exchanges between countries, we must strive to enhance the Fund's ability to meet the challenge of these global economic developments. The IMF must have sufficient financial resources to carry out its role of financing economic reform and transition programs in an effective manner, and dealing with financial crises and emergencies that affect the global economy.

Malaysia (Governor Anwar Bin Ibrahim)

Though we cannot overemphasize the beneficial effects of this trade globalization we must be wary too of the pitfalls. As market forces will be the main determinant of economic endeavors the richer countries will have the upper hand in making the most of this at the expense of the less developed and weaker economies. The more powerful economies will gain firm control on strategic industries and acquire further competitive edge in all economic and non-economic endeavors while the weaker ones continue to be marginalized.

It is therefore imperative that a meaningful partnership be forged between the developed and developing countries to ensure a more equitable socio-economic distribution of the wealth and opportunities that are to be generated from this globalization. As the world trade scenario continues to evolve as a result of this trend of liberalization we would want to see the gap between the richer and the poorer countries being progressively reduced.

Federated States of Micronesia (Governor Ehsa) 2/

Over the past decade, we have witnessed that the pace of global economic integration has intensified. The growth of global economic integration expanded world trade and increased private capital flows significantly which contributed to the impressive global economic growth.

The developing countries are faced with the daunting challenge of removing market and structural constraints and to integrate in the global economy to reap the benefits of global economic integration. In meeting this challenge, it is imperative that the Fund and the Bank will

continue to provide the financial and the technical assistance to the developing countries in their efforts to integrate into the global economy.

Mongolia (Governor Tsagaan)

The current Annual Meeting is being held at a historic time, when the trends towards globalization and integration in economic, financial and all other fields are progressing rapidly. By and large, the world today finds itself at a moment of both opportunities and challenges for financial stability and economic growth.

Nepal (Governor Mahat)

...the encouraging pace of global integration and its impact on world trade and finance has spread optimism on the horizon. This has inspired developing countries, as it would particularly enhance the scope of their trade expansion and eventually the magnitude for aid resources. Industrial countries, we believe, have the crucial role in sustaining and safeguarding important reform processes that are underway in developing countries. We, therefore, urge all major industrial country governments to strengthen their domestic macroeconomic policies and to speedily move toward the true spirit of world trade accord.

Papua New Guinea (Governor Haiveta)

...I share the views of my fellow governors that the increased world economic globalization requires the pursuance of appropriate fiscal and monetary policies and undertake necessary structural adjustment programmes to achieve sustained and broad economic growth.

Portugal (Governor De Sousa Franco)

Last year, unemployment in the European Union has reached very high levels, as a result of several causes, among which is the increased international competition as the world economy becomes more and more globalized.....Growth and employment are becoming, with the globalization, more and more, global problems and call for supra-national policies.

Russian Federation (Governor Potanin)

Objectively, the International Monetary Fund has to play a larger role at a time of growing interdependence in the world economy and the increased importance of international capital flows. The Fund has the unique capacity for obtaining current and objective information on monetary and financial situation in member countries, early diagnosing and preventing potential crises. We commend the Fund's efforts aimed at maintaining balanced macroeconomic and structural policies, stability and order in the international monetary system.

Turkey (Governor Söylemez)

As it approaches the 21st Century, the world economy is undergoing an interesting transformation. The former centrally planned economies are seeking liberal market reforms. The western industrial economies are facing the rigors of regionalization and globalization. And the rather surprising take-off of many Southeast Asian economies has demonstrated new evidences of vigor and dynamism.

United States (Governor Rubin)

There has been an emerging consensus over the last decade with respect to how best to promote growth, and it struck me, even in the last couple of days, as I have met with Finance Ministers from the G-7, from developing nations and from transition economies, how widespread that consensus is.

In a word, that consensus is to open markets, not close them; free businesses to compete, not restrain them; reduce deficits, not sustain them; and invest publicly in people, infrastructure and the other areas critical to future productivity, not blindly ignore a wise and appropriate role for government.

With so many economies now basically following this approach, the fundamentals of the global economy are more solid than they have been in a long, long time.

Let me conclude by expressing the President's strong conviction that the economic futures of all nations are inexorably linked...the only effective path towards future prosperity for all of us is to work together and that, by working together, we can promote a strong and growing global economy for all of us.

Venezuela (Governor Azocar) 3/

I am addressing you at a time of economic integration and globalization. These have become irreversible facts of life that leave our countries no alternative but to exercise discipline in our economic policies, if we wish to avoid the backlash of the markets, and if our people are to reap the benefits of sustained and equitable economic growth with low inflation.

In the economic sphere, the strong performance of the developing economies prevented a worldwide recession at the start of this decade. In the political sphere, it is necessary for these countries to claim the rights due to them, because of their growing economic importance, in international forums and institutions. Similarly, just as the countries have had to rise to the challenges of globalization, the multilateral institutions will also have to adapt, progressively, to changes in their decision-making structures, if they are to remain relevant in future.

In that connection, it is inconceivable that key decisions affecting the rules of the game and the conditions in international financial and monetary circles should continue to be taken without appropriate or representative participation by the emerging and developing countries.

2. Declaration on Partnership for Sustainable Global Growth

Australia (Governor Costello)

The Declaration of the Interim Committee is described by the Managing Director as the eleven commandments. He emphasized four principles: fiscal consolidation, structural reform, responsible management of public affairs and ensuring strong financial systems. He stressed the need to achieve budget balance and strengthened fiscal discipline in a multi-year framework. None of this is easy. But it is important for us to accept the challenge.

We have announced and are now implementing a fiscal strategy with a multi-year framework which will balance our budget in 1998-99. We are implementing structural policies and labor market reform that are complementary and mutually reinforcing. As the Declaration observes, together these policies will establish conditions for growth, employment and rising living standards.

Austria (Governor Klima)

...it is all the more important that the "Partnership for Sustainable Global Growth" which we discussed in the Interim Committee stresses policies which not only establish the conditions for sustained noninflationary growth but also contribute to job creation and social cohesion.

Belgium (Governor Maystadt)

In an increasingly interdependent world community, the task of achieving security and stability will be greatly facilitated if the governments of all countries of the world can abide by a code of conduct. This is essential if the development and prosperity of the majority are not to be endangered by the irresponsible actions of the few. To be sure, such a code of conduct would be focused on a wide variety of concerns. A random selection--and the list is by no means exhaustive--might be as follows: proper regard for the environment, nuclear safety, long-term peace, human rights, effective action against drugs and corruption, and international economic cooperation. There is no doubt whatsoever in my mind that last Sunday, a whole new dimension was added to the code of conduct which I have just described, a code of conduct which all the world's countries should agree to abide by. I am referring to the new Declaration adopted by the Interim Committee. As Michel Camdessus himself said yesterday, this is more than just another call to action. The adoption of this new Declaration is a watershed for the following reasons:

First, the Declaration sends a universal message; it provides additional proof that globalization has brought the peoples and governments of the world closer together in a way that would have been unthinkable only a few years ago;

Second, the Declaration marks a sharp contrast to the usual “tunnel vision” approach, reflecting the wide-ranging and invaluable lessons learned as a result of the IMF’s surveillance activity;

Third, I am convinced that those governments that endeavor to implement the Declaration will have chosen the most reliable method of ensuring the prosperity of their respective countries;

Fourth, the Declaration attaches particular importance to promoting good governance, ensuring adherence to the rule of law, and adopting firm measures to deal with corruption and money-laundering. Not so many years ago, the Fund’s “neutrality” would not have allowed it to declare that these principles of good governance are the “essential elements of a framework within which economies can prosper”;

Last but not least, the new Declaration entrusts the IMF with the task of overseeing the efforts which member countries make in these areas.

Thus, in building what Michel Camdessus has referred to as an economy with “three hands” (which are law and justice, the market, and a spirit of community), an environment will be created in which the opportunities afforded by economic globalization outweigh the potential risks.

Canada (Temporary Alternate Governor Peters)

How can we improve our prosperity? The general policy prescriptions--sound public finances, price stability, and structural reforms--embodied in the Interim Committee’s Madrid Declaration two years ago remain the best long-term program for creating jobs and prosperity.

India (Governor Chidambaram)

The Madrid Declaration, as modified a few days ago, gives expression to our common aspirations for the progress of the world. It is a document that stresses both growth and social cohesion. It calls for fiscal adjustment but at the same time calls upon countries to pay attention to the quality and composition of that adjustment so that nations achieve sustainable growth along with development of human resources. This has always been our approach to fiscal adjustment and I am happy that this finds full expression in the Declaration.

Myanmar (Governor Win Tin)

...we are equally eager to pledge our cooperation and support to the Fund and the Bank in the spirit of cooperative strategy as set out in the Madrid Declaration, with the firm belief that the services and advice of these twin institutions will play a crucial role in guiding us toward the goal of macroeconomic stability.

New Zealand (Governor Horn)

...we very much support the adaptation of the Madrid Declaration to emphasize the importance of the complementarities between different reforms, and the need to move in a sustained manner on both macroeconomic and structural fronts if reform efforts are to bear full fruit.

In particular, we agree with the stress being given to fundamental labor market reform in industrial countries to deal with the current very high unemployment levels in many of them.

Venezuela (Governor Azocar) 3/

We agree that there is a need to continue strengthening the surveillance role of the Fund, both in the industrial and in the developing and transition countries. We therefore welcome the updating of the Madrid Declaration, adopted by the Interim Committee last Sunday.

It is significant that the Declaration on the Partnership for Sustainable Global Growth stresses the close inter-relationship between macroeconomic policies and structural reform--the former are only effective and can only be sustainable in the long term if the latter are implemented--; the strengthening of financial systems and banking supervision, both nationally and internationally; and, in particular, the importance attached to human development and the need to improve the quality and efficiency of public sector management in all countries.

I also wish to point out the growing importance that the IMF is attaching to the social dimensions, as I myself have witnessed in the case of Venezuela. This is concisely, but admirably, stated in the Interim Committee Declaration on Partnership for Sustainable Global Growth, which stresses the importance of improving the quality and composition of fiscal adjustment and the need to develop and protect human resources in all countries by increasing spending on education and training, reforming public health and pension systems to ensure their long-term efficiency and viability, alleviating poverty, and providing well-targeted, but affordable, social safety nets. All of this will, of course, have to be done in coordination with the other international organizations.

In addition to these social guidelines, the Declaration also calls for an improvement in the quality and efficiency of public sector management, including combating corruption...

Who would have thought that only a few years ago, these concepts of social order, which are now set out in a very important declaration by the Interim Committee, would have become a part of the economic philosophy of the International Monetary Fund.

We are designing programs ...to improve family income and train young school dropouts, pending the conversion of Venezuela, through the structural reform of the education system, into a society offering the opportunities we all wish to see. These examples illustrate our concern for the human dimension, which is the basis for all our government's actions, and which is also the basis of the Interim Committee Declaration.

Vietnam (Governor Cao Si Kiem)

Clearly, progress in implementing policies consistent with the global strategy set out by the Interim Committee three years ago, and reaffirmed in its October 1994 Madrid Declaration, has brought significant results in many years.

3. Industrial Country Economic Policies

Canada (Temporary Alternate Governor Peters)

The fact that unemployment remains unacceptably high in many countries highlights the need for more rapid economic growth as well as improved matching of skills needed by employers. If we improve the effectiveness of labour markets by removing unnecessary regulations that discourage hiring and improve the ability of workers to match their abilities with the skills employers are demanding, a better employment situation should result.

Germany (Governor Tietmeyer)

Serious structural weaknesses continue to exist in many industrial countries. It is surely no coincidence that those countries which responded to the challenges presented by the global market at an earlier date and with fewer reservations are now enjoying more favorable conditions for growth and employment. In its most recent World Economic Outlook (WEO) the IMF rightly noted that, in the vast majority of cases, unemployment in continental Europe is of structural origin; in other words, it cannot be tackled by means of expansionary financial policies. What is needed are more flexibility and deregulation of the Labor and product markets and the rectification of undesirable developments in the welfare state. At the same time it is also important to continue the consolidation of budget deficits and the reduction of government debt in a vigorous and sustained manner, in order to foster confidence of investors and consumers, and to lower interest rates (which rightly so is also a key subject of the WEO). Monetary policy cannot make up for shortcomings in structural adjustment. Nor can it play a direct role in stimulating economic activity. Rather, monetary policy must be committed to the goal of stability. What it can do is to stabilize expectations and generate confidence. That is what offers

the best outlook for long-term growth - an experience emphasized also by the Madrid Declaration. In this context we notice with some concern the recent revival of the view that with some percentage points of inflation economies might be better off than with price stability.

Greece (Governor Papademos)

The unemployment problem in Europe, ... reflects primarily deep-seated structural factors and any trade-off between fiscal retrenchment and economic activity can be expected to be temporary as budgetary discipline will ultimately have beneficial effects on growth. Indeed, fiscal consolidation, and more generally stabilization policies, need not affect economic activity adversely even in the short run. An appropriate macroeconomic policy mix combined with structural reforms can create conditions conducive to increased investment, partly by boosting confidence and creating favorable expectations about the future course of the economy. In today's integrated financial markets, these effects can be especially strong in countries which tackle their fiscal imbalances decisively.

Ireland (Governor Quinn) 4/

Unemployment within the European Union is a matter of great concern. While the conditions for recovery in Europe are in place, its rate of unemployment remains unacceptably high. It is clear that creating the conditions for the maximum possible increase in sustainable employment must be a major priority of economic policy in the Union and for the Member States. Sustainable employment creation requires an approach which, while taking account of the needs of the environment, involves macroeconomic stability, structural reforms in the functioning of product and services markets, as well as labour markets, and a wide range of labour-market policies designed to help, among others, the labour categories particularly hit by unemployment (for example the long-term unemployed, and, in most countries, the young, women and the unskilled)....

The response of Member States makes clear their commitment to credible and well-designed reductions in budget and social security deficits, although efforts need to be stepped up in some countries. Despite unfavourable economic conditions in the early part of 1996, substantial corrective packages have been undertaken which are expected to lead to a further significant reduction of budget deficits in the Union this year and an even more significant improvement in 1997.

The European Council in Florence confirmed the continued commitment of the Member States to strict budgetary discipline on an enduring basis. There can be no doubt of the importance of this for the Union as a whole, in terms both of the changeover to the single currency and of the smooth functioning of the single market. Budgetary discipline, combined with monetary policy directed at price stability, will enhance growth prospects - even in the near term - through boosting business and consumer confidence and reducing interest rates, thereby stimulating investment, growth and employment. Preparations for the third stage of Economic

and Monetary Union, which will begin with the introduction of the single currency on 1 January 1999 - are currently focused on developing appropriate arrangements for securing budgetary discipline ("stability pact") and for promoting currency stability between participants and non-participants in the single currency area.

Italy (Governor Ciampi)

Structural unemployment remains the major challenge for Europe. It has heavy negative effects in the economic, social and political spheres. Unemployment in our countries is due to several factors: technological change, the effects of globalization on the location of production and competition, the new organization of productive processes, and rigidities in labor markets. There are policy and institutional changes that are needed to cope with it. Some of them require time and sustained efforts. But, we are all well aware that resumption of growth in Europe is also necessary to reduce substantially our unemployment rates. The full realization of the European Union, and of its potential, is in itself critical to higher growth and to permanently lower unemployment.

Japan (Governor Kubo)

In order to sustain noninflationary growth, the industrial nations are working to reduce fiscal deficits, stabilize prices, and achieve structural reform. Clearly, the biggest challenge is the reduction of fiscal deficits. Without this, the vitality of the private sector will be undermined and the world's savings will be put at risk.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...most of the industrial countries have been successful in reducing their budget deficits and maintaining lower inflation and interest rates, and this has had a significant positive effect on the world economy. But the slowdown of economic growth in the industrial countries, together with the continued need to further reduce their budget deficits, has made it necessary for the governments of these countries to adopt appropriate fiscal policies, which in turn affect economic growth, exchange and interest rates, and patterns of trade in the rest of the world. We hope the IMF will continue to encourage the industrial countries that control the principal traded currencies to coordinate their policies and make them more transparent. At the same time, we are concerned about the high rates of unemployment in most of the European countries.

Malta (Governor Vassallo)

In the fiscal field, for example, despite progress in reducing budget deficits, many countries have still not achieved fiscal consolidation. In the labor market, the existence of various rigid structures in a number of industrial countries remains a primary factor contributing to unacceptably high levels of unemployment.

The Netherlands (Governor Zalm)

The economic results of 1997 will be a decisive factor in determining which European countries will participate from the start in the third stage of the Economic and Monetary Union. With the deadline in view, policy discussions on the need for further budgetary consolidation have intensified. It has been suggested that because of the fragility of the recovery in Europe efforts to comply with the Maastricht criteria could harm the prospects for economic recovery and employment growth.

I do not subscribe to this view. Let me first stress that budgetary consolidation is very much needed for its own sake, quite apart from the considerations of Maastricht. This is true not only for Europe; the IMF staff has convincingly argued in its World Economic Outlook that the need for a restructuring of government finances prevails among all country groupings—be it industrial, developing, or transition economies. In industrial countries, progress has been made with checking inflation. However, on the budgetary side, the levels of public debt and interest payments have continued to rise. In its surveillance activities the IMF has therefore rightly emphasized the need for further budgetary consolidation, also in the light of future demographic pressure on government spending.

New Zealand (Governor Horn)

While the overall prospects for continued solid growth in the global economy look good, serious risks remain. Continuing vigilance is required to prevent a re-emergence of inflation in the industrial economies. The key risk continues to be chronic fiscal deficits around the world, because of their role in triggering financial crises and inflation, and their negative impact on the level of global savings, interest rates, and the allocation of investment.

A critical failure in fiscal policy in many countries is the focus on the short term fiscal position, at the expense of sound medium term policy. Short term political pressures for more spending and lower taxes, as well as the temptation to use fiscal policy to moderate the cycle, tend to produce fiscal policies that move from one short term distraction to the next. While most agree on the need for a sound medium term approach, in practice the medium term is often little more than a succession of short term reactions. The result is long standing deficits, mounting public debt burdens, and high interest rates that restrain growth and job creation.

Pakistan (Governor Jafarey)

For the industrial countries, the most important challenges are the need to sustain growth, to reduce unemployment through bold measures to address structural rigidities, and to prevent a resurgence of inflation. Sustained and decisive progress in these areas can be expected to have a favorable impact on the stability of international capital markets, and minimize the risk of disruptive reactions in interest and exchange rates.

Venezuela (Governor Azocar) 3/

We believe that the major industrial countries bear particular responsibility for the systemic impact of their policies on the world economy as these affect the possibilities for growth and development of the rest of the world. We therefore insist on the need for those countries to further their fiscal consolidation efforts and firmly undertake the structural reform necessary to ensure that the behavior of long-term interest rates and the attainment of a reasonable level of exchange stability among the major reserve currencies will continue to be conducive to sustained world economic growth.

4. Economic Policies in Developing Countries and Countries in Transition

Canada (Temporary Alternate Governor Peters)

It is encouraging that the improvement in economic fundamentals in recent years has not been limited to the industrial countries. Many transition economies are benefiting from financial stabilization and structural reform through stronger output growth and substantially lower inflation. Strong growth in a number of African countries has also resulted from efforts at fiscal consolidation, structural reform and steps toward improved governance. These visible payoffs for macroeconomic and structural reform encourage other countries to follow suit.

China (Governor Dai)

The task for further structural adjustments and reforms is still tremendous in the developing and transition countries. We are delighted to see that a growing number of developing countries are making efforts to eliminate structural impediments and improve their macroeconomic management. For emerging markets countries, given the increasing sensitivity of international capital flows to the macroeconomic conditions in recipient countries, maintenance of macroeconomic stability is crucial to sustaining economic growth and withstanding external disturbances.

Denmark (Governor Nielson) 5/

We warmly welcome the attention that the World Bank and IMF have given during the last few years to the problems of the transition economies. An overwhelming majority of the transition economies in Central and Eastern Europe have taken impressive steps towards market economies. For example, Russia has now made considerable progress in bringing down inflation within the framework of the stabilization programs agreed with the IMF.... work must continue to assist these economies in their efforts to reform and restructure....The social effects of transition and environmental concerns should also be given high priority.

Germany (Governor Tietmeyer)

The differences in economic activity reflecting the degree of economic opening and liberalization are often even more striking in the developing countries and countries in transition than they are in the industrial world. In many regions, especially in the emerging markets, growth is meanwhile noticeably higher than in the latter. There are even signs of overheating in the Asian region. Also, in the majority of countries in transition the economy is reacting more and more to market forces and its increasing integration in the world economy. Many countries have realized that economic liberalization releases more productive energy than any conceivable amount of bilateral or multilateral aid.

By contrast, in many other developing countries and countries in transition prevailing structural obstacles have left the growth potential underutilised. In most of those countries, large public sector shares in GNP and the scale of government intervention continue to restrain the development of the private sector. Bearing this in mind, we welcome the World Bank's intention of making the role of the public sector the key topic of next year's World Development Report. Reforms such as the creation of free markets or the liberalization of foreign trade and capital movements often founder not on any alleged lack of funds but on a lack of political will, or on the attempt to maintain "control" over the development of an economy. This prevents the production potential from being put to full use.

Japan (Governor Kubo)

Developing countries on the whole are enjoying high economic growth. This trend is particularly evident in the emerging economies, whose influence on the world economy as a whole is therefore considerable. Ideally, these emerging economies will contribute to sustainable global growth while guarding against domestic overheating....

Today, one cannot categorize the situation of developing countries by using just one uniform characteristic. The emerging economies, the poorest countries, the post-conflict countries, and the transition countries are all facing different tasks. Hence, development strategy should be tailored to the specific circumstances of a given country while fully drawing on the experiences and lessons we have learned in other regions. To allow us to respond in this way, we must study a variety of development experiences, exchange views on them, and share the knowledge. This is an essential process, yet it is still in its initial stage....

Finally, a few words on the emerging economies. For those economies, primarily in Asia and Latin America, to maintain steady growth, the public sector will continue to play an important role. It is equally important, however, to draw on the vitality of the private sector.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

The positive developments taking place in the developing economies encourage us to call on the developing and transition countries to redouble their efforts at reform, to ensure continued and sustainable improvement in their economic performance. Naturally, the success of the economic reform efforts in these countries is largely dependent on improved opportunities for marketing their exports to the industrial countries. Once again we would like to express our hope that the industrial countries will refrain from adapting any policies or taking any protective measures aimed at pursuing unjust goals.

The Netherlands (Governor Zalm)

Not only industrialized countries should continue and pursue sound economic policies. This is also true for developing and transition countries, of which many have already strengthened their economic and structural policies. At the same time, the multilateral institutions have been improving the effectiveness of their own operations. In addition, shareholders have assigned several new responsibilities to them. It would be most unfortunate if progress on these fronts were to be endangered by lack of adequate financial support for the institutions.

New Zealand (Governor Horn)

One critical element of reform lagging in many transition economies is trade reform. As has been shown elsewhere, moving to transparent tariff-based regimes and lowering rates of protection creates a powerful spur to enterprise restructuring, international competitiveness and innovation, and puts the economy onto a higher growth path. We strongly support the efforts of the Bretton Woods institutions to create more open trade and investment systems.

Pakistan (Governor Jafarey)

Growth in the developing countries, particularly in the poorest, must be maintained and extended, supported by a global environment that offers improved access to industrial country markets and timely financial support on appropriate terms. The design of adjustment programs must continue to give appropriate emphasis on growth-promoting forces, while providing for social safety nets that are well targeted so as to alleviate the adverse impact on the most vulnerable groups. Furthermore, if developing countries are to be encouraged to liberalize and open their economies further to external competition, protectionist groups must resist using labor standards, environment security, and human rights as disguises for their advocacy for trade restrictions.

Republic of Poland (Governor Kolodko)

Paying necessary attention to the quality of adjustment does not mean negligence for its social aspects - just on the contrary. An ultimate aim of the economic policies is the social welfare. The results of the economic growth have to be shared by the society as a whole. This would have to imply necessary public expenditure on education and health to maintain the investment into the human capital at levels high enough to hold the country's ground in competitive efforts on international front as well as the restructuring of those sectors to increase the expenditure efficiency.

Russian Federation (Governor Potanin)

A well-designed structural and investment policy, aimed at maintaining and developing the crucial elements of the national production infrastructure, takes on particular importance in transition and developing economies. An active social policy also plays a critical role in ensuring stable social and economic development.

5. Strengthening Fund Surveillance; Data Dissemination Standards

Australia (Governor Costello)

The Fund's approach to surveillance has been greatly strengthened, including through the data initiative.

Austria (Governor Klima)

The international community has managed to refine the instruments for preventing and coping with international financial market turbulences. Work on two of the major conclusions drawn from the Mexican crisis has now been completed satisfactorily. First, through the strengthened and improved data standard made accessible since mid-September on the Internet the markets can get better data in a timely way and possible market disturbances as a result of inadequate information can be avoided. Austria is one of 34 industrial and developing countries which have already subscribed to this standard and committed themselves to meeting its requirements. I should also add that not only the IMF is getting more modern in this way, but also a number of member countries, including industrial countries which have to modernize and remodel their sometimes antiquated and sleepy statistical bureaucracies in the wake of this international policy initiative.

Bangladesh (Governor Shah A.M.S. Kibria)

The IMF will have to play a more active role not only in enforcing surveillance and policy imperatives but also in providing additional resources.

Canada (Temporary Alternate Governor Peters)

The IMF has introduced the new Special Data Dissemination Standard for capital market borrowers, to provide more timely and reliable economic and financial statistics to institutions and markets. This will improve surveillance capabilities and make it easier for both markets and the international institutions to identify problems before they reach crisis proportions.

Republic of Croatia (Governor Skreb)

Croatia has accepted to work intensively in adopting the SDDS to ensure prompt and transparent information on its economic policies.

France (Governor Arthuis)

The last aspect which I would like to mention is the management of economic crises and the prevention of their spread. We all know that a priority effort must be directed at preventing crises through strengthening the surveillance of authorities, mostly the IMF, and of the markets themselves. Whence, the importance of the creation of the standard for data dissemination, and, I am delighted at the success with which this initiative has met. Men are fallible and markets will always be unpredictable, so, even with strengthened surveillance, we cannot hope to protect ourselves from future crises. It is therefore essential that we have at our disposal the resources to face up to them.

Germany (Governor Tietmeyer)

The IMF and the World Bank have reacted promptly and resolutely to the new global economic challenges. We welcome, above all, the IMF's decisions to intensify its surveillance over its member countries' economic policies with shorter time-lags, so that critical developments can be identified at an early stage. That is also the purpose of the newly developed standards for the statistical data which member countries are to make available to the markets. Germany will adopt these standards; however, the flexibility announced by the IMF in their implementation is necessary to strike a proper balance between timeliness and reliability of the data to be supplied.

Ireland (Governor Quinn) 4/

The provision and effective use of the Fund's financial and staff resources is critical to its success. The prevention of balance-of-payments disequilibria should remain the focal point of Fund policy. The European Union therefore welcomes the IMF's continuing review and adaptation of its surveillance regime. The establishment of the Special Data Dissemination Standard is a welcome innovation which will, in time, reduce the likelihood of sudden and disruptive market reactions before manageable problems grow to crisis proportions. We call on developed and developing countries to join. We look forward to further progress in this area, notably in establishing a general standard for data dissemination for all members shortly.

Israel (Governor Frenkel)

...the International Monetary Fund is now encouraging an Article VIII type arrangement for the capital movement. It is encouraging the development of a database which is timely and updated. It is emphasizing the importance of macroeconomic management and, of course, it is ready to stand and meet the challenges of emergency situations.

Italy (Governor Ciampi)

In recent years, Fund's surveillance has been made more timely and continuous, and has been enlarged in scope and depth. The Fund's conditional support to its members, performs both a direct and a catalytic role in mobilizing means of finance. In the case of the poorest countries, its contribution is often fundamental for resumption of growth. These important functions must be maintained and strengthened.

The smooth functioning of the capital markets, whose disciplinary role has clearly increased in recent years, can be enhanced through the improvement of the statistical information provided to the public. We are, therefore, very pleased by the establishment of a set of common standards, the Special Data Dissemination Standards (SDDS). The relatively large number of members, including Italy, which have already subscribed to the SDDS is above expectations. Besides the main industrial countries, the group now comprises a significant number of emerging market economies, and some economies in transition. This is of great value. We are confident that this initial group of "subscribers" will expand rapidly in the months ahead.

Japan (Governor Kubo)

Let us not forget that the statistical capability of developing nations must also be enhanced so that they can subscribe to the Special Data Dissemination Standard. This is why, when considering requests for the use of the Japan Administered Technical Assistance Account with the Fund, it is hoped that priority will be given to projects intended to enhance the authorities' statistical capability.

Korea (Governor Seung-Soo Han)

...the IMF needs to extend technical assistance to help member countries subscribe to the Special Data Dissemination Standard (SDDS) by the end of 1998. In addition, the IMF should develop an efficient operational plan for the SDDS to function as a key component of the Early Warning System.

Malaysia (Governor Anwar Bin Ibrahim)

Malaysia on its part is prepared to assist and cooperate with the Fund. We have supported the Fund's effort to improve surveillance via greater transparency of data. Despite problems and limited resources Malaysia has subscribed to the SDDS.

Malta (Governor Vassallo)

...there is no doubt that a strengthening of the Fund's surveillance function will contribute significantly to the prevention of a Mexican-type financial crisis. The establishment by the Fund in late March of the Special Data Dissemination Standard (SDDS) to guide members having, or seeking, access to international capital markets is certainly a step in the right direction. Consequently, the obligation on member countries to provide up-to-date economic and financial data for public consumption should contribute not only to macroeconomic discipline and monetary stability, but also to the promotion of sound financial systems and efficient market mechanisms.

I am glad to say that over the last year my country has taken a number of measures to strengthen and upgrade its resources where the compilation of statistics is concerned in order to attain the high level required by international standards. Thus, as part of our preparations for membership in the European Union, we are in the process of integrating our statistical system with that of the European Union. While for the moment we will adhere to the General Data Dissemination Standard, we hope to be in a position to subscribe to the SDDS well before the end of the transition period in December 1998.

Federated States of Micronesia (Governor Ehsa) 2/

We commend the Staff of the Fund for completing the framework for the publication and dissemination of data of member countries. There is no doubt, that the standards will enhance transparency by publishing and disseminating official statistics that shed light on macroeconomic policies and performance. However, before subscribing to these data standards, we would like to reiterate to the Fund to take note of the need for technical assistance in the case of developing countries, especially the small Pacific Island countries which at present, lack the expertise in compiling the necessary statistics needed to meet the Fund's reporting requirements.

New Zealand (Governor Horn)

The primary lesson to be drawn from the growth of financial markets is the need for greater credibility in economic policies; the first priorities must therefore be to improve the Fund's surveillance and the effectiveness of Fund programmes.

...while we welcome the recent efforts to strengthen surveillance, we consider the IMF could further improve both its effectiveness and efficiency by focusing more carefully on priorities, and continued strengthening of its management practices.

Pakistan (Governor Jafarey)

We welcome the concrete steps that have been taken recently to strengthen Fund surveillance of member countries' policies. The review of policies in the context of surveillance contains important lessons for all of us: the quality and composition of fiscal adjustment; disinflation strategies in countries with persistent inflation; and the challenges of trade policy action in the transition countries. While the Fund is justified in supporting rapid and ambitious movement towards desired medium-term objectives in all these areas, it is important to remain mindful of the fact that country-specific constraints, which are often political and social in nature, can make actual progress somewhat less rapid. We encourage the Fund to broaden and deepen their work on the costs of inflation and the magnitude of the "sacrifice ratio" involved in programs of rapid disinflation.

Republic of Poland (Governor Kolodko)

There is a relationship between intensity of capital movements and capital exporters' economic performance. Thus, the indicators of concern should cover not only the emerging markets, but also industrial countries as major short-term capital exporters. The Fund's strengthened surveillance mission would help reduce or avoid this dramatic need in the future. The Special Data Dissemination Standard - which we accepted in April - should be essential in this respect, contributing to the timely and comprehensive economic and financial data provision. Notwithstanding the improved statistical basis for surveillance, we strongly appreciate the Fund's recent search for an approach most adequate in terms of a qualitative assessment of macroeconomic adjustment and increased insight into structurally important areas, crucial for performance of economies in transition.

Spain (Governor De Rato Figaredo)

As regards the surveillance function of the IMF, we regard the Fund's implementation of the **special data dissemination standard** as a very positive step, and Spain has subscribed to it since its introduction. We trust that the establishment of a generalized standard for all members can soon be finalized.

Sri Lanka (Governor Peiris)

We welcome the further progress made by the Fund in promoting the use of the Special Data Dissemination Standard (SDDS). In particular, we commend the Fund for launching the Electronic Bulletin Board for the SDDS a few days ago. We hope we would be able to see more progress soon in this very important area, such as the establishment of hyperlinks to connect the Electronic Bulletin Board to individual country data sites on the Internet. We also hope that many of us would be able to connect with the Electronic Bulletin Board in the near future. We would encourage the Fund to expedite the work on the General Data Dissemination Standard (GDDS) too, so that it could be launched without much delay.

We are pleased at the progress made by the Fund in strengthening its surveillance of member countries. Taken together, the establishment of the special data standards and the enhanced surveillance efforts would no doubt make a substantial contribution towards improving the transparency, integrity, and health of the international financial system.

Sweden (Governor Åsbrink) 6/

Since the early eighties, we have witnessed a dramatic increase in interdependence of our economies. In today's world, characterized by financial innovation and integrated capital markets, it is more important than ever that IMF surveillance is continuously adapted and enhanced in order to keep it as efficient as possible. Performing effective surveillance implies promoting sound economic and financial policies and having the capacity to identify and deal with deviations from such policies in a timely manner. Moreover, as we are all affected by developments outside our borders, it is also important that countries shape their policies with this in mind, in order to ensure low inflation, sustainable growth and employment.

I sincerely welcome the strengthening of the Fund's surveillance, in particular the development of the Special Data Dissemination Standard (SDDS) and the decisions to carry out a more continuous process of surveillance. This will make the IMF better equipped for facing future challenges.

The quality of the Fund's surveillance depends critically on the availability of timely and reliable data. The member countries also stand to gain from providing economic and financial data to markets, since it enhances the transparency of economic and policy making performance. I am therefore pleased to see that the SDDS has been set up so swiftly. It is encouraging that as many as 36 countries have already subscribed to the Standard. Now, it is important to continue work on a set of general standards which all Fund members should strive to meet. Technical assistance will be needed for those members that cannot meet the required minimum standards on their own.

This leads me to improved transparency in a broader sense. Credibility and effectiveness in surveillance is dependent, among other things, on frankness in the dialogue between the member countries and the Fund. Moreover, effectiveness of surveillance increases all the more if the Fund's advice is candid and straight forward. We welcome the efforts made in this regard during the last year.

At the same time, I believe that additional steps towards increased openness would strengthen surveillance and also contribute to a more informed public debate. Making Fund advice on surveillance issues available to the public and to the markets in appropriate ways could be part of such a strategy. The issue of openness is delicate, but I do believe that it is possible to find solutions that permit increased openness while preserving the confidential nature of the dialogue between the Fund and its members. It is therefore my view that the matter deserves the continued attention of the IMF's Executive Board.

Switzerland (Alternate Governor Villiger)

Notwithstanding this substantial future increase in financial resources, we remain convinced that prevention is the best protection against possible crises. We therefore welcome the strengthening of Fund surveillance. We have been favorably impressed by the decisive progress made in establishing data dissemination standards.

Thailand (Alternate Governor Sonakul)

Let me now speak briefly on issues related to the Fund. The initiative in launching the Special Data Dissemination Standard is commendable. The SDDS, through the bulletin board will provide the market with accurate and timely information. The rapid transmission mechanism will also help to avert any misunderstanding or panic reaction from the market. Thailand has subscribed to the SDDS and is committed to the development of transparent and timely economic and financial information.

Turkey (Governor Söylemez)

In today's highly integrated world, the best way to promote trade and sustainable growth is to convince everyone that sound policies make a difference. Very timely for this reason is the launching of the Fund's Special Data Dissemination Standard (SDDS), which will encourage members to public their economic and financial data. Having to seek access to the international financial markets, my country of Turkey well understands the importance of high quality economic and financial data and subscribed to the SDDS in early August.

United Kingdom (Governor Clarke)

Macroeconomic surveillance is rightly at the very core of the IMF's role. It is vital that the quality of surveillance is maintained and enhanced if we are to stand the best chance of preventing financial crises, and promoting sustainable economic growth.

One way in which the Fund have answered this call is by establishing the Special Data Dissemination Standard (SDDS). I fully support the move towards greater openness in economic policy making and surveillance in order to improve the quality of economic debate in our countries as well as improving the flow of reliable information to investors and markets.

I am pleased to say that the UK was the first country to subscribe to the new data Standard. Now over thirty other countries have followed our lead. The next step will be the establishment of a basic standard, which all Fund members should strive to meet.

I am also keen to encourage continued improvements in the surveillance conducted by the Fund during Article IV consultations. Here we have been pressing for franker, more focussed reports and Board discussions. In my view, this frank and independent advice is one of the key benefits of being an IMF member.

This summer I became the first UK Chancellor to publish the Concluding Statement of the Article IV mission to the UK. I would urge others to do the same.

A logical next step would be to publish the chairman's summing up of Board discussions of Article IV reports. The UK continues to support an IMF policy change which would allow this. I am aware that some members fear that frankness would be inhibited. If our experience with publishing the Concluding Statement is anything to go by, this should not be a problem in practice.

United States (Governor Rubin)

At Halifax and again at Lyon, G-7 leaders agreed to an ambitious program of initiatives to safeguard financial stability in the global markets. Virtually, all of the initiatives that were brought forth have now been brought either to completion or almost to completion, including strong IMF disclosure standards to prevent future crises, the new arrangements for borrowing to expand the resources available to the IMF and financial emergencies and recommendations to facilitate market-based solutions to sovereign financial crises to reduce the expectation of official finance and encouraging private investors to focus more attention to risk.

Venezuela (Governor Azocar) 3/

We agree that there is a need to continue strengthening the surveillance role of the Fund, both in the industrial and in the developing and transition countries.

6. Capital Account Issues; International Capital Markets

Canada (Temporary Alternate Governor Peters)

...I am encouraged by the flows of private capital we have seen in the 1990s from the more industrialized economies to the emerging economies, including a growing number of developing economies. These flows are of great importance to the developing world at a time when aid budgets are under pressure in donor countries. They do pose challenges of their own. But they also hold the promise of great benefits -- not just in the transfer of capital, but in the transfer of new technologies and new methods of doing business. We should all do what we can to ensure that these flows of private capital are used effectively to improve well-being in the developing world.

Republic of Croatia (Governor Skreb)

High mobility of capital has only enhanced the responsibilities of authorities, and it has imposed the implementation of sound policies.

Germany (Governor Tietmeyer)

The progressive liberalization and globalization of the financial markets also pose challenges to all countries. A number of countries have been forced to learn also in the recent past that international capital markets impose sanctions on inappropriate policies. Easy access to foreign resources, for instance, must not tempt capital-importing countries into an undue expansion of domestic demand. High current account deficits - especially if they are financed at short term, and are accompanied by a sharp expansion of the domestic money stock - must be taken as a warning signal.

India (Governor Chidambaram)

An increasingly large number of countries have accepted the obligations under Article VIII and moved towards current account convertibility. Success in managing current account convertibility should lead to greater flexibility in the capital account. However, it is important to recognize that complete freedom with respect to capital transactions must be approached cautiously since many developing economies may have limited abilities to deal with volatility of capital flows, and capital flights may occur in crisis situations.

Israel (Governor Frenkel)

...the International Monetary Fund is now encouraging an Article VIII type arrangement for the capital movement. It is encouraging the development of a database which is timely and updated. It is emphasizing the importance of macroeconomic management and, of course, it is ready to stand and meet the challenges of emergency situations.

Italy (Governor Ciampi)

International capital markets have absorbed the effects of the Mexican crisis while learning some of its many lessons. The serious adjustment efforts pursued in many Latin America countries, by restoring investors' confidence, have helped stabilize financial markets. Moreover, the Fund's ability to deal with financial crises of the Mexican type is in the process of being strengthened significantly.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...the continuous growth in international commercial and financial exchanges has been accompanied by a brisk trend of capital flows to an increasing number of countries. While we welcome the increased openness of financial markets, we also note that fluctuations in capital flows have had a considerable negative effect on the banking system in both developing and industrial countries. The banking sector in these countries must be strengthened and economic policies must be adopted to control these fluctuations and allow the flow of capital to play an effective role in economic development.

Malta (Governor Vassallo)

...as we proceed further with capital control relaxation, we would like to reiterate our support for the establishment of a Fund facility which will provide resources to countries that may face sudden external shocks as a result of destabilizing, short-term capital movements following the removal of capital controls. While we strongly support the recent initiative by the Fund to establish an Emergency Financing Mechanism, we feel that the allocation of resources for the specific purpose I referred to earlier would act as an incentive to countries which still maintain controls on capital to hasten the pace of capital liberalization.

On the subject of capital flows, it is encouraging to observe that during the last few years, the developing countries have been the recipients of capital inflows. However, a substantial proportion of these inflows are short term and can thus be susceptible to sudden withdrawal at the first sign of economic or financial problems in the recipient country. It is obvious that such short-term capital does not contribute to stability in countries which are undergoing macroeconomic adjustment and structural reform. The international financial community should therefore strive to stimulate investment in these countries through long-term capital instruments and direct participation in investment projects.

Philippines (Governor De Ocampo)

Global integration of capital markets has opened opportunities as well as new risks that pose daunting challenges for authorities in host countries, market participants and the international community....

Within East Asia, a number of developing countries have had to cope with rapid changes and global integration of markets at an accelerated pace. Having early on taken to heart the lessons of getting fundamentals right and adopting market-friendly reforms, they have reaped its rewards early and in large volume. These rewards have been amplified by large flows of private capital, both direct and portfolio, in a virtuous cycle of confidence and success.

We know from Mexico's experience that this works two ways and the virtuous cycle can easily turn vicious even in less time. The Mexican financial crisis was a strong reminder of the potential impact of sudden changes in financial markets' assessments of a country's economic policies and prospects and of the need for caution and self-discipline in macroeconomic policy.

Russian Federation (Governor Potanin)

We are pleased to note that there has been a certain stabilization of the situation on the *international foreign exchange and capital markets*, which is largely due to a gradual optimization of monetary and financial policies in the majority of countries around the world. The IMF deserves a great deal of credit for this. We are also encouraged by the fact that the capital inflows into developing countries have broadly returned to the level that had existed prior to the financial crisis in Mexico in late 1994.

Sweden (Governor Åsbrink) 6/

A second issue is capital account convertibility. The present Articles were agreed upon in a different environment. Since then, the importance of capital account issues has increased, and recent experience points to the minimal effectiveness of exchange and capital controls. There are good arguments for reviewing the Fund's jurisdiction in this area.

United Kingdom (Governor Clarke)

Over the last decade, private capital flows have increased enormously. These flows have already brought great benefits particularly to a dozen or so countries now enjoying rapid growth. But I want to see these benefits also spread more widely and more securely across all countries. That means pressing on carefully with capital liberalisation.

Within the OECD, we have done a great deal to liberalise capital movements and the EU has prohibited all restrictions. At the IMF too, capital account issues are becoming more prominent in surveillance and programme design. But the Fund does not have an explicit mandate to promote further liberalization. The Articles were framed for a world of limited private capital mobility and widespread capital controls that is now long gone. They now need to be brought up to date to reflect the Fund's changed role in a transformed world.

In my Interim Committee speech, I called for the scope of Article I to be widened, so that the Fund would encourage all members, over time, to liberalise capital account payments. Other Articles would need amending too, to bring them into line with this new mission. I hope that the Board will make early progress on this issue, so that we can consider specific proposals at the Spring meetings next year.

As we continue with the process of capital liberalisation, we must at the same time adapt our policies to cope with the new challenges that greater capital mobility will bring. For example, we need to strengthen the supervision and regulation of the financial system in many countries. And, of course, we need to work out how to manage domestic economic policy in the face of strong capital inflows.

The IMF and the World Bank have key roles to play here. They can advise on the implementation of standards for regulation and supervision, and give technical assistance to countries trying to improve their procedures. And we look to the IMF to distil, disseminate and help members implement the lessons we have already learnt about the management of domestic policy in the face of liberalised capital flows.

Venezuela (Governor Azocar) 3/

It should no longer be surprising, for instance, that a number of Latin American countries have had to resort to prudential regulations to discourage inflows of speculative capital and attract long-term capital, preferably in the form of direct investment. Capital volatility may require action on the part of the international community and the International Monetary Fund, in particular, and should be directed toward assisting our countries to solve these complex problems in a pragmatic manner, rather than systematically resorting to conventional methods, since these can have serious adverse repercussions on our competitiveness.

7. Banking Soundness; International Cooperation on Banking Matters

Armenia (Governor Bagratian)

An effective financial intermediation system is key to the mobilization of resources and the development of the private sector.

Canada (Temporary Alternate Governor Peters)

We collectively face other challenges in the realm of global governance. One of these is the need to ensure the robustness of the international monetary system in the face of potential financial crises. We have recognized a need to strengthen the capacity of the international community to anticipate problems (and, thus, to avoid full-blown financial crises) and to

respond to such situations effectively. I am very encouraged by the progress we have made, particularly over the past year...

France (Governor Arthuis)

Several recent crises in new financial products as well as in traditional banking systems, in the industrialized countries as well as in the emerging countries or those in transition, have demonstrated the urgency of this question [of the security of financial markets.]. The more our economies integrate, the more the capital markets globalize, the greater becomes the need for security in financial markets. This can no longer be treated separately, country by country. Several initiatives have been or are on the point of being launched as a result of the impetus of the Lyon Summit. Many organizations are involved: The Basle Committee, of course, the IOSCO, and the IAIS. I consider that the IMF itself will be called upon to play an important role in these efforts.

What are the priorities? As for myself, I see four. First of all, we must enhance cooperation among prudential authorities in order to adapt their supervision to the reality of internationally active financial institutions and conglomerates, whose businesses span national borders and the traditional separations between financial services. Second, we must improve transparency in financial markets: the better the investor information, the more reliable will be their decisions or at least the decisions of those who wish to be prudent. The third question concerns the financial stability of emerging economies: it has particular importance for the IMF, the only institution with a worldwide mandate. It is indispensable for these countries to create prudential standards which are sufficiently dependable and respected to inspire investor confidence. This task cannot be limited to transposing to emerging economies the standards developed for international banks in the industrialized world. The emerging economies present different, often higher, risks which call for tailored responses. Finally, we must reflect on the consequences of the rise of electronic money. It is not certain that our as yet insufficient arrangements to prevent financial fraud and to fight money laundering can accommodate to the rapid appearance of these new technologies.

Germany (Governor Tietmeyer)

The unparalleled expansion and integration of the international financial markets also requires more effective supervision of the financial institutions in order to contain the risk of payment difficulties, domino effects or other adverse implications for the real economy. This is, above all, a challenge for the authorities in the emerging markets, whereas, in a large number of countries in transition, banks still have to cope with the inherited problems posed by the former economic system, namely large-scale non-performing loans.

Israel (Governor Frenkel)

...savings must be the base for investment, but you must also enhance the domestic base for your savings so you reduce vulnerability. But in order to do this, financial market reform must be key, because only under these circumstances we will see savings encouraged as the planning horizons of households and entrepreneurs is being lengthened.

Japan (Governor Kubo)

I hope you will agree that the capacity to cope with varied risks in the international financial markets must be strengthened even further. To that end, it is essential that we collaborate with the new players in the international economy, to redefine both rights and responsibilities, so that we can better manage the international monetary system while promoting international policy coordination even further.

Korea (Governor Seung-Soo Han)

In the aftermath of the financial upheaval in early 1995, the world financial market stabilized rather quickly due to extensive international cooperation and the activities of the IMF. However, we share the view that the possibility remains for a similar disturbance in the world financial market. Thus, the IMF should continue to implement a comprehensive strategy to avoid potential risks in the integrated world financial market. In this context, greater efforts should be made toward implementing the key initiatives adopted at the Halifax Summit of the Group of Seven industrial countries.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...the continuous growth in international commercial and financial exchanges has been accompanied by a brisk trend of capital flows to an increasing number of countries. While we welcome the increased openness of financial markets, we also note that fluctuations in capital flows have had a considerable negative effect on the banking system in both developing and industrial countries. The banking sector in these countries must be strengthened and economic policies must be adopted to control these fluctuations and allow the flow of capital to play an effective role in economic development.

Malta (Governor Vassallo)

In the financial field, there is a need for stronger supervision of financial institutions and markets in order to reduce the impact on the international financial system of macroeconomic and financial instability in individual countries.

Russian Federation (Governor Potanin)

...the emerging new risks and volatility in the operations of commercial and investment banks, including those in the industrial countries, and the changing foreign exchange structure of external borrowing of a number of countries, which involves significant future foreign exchange risks, are worrisome.

...substantial contribution toward attaining sustainable socio-economic growth can result from the choice of the proper goals and instruments of state regulation of the economy. This is particularly relevant to the regulation of the financial, banking, and external sectors. Specifically, the developments in recent years make us take a more cautious approach in assessing the role of portfolio investments in the national economy. An active use of this source of financing places special demands on the quality of the national banking supervision system and monetary and foreign exchange regulation.

United Kingdom (Governor Clarke)

As we continue with the process of capital liberalisation, we must at the same time adapt our policies to cope with the new challenges that greater capital mobility will bring. For example, we need to strengthen the supervision and regulation of the financial system in many countries. And, of course, we need to work out how to manage domestic economic policy in the face of strong capital inflows.

The IMF and the World Bank have key roles to play here. They can advise on the implementation of standards for regulation and supervision, and give technical assistance to countries trying to improve their procedures. And we look to the IMF to distil, disseminate and help members implement the lessons we have already learnt about the management of domestic policy in the face of liberalised capital flows.

In recent years we have been working very closely with other countries to increase our efforts to tackle the threat posed by money laundering. We take this threat very seriously because it has a key role in protecting against the proliferation of serious crime. But money laundering also has significant implications for sustained economic growth and financial stability.

This is a problem that can only be effectively tackled on a fully international basis. International criminals will always seek out the vulnerable financial centres while any remain.

Recent work done by the IMF shows convincingly how clamping down on money launderers will protect countries' economic reform programmes against serious dangers.

Reliance on short-term criminal money reduces confidence in the financial sector. It deters legitimate business. In turn, this damages liquidity and competitiveness and, ultimately,

the country's scope for growth; illicit flows can be unpredictable and volatile and can obscure trends in legitimate investment. This creates misleading signals which lead to policy mistakes; money laundering also has damaging supply side effects. Dirty money will look for a home in businesses offering protection from the law, rather than in enterprises offering the best economic prospects and investment returns; and last but by no means least, anti-money laundering controls can increase the tools available in the fight against tax evasion.

Over recent years, the work that the Financial Action Task Force (FATF) and other organizations inspired by the FATF have done on money laundering has been invaluable. I hope that this work can be taken forward in three key ways.

First, I believe that all countries' anti-money laundering systems and procedures must strive to meet the highest international standards. That means the benchmarks set by the FATF. The FATF has recently updated its Forty Recommendations, to reflect changes in the money laundering threat. I fully endorse these changes.

Second, the work of the FATF over the last few years shows how "peer group" pressure and encouragement can help to spread best practice in the international fight against money laundering. So I believe we should actively support the establishment of regional anti-money laundering review groups, modelled on the Caribbean FATF, to enable all countries to monitor each others' progress in the future.

Finally, given the economic and financial damage that money laundering can do, I strongly urge the IMF, the World Bank and other international financial institutions not only to offer advice and technical assistance but to take fully into account progress in introducing anti-money laundering controls, in line with the FATF standards, in their regular surveillance of members' economies.

Taken together these measures will reduce the hiding places for dirty money, an important contribution to both the worldwide battle against organized crime and to the increased stability of the world financial system.

United States (Governor Rubin)

The third objective for the week is to carry forward the progress we have made in strengthening safeguards of the international financial system against risk.

At Halifax and again at Lyon, G-7 leaders agreed to an ambitious program of initiatives to safeguard financial stability in the global markets. Virtually, all of the initiatives that were brought forth have now been brought either to completion or almost to completion, including strong IMF disclosure standards to prevent future crises, the new arrangements for borrowing to expand the resources available to the IMF and financial emergencies and recommendations to

facilitate market-based solutions to sovereign financial crises to reduce the expectation of official finance and encouraging private investors to focus more attention to risk.

Over the coming year, we strongly urge that the IMF and the World Bank, in cooperation with international financial supervisory bodies, take up the G-7 call for following through on the Lyon communique to promote soundness in the financing systems of emerging countries.

Too often banking problems and capital market problems have undermined economic growth and progress in these developing nations.

Venezuela (Governor Azocar) 3/

The issue of capital flows is closely linked to the soundness of our national financial systems. We are making a great effort to strengthen these systems and improve supervisory capacity. The call to strengthen our national banking and banking supervision systems and the international coordination of supervision is welcome and timely.

8. Fiscal Policy Issues (including fiscal transparency and the composition of fiscal adjustment)

Canada (Temporary Alternate Governor Peters)

Some policy-makers have expressed concern that further fiscal consolidation will only worsen an economic slowdown. In some countries, however, postponing essential deficit reduction has led to financial market turmoil which is a prescription for continued economic weakness. Indeed, the challenge is to balance credible and decisive fiscal consolidation, while maintaining needed social programs for the needy and using monetary policy to offset any short-term contractionary effects. And I would note that this is consistent with a medium-term objective of price stability.

China (Governor Dai)

Despite the recent favorable developments, challenges facing the world economy are still enormous. Many industrial countries are confronted with high fiscal deficits, and persistently high structural unemployment resulting from labor market rigidities has increased their fiscal spending and social costs. The protracted high fiscal deficits and their excessive reliance on monetary policy have not only been unfavorable to their domestic economic growth, but have also been a major factor underlying the international financial market instability. Industrial countries are urged to strengthen fiscal consolidation, accelerate labor market reform, and contain fiscal deficits, so as to create favorable conditions for lower interest rates in the international markets and minimize uncertainties in the world economic outlook.

Fiji (Governor Vunibobo)

...we must renew our efforts on fiscal consolidation to give us the necessary elbow room to persevere with the fight against inflation and, at the same time, keep interest rates down. This will help us maintain stability on the exchange rate market providing further impetus to global trade and financial flows. Ultimately, this economic stability will create the springboard for better growth prospects amongst member countries particularly the poorest amongst us.

France (Governor Arthuis)

The high level of public debt in most of the industrialized countries, the aging populations, the necessity to lower taxes--all these considerations create the need for more lasting fiscal consolidation: that is, a return to balanced budgets. This certainly does not preclude taking the economic cycle into account by tolerating some reasonable margins of fluctuation. Such is the sense of the "Stability Pact" discussions on fiscal policy within a single currency now underway in Europe. Control of public expenditure will require great effort, but I am convinced that it will enhance the well-being of our people.

Greece (Governor Papademos)

The unemployment problem in Europe ... reflects primarily deep-seated structural factors and any trade-off between fiscal retrenchment and economic activity can be expected to be temporary as budgetary discipline will ultimately have beneficial effects on growth. Indeed, fiscal consolidation, and more generally stabilization policies, need not affect economic activity adversely even in the short run. An appropriate macroeconomic policy mix combined with structural reforms can create conditions conducive to increased investment, partly by boosting confidence and creating favorable expectations about the future course of the economy. In today's integrated financial markets, these effects can be especially strong in countries which tackle their fiscal imbalances decisively.

Israel (Governor Frenkel)

...budget consolidation is now part and parcel of the strategy of policymaking in the world economy.

It is not only the quality of people on which we focus, but the quality of measures. And it is not good enough, as the IMF now emphasizes, just to cut down budget deficits but, rather, one needs to be much more informative, maybe a little intrusive in some places, by noting that one should not cut education spending, infrastructure spending, research development spending, with the effort of cutting down the budget deficit, but, rather, one should just focus on the expenditures that are wasteful and the like.

Japan (Governor Kubo)

Our foremost challenge is to tackle structural fiscal reform. Japan's fiscal situation is the worst among the industrial nations and, indeed, is at something of a crisis point. We face an unprecedented wave of population aging and, with it, an enormous burden on the people. Reform of Japan's fiscal structure is imperative. The major responsibility of this generation is to limit the burden we pass on to our children, and to secure a bright future for generations still to come.

The Netherlands (Governor Zalm)

Let me first stress that budgetary consolidation is very much needed for its own sake, quite apart from the considerations of Maastricht. This is true not only for Europe; the IMF staff has convincingly argued in its World Economic Outlook that the need for a restructuring of government finances prevails among all country groupings--be it industrial, developing, or transition economies. In industrial countries, progress has been made with checking inflation. However, on the budgetary side, the levels of public debt and interest payments have continued to rise. In its surveillance activities the IMF has therefore rightly emphasized the need for further budgetary consolidation, also in the light of future demographic pressure on government spending.

Moreover, it is a misconception that the restructuring of government finances hampers economic growth and job creation. To illustrate this I could cite several examples--such as the U.S. in recent years--but perhaps you will allow me to focus on the experience of my own country, the Netherlands. By 1997, the budget deficit will equal 2.2 percent of GDP, down from 4 percent in 1992. Yet over the same period, economic growth and especially employment growth have been substantially above the European average. This is no miracle performance; it just shows that it is possible to turn around a vicious circle of low employment, increasing high public spending and a rising burden on the private sector, resulting in still higher labor costs. The key to such a turn-around lies in a mutually reinforcing combination of fiscal prudence and structural reforms, supported by—and giving support to—continued wage moderation.

New Zealand (Governor Horn)

The key risk continues to be chronic fiscal deficits around the world, because of their role in triggering financial crises and inflation, and their negative impact on the level of global savings, interest rates, and the allocation of investment.

A critical failure in fiscal policy in many countries is the focus on the short term fiscal position, at the expense of sound medium term policy. Short term political pressures for more spending and lower taxes, as well as the temptation to use fiscal policy to moderate the cycle, tend to produce fiscal policies that move from one short term distraction to the next. While most agree on the need for a sound medium term approach, in practice the medium term is often

little more than a succession of short term reactions. The result is long standing deficits, mounting public debt burdens, and high interest rates that restrain growth and job creation.

We believe greater transparency in fiscal policy is both desirable and inevitable in today's world of open capital markets, and we welcome the greater interest the IMF is taking in these issues. Supporting those domestic interests most supportive of fiscal and financial prudence has always been one of the Bretton Woods institutions key contributions. In their roles as policy advocates, conditional lenders, providers of technical assistance, and (in the Fund's case) setter of international standards for fiscal accounting, the Fund and Bank have the ability to play an even greater role in supporting greater fiscal prudence around the world.

Sri Lanka (Governor Peiris)

...one of the most difficult problems confronting many of us today appears to be the rather intractable fiscal deficits. They appear to lie at the root of most of our problems. As we all know, large budget deficits lead to crowding out private investment, increasing inflationary pressures, and widening external current account deficits. They are thus major impediments to recovery of growth and job creation. We are trying to fight our way out of this quagmire but it is a difficult battle as experience has shown us. Our tax systems have to be further improved and streamlined. Our expenditure has to be prioritized and more resources have to be found for development of human and physical capital. Moreover, the limited resources at our disposal have to be used more efficiently. These short-term pains and hardships have to be lived through, if gains in the medium and long term are to be achieved. Countries that take this difficult path, therefore, deserve help and encouragement from the international community to sustain their efforts and soften the severe hardships and dislocation that would inevitably accompany them.

9. ESAF Continuation

Australia (Governor Costello)

Australia supports an extension of ESAF as the central plank of the IMF's contribution to the debt initiative. We are also willing to consider returning our refund of contingency reserves as a bilateral contribution to ESAF.

Austria (Governor Klima)

The Executive Board and the Interim Committee have spent a considerable amount of time on resolving issues related to the HIPC Initiative and the continuation of ESAF. The results of these deliberations have been acceptable and fruitful in many respects. In particular, we now have the necessary consensus for starting the HIPC initiative operations, and the contours of an agreement on ESAF.

However, I would still like to raise my concerns about an eventual sale of gold for the financing of ESAF. In my view, in a monetary institution gold sales should be taken recourse to only in times of an emergency situation. The reserves of the IMF should not be used for raising funds for a loan facility of the Fund, however justified the financing needs of the recipient countries may be. For good reasons, ESAF I and II were financed out of bilateral contributions, and we should not depart from the sound reasoning underlying our previous ESAF financing philosophy. But above all, I fear that by accepting gold sales we will legitimize a further major shift away from bilateral to multilateral development assistance, a policy move which might strain the IMF's role in the years to come.

Bangladesh (Governor Shah A.M.S. Kibria)

...we welcome the initiative to make ESAF a continuing facility. I am happy to report...that Bangladesh has decided to contribute \$1.2 million to ESAF, despite our resource constraint.

Belgium (Governor Maystadt)

Ten years ago, in August 1986, the IMF Executive Board approved the first arrangement ever to be supported by the structural adjustment facility. The intention of the Fund--under the leadership of Mr. Camdessus--was to assist the poorest countries by offering them a new adjustment mechanism that would be better suited to addressing the underlying causes of their economic problems. For the first time, the revitalization of growth and the implementation of social reforms became priorities for the Fund in its activities in the developing countries.

Now, ten years later, the agreement just reached on financing a continuation of the enhanced structural adjustment facility (ESAF) and the Fund's participation in the debt initiative serves to confirm our commitment to this task. It is my hope today that in another ten years this agreement will be remembered as the decisive step in removing the debt burden from those low-income countries that are undertaking serious adjustment and reform programs. In other words, the new initiative must achieve the same degree of success as the 1989 Brady Plan. Even though the countries involved in the two initiatives are different (in the former, middle-income countries severely indebted to commercial banks; in the latter, poor countries heavily indebted to bilateral and multilateral creditors), the objectives in both cases are identical: to reduce the debt burden on the countries concerned, restore confidence in the future of these countries, attract private capital flows back to them, and reestablish economic growth.

Much is at stake. It is absolutely essential for us to succeed, and the Fund and the Bank have a direct responsibility in this matter.

China (Governor Dai)

We hope resources for financing the interim ESAF can be secured at an early date.

Republic of Croatia (Governor Skreb)

[Croatia] does support the ESAF facility as well.

Fiji (Governor Vunibobo)

The special needs of member countries like those in transition and the heavily indebted call for bold and innovative approaches. I am therefore pleased to support the continuation of the ESAF as a permanent feature of Fund's facilities. In my view, the temporary and monetary features of the Fund's mandate are not being compromised by ESAF. The Fund's role are constantly being frustrated by the lack of adjustment and reforms which are prerequisites to the achievement of the Fund's wider and, I believe, more strategic objectives of growth and prosperity. I, therefore, request the Bank and the Fund to work very closely together to address the special structural needs of member countries.

France (Governor Arthuis)

I want to acknowledge again the agreement which has permitted us, through common effort, to guarantee the permanent financing of the Enhanced Structural Adjustment Facility and therefore the future support of the IMF for the adjustment efforts of the poorest countries.

Gabon (Governor Doupamby Matoka) 1/

We strongly support a self-sustained ESAF as a means of solidifying the work of the Fund in low-income countries. The success of ESAF-supported programs in the past few years provides firm evidence that the best approach to dealing with the balance of payments problem in low-income countries is to encourage adjustment, structural reform and increased investment in these countries in the context of a long-term strategy supported by external financing that does not aggravate an already heavy debt burden. We must build on this success with an ESAF that is adequately funded in order to respond effectively to the needs of the eligible members. In this connection, we are pleased with the consensus on the continuation of ESAF operations with its existing features. We, therefore, appeal to the donor community for bilateral support for both the loan and subsidy elements. Such support would be a clear signal of a collective commitment to the efforts of the Fund in helping those of the membership that are most in need and are making efforts on their part to become eligible to fully benefit from the process of global economic integration.

Islamic Republic of Iran (Governor Mohammad-Khan)

We support the IMF's proposed framework for funding continued ESAF operations, that seek to balance the large uncertainties related to the demand of ESAF resources, in connection with both ongoing ESAF operations and the debt initiative. We also support the IMF's proposal to sell a limited amount of gold to raise the subsidy resources to back up a self-sustained ESAF for an interim period. We feel that ESAF operations are the centerpiece of the IMF's strategy to help low-income countries facing protracted balance of payments problems including the most heavily indebted.

Ireland (Governor Quinn) 4/

The Member States of the European Union are prepared to support the alleviation of debt burdens in countries with sound economic policies, through bilateral assistance as well as through a contribution to the resolution of the ESAF financing issue. There is a widespread acceptance that the ESAF plays a meaningful role as a centerpiece of Fund strategy to help low-income countries, in conjunction with the IDA in a fully effective multilateral effort.

Italy (Governor Ciampi)

We also favor a continuation of ESAF. We are, thus, ready to consider ways to finance it in the interim period, using both resources held by the Fund and bilateral contributions.

Japan (Governor Kubo)

... it is vitally important that the enhanced structural adjustment facility (ESAF), the Fund's core instrument of assistance for the poorest countries, should continue. Japan is ready to make active bilateral contributions in line with the other industrial countries.

Lao People's Democratic Republic (Governor Phomvihane)

Being among the world poorest economies, the Lao PDR continues to need financial assistance on concessional terms to avoid debt servicing problems. In this connection we place utmost importance on the IMF ESAF facility...which have been among the main contributors to the success that the Lao PDR has seen thus far in its economic reform efforts. We therefore welcome the progress the IMF has made toward financing a continuation of ESAF and participating in the Heavily Indebted Poor Countries Initiative. Toward this end, we strongly believe that some gold sales will be necessary as part of the optimization of the IMF's reserve holdings. Furthermore, we also maintain that the financing of self-sustained ESAF should be made jointly through bilateral contributions and use of returns on investment of the gold sale proceeds.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...we strongly support your efforts to ensure the continuation of the enhanced structural adjustment facility (ESAF) activities, which will allow the IMF to continue providing concessional loans to low-income member countries and helping to solve the problems of heavily indebted poor countries. There is no doubt that these arrangements have a fundamental role in supporting the economic reform policies of these countries. In reality, the resources required to finance ESAF activities are very small when compared to their enormous impact on economic growth in these countries. We applaud the agreement recently reached by the members of the Paris Club concerning debt relief for poor countries, and we hope that a final agreement can be reached in the near future on continuation of the ESAF, which will include utilization of a small portion of the Fund's gold reserves for this vital purpose.

Malaysia (Governor Anwar Bin Ibrahim)

We are relieved that the IMF has decided on the modalities to finance the ESAF. Although the understanding reached is less than desired, it nevertheless will enable the Fund to participate in the HIPC initiative. The debt relief will ensure a better chance of success for IMF programmes and lead to sustainable growth over the medium and long term. But this can only happen if debt relief is comprehensive and substantial. The Fund must expedite efforts to ensure adequate resources for a self-sustaining ESAF. Bilateral contributions cannot be the only funding source. Eventually the Fund must optimize the management of its reserves, including the sale of some of its gold, to ensure growth with economic stability in member countries. More concerted efforts in this direction are necessary to change the perception among the developing world that the Fund is out to impose unfair social costs in its adjustment programs and is responsible for the economic hardship in many poor countries.

On financing operations, we are ready to pledge our share of the SCA-2 balances to finance the ESAF subsidy, on the understanding that there will be an equitable burden sharing among all countries.

Malta (Governor Vassallo)

With low-income countries continuing to face unsustainable debt-servicing problems, it is essential that the enhanced structural adjustment facility (ESAF) facility continue to operate even during the interim period that will continue through the early years of the next century. Malta welcomes a rapid conclusion of the discussions on this subject, as it is in the best interest of all parties concerned. Malta continues to support an extension of the ESAF, and, despite its limited resources, it is willing to contribute to the resources of the new facility. In this regard, Malta believes that the proposal to sell a portion of the Fund's gold holdings in order to increase its financial resources through the investment income earned should be considered only if all other options for augmenting such resources have been exhausted.

Federated States of Micronesia (Governor Ehsa) 2/

We support the Fund's initiative in finding viable ways and means for financing a self-sustained Enhanced Structural Adjustment Facility (ESAF). There is no doubt that a self-sustained ESAF will greatly benefit the developing member countries especially those member countries that are seriously undertaking economic and structural reforms. On the other hand, member countries that are borrowing from the Fund, should likewise honor our members' obligations by ensuring that the ESAF resources are effectively used and repayments are timely to ensure its sustainability.

Nepal (Governor Mahat)

We firmly believe that ESAF has assisted immensely to strengthen economic liberalization policy and to maintain macroeconomic stability. As such there should be no second thought about its continuation in the interest of poorest and highly indebted countries. In this regard, we endorse the initiatives taken by the Managing Director of the Fund.

The Netherlands (Governor Zalm)

We also intend to provide 100 million guilders, that is approximately US\$60 million, to enable continuation of ESAF-operations of sufficient size.

New Zealand (Governor Horn)

On the IMF's role, we support use of the ESAF as the means by which the Fund will contribute to the [HIPC] initiative. To the extent that bilateral contributions fall short of the amounts to put ESAF onto a self-sustaining basis, we can support a consensus in favor of more active use of a limited amount of the Fund's gold.

Pakistan (Governor Jafarey)

The ESAF remains the centerpiece of the Fund's strategy to deal with the problems of low-income countries, and has provided critically needed support for their adjustment and reform programs. We note the progress that has been made relating to the financing of the ESAF during the interim period, and look forward to its timely implementation. An appropriate division between bilateral and multilateral sources of funding will be critical to a successful outcome. I am pleased to say that Pakistan is prepared to make a contribution to this effort in a spirit of fair burden sharing. We continue to support a strategy of optimization of Fund's reserves, along the lines proposed by the Managing Director of the IMF if bilateral contributions should prove insufficient to secure the full financing of this initiative.

Republic of Poland (Governor Kolodko)

The concrete proposal on the Financing of a Continuation of ESAF and the HIPC Initiative has its appealing weight. Among the three groups of partners involved, the governments of the poorest countries, the donor community, and the international financial institutions, we have been ready to take our part in this effort. Notwithstanding our share in contribution to ESAF financing, we are ready to reduce our claims in bilateral negotiations with our debtors' countries on the list of those covered by the Fund's and the World Bank initiative.

Portugal (Governor De Sousa Franco)

I am pleased to announce today that Portugal is prepared to contribute to the financing of the ESAF and encourages others to do so.

Sri Lanka (Governor Peiris)

We commend the initiatives taken by the Fund towards the establishment of an interim ESAF, before the commencement of the self-sustained ESAF in the year 2005.

St. Kitts and Nevis (Governor Douglas) 7/

We are greatly encouraged that the IMF has made progress in structuring the financing arrangements for maintaining the operations of ESAF up to the time when there will be a smooth transition to a self-sustaining Facility. The provision of resources for maintaining ESAF is worthy of broad-based support, and countries of our group are favorably disposed to making our contribution. We also support proposals to use a very modest amount of the Fund's gold holdings to mobilize resources for ESAF in a manner that preserves and enhances the reserves of the Fund.

Sweden (Governor Åsbrink) 6/

Another aspect of the Fund's resource needs concerns the future financing of ESAF operations. I would like to emphasize my strong support for the ESAF as the centerpiece of the Fund's strategy to assist its poorest members.

I welcome the recent understandings regarding the financing of the interim ESAF and the Fund's participation in the initiative for the indebted poor countries.

Thailand (Alternate Governor Sonakul)

The Enhanced Structural Adjustment Facility will continue to be instrumental in assisting the poor and heavily indebted countries. We urge that a meaningful solution be reached for its continued financing so that those countries that make good progress in economic reforms can continue to benefit from the program.

Tonga (Governor Fakafanua)

On the financing of the Self Sustaining Economic Structural Adjustment Facility (SSESAF) and the HIPC initiative, we, like many other developing member countries, urge a quick and effective resolution of these issues.

Turkey (Governor Söylemez)

The Enhanced Structural Adjustment Facility (ESAF) has proved itself a valuable vehicle for assisting the poorest members to undertake structural adjustments. We therefore support its continuation.

Venezuela (Governor Azocar) 3/

An important dimension of the Fund's cooperative role is international solidarity, which has been reflected in the progress announced by the Interim Committee regarding the continuation of the enhanced structural adjustment facility and the efforts to make it self-sustaining. Many Latin American countries have already demonstrated that they are more than willing to collaborate.

10. HIPC Initiative

Australia (Governor Costello)

An historic agreement has been reached on a framework for debt relief for the highly indebted poor countries, with the World Bank and the Fund playing a central role....

The measures that have been developed to assist the highly indebted poor countries have both economic and humanitarian dimensions. They will remove the burden of unsustainable debt and help raise living standards and reduce poverty. They will lift constraints on economic policy that will allow the countries benefiting, an opportunity to set up longer term development and economic growth to make inroads against want and misery.

It is important for the success of this initiative that those countries which qualify use the opportunity to address their fundamental economic problems to lay the ground for permanent

improvement. That is why the demonstration of a clear track record of sustained economic reform is required before debt relief is provided. There will also need to be a firm political commitment to undertake the further economic reforms required. The framework developed by the IMF and World Bank is based on these important principles, and on ensuring the resources available for debt relief are used most effectively.

Australia supports an extension of ESAF as the central plank of the IMF's contribution to the debt initiative. We are also willing to consider returning our refund of contingency reserves as a bilateral contribution to ESAF.

I would like to applaud the lead role taken by the Bank in earmarking \$US500 million from its net income as its initial contribution toward the debt initiative and its willingness to consider further contributions, while not losing sight of other demands on its net income. I also welcome the indication by the Paris Club, of which we are a member, that it will provide debt reductions of up to 80 percent for countries qualifying for additional relief under this initiative.

Other multilateral institutions and bilateral creditors with large stakes in the heavily-indebted poor countries will also need to play their part.

Austria (Governor Klima)

The Executive Board and the Interim Committee have spent a considerable amount of time on resolving issues related to the HIPC Initiative and the continuation of ESAF. The results of these deliberations have been acceptable and fruitful in many respects. In particular, we now have the necessary consensus for starting the HIPC initiative operations, and the contours of an agreement on ESAF.

...I would like to congratulate President Wolfensohn for the very able leadership he showed in many ways during the first year of his chairmanship. Under his guidance the World Bank took an outstanding role in bringing the HIPC-debt initiative towards its present state of solution.

Belgium (Governor Maystadt)

Ten years ago, in August 1986, the IMF Executive Board approved the first arrangement ever to be supported by the structural adjustment facility. The intention of the Fund--under the leadership of Mr. Camdessus--was to assist the poorest countries by offering them a new adjustment mechanism that would be better suited to addressing the underlying causes of their economic problems. For the first time, the revitalization of growth and the implementation of social reforms became priorities for the Fund in its activities in the developing countries.

Now, ten years later, the agreement just reached on financing a continuation of the enhanced structural adjustment facility (ESAF) and the Fund's participation in the debt initiative serves to confirm our commitment to this task. It is my hope today that in another ten years this agreement will be remembered as the decisive step in removing the debt burden from those low-income countries that are undertaking serious adjustment and reform programs. In other words, the new initiative must achieve the same degree of success as the 1989 Brady Plan. Even though the countries involved in the two initiatives are different (in the former, middle-income countries severely indebted to commercial banks; in the latter, poor countries heavily indebted to bilateral and multilateral creditors), the objectives in both cases are identical: to reduce the debt burden on the countries concerned, restore confidence in the future of these countries, attract private capital flows back to them, and reestablish economic growth.

Much is at stake. It is absolutely essential for us to succeed, and the Fund and the Bank have a direct responsibility in this matter.

Cambodia (Governor Chhon)

... we welcome the Bank President's initiative to earmark internally generated Bank funds to alleviate the severity of the external debt situation of poorer countries. International debt incurred a long time ago and used during externally imposed conflict situation or the assets of which were destroyed to such conflict, pose a great burden on the economy. We need support and understanding to readjust these loans, mostly by write-off.

Canada (Temporary Alternate Governor Peters)

...I am delighted that we are now in a position to launch the Initiative to Assist Heavily-Indebted Poor Countries (HIPC). Excessive indebtedness, often compounded by large negative transfers to the IFIs, imposes serious constraints on economic reform and broader development prospects. Effective development strategies for these countries must therefore incorporate debt relief as well as expenditures on new projects and programs. The HIPC Debt Initiative, embodying a much-needed comprehensive debt relief effort by all major creditors including, for the first time, the international financial institutions, holds great promise for those among the poorest most-indebted countries who are committed to necessary reform.

China (Governor Dai)

Heavy debt burdens in many developing countries constitute severe impediments to their economic development. The Bretton Woods institutions are therefore encouraged, on the basis of their respective mandates, to play a more active role in assisting heavily indebted poor countries in alleviating their debt burdens and promoting economic development....The industrial countries are urged to make due contributions toward the reduction of poor countries' debt burdens and to refrain from cutting official development assistance with various excuses.

Denmark (Governor Nielson) 5/

Continued and increasing poverty in a number of developing countries is today's most challenging development problem. The international Debt Initiative is an encouraging development, indicating willingness in the international community to fight poverty and enhance social and economic development....

The Nordic countries were among the first to draw attention to the need for a comprehensive solution to the problem of unsustainable debt....

The Nordic countries particularly support the HIPC Initiative as it addresses the debt problem in a comprehensive way, covering not only bilateral but also the equally important multilateral debt.

Why should we worry about the debt overhang of poor countries, as long as the financing gaps are covered by new transfers each year?

In our view the high and mounting debt of the heavily indebted poor countries are both a direct disincentive to development and a cause for uncertainty. A disincentive because potential investors get discouraged knowing that the debt will result in future increased taxation. A factor of uncertainty because the countries depend on the continuation of bilateral and multilateral transfers at very high levels.

Therefore, the Nordic countries welcome the Debt Initiative and wish to see the Initiative implemented as a matter of urgency. We also believe that its procedures should be flexible and transparent. Flexibility in our view should also apply to the time table, so that countries that have pursued successful stabilization and reform policies will be credited these efforts.

...we realize that the financing modalities, including the burden sharing between bilateral and multilateral creditors, is not yet fully in place. These modalities must now quickly be settled. The decision by the Paris Club members to provide enhanced debt reduction is important, although not as bold as we hoped for.

There is willingness among the Nordic countries to contribute to the Initiative through the proposed Trust Fund, and we expect other donors to contribute their share. The Nordic countries have already, on a bilateral basis, provided assistance to relieve the debt of poor countries to the multilateral institutions to an amount of USD 143 million during 1995 and 1996.

Allow me...in this context to extend an invitation on behalf of the Danish Government to host the founding meeting of the Trust Fund in Copenhagen. The early convening of a founding meeting will demonstrate a firm political determination to carry forward the initiative.

The Initiative could very well be seen by future generations as the decisive building block of the International Debt Strategy; the element which, around the turn of the century, made it possible for the poorest and most hopelessly indebted countries to exit from their debt problems.

France (Governor Arthuis)

We are left with some issues to settle. It will be necessary to make decisions which cannot be deferred for too long. I have confidence that the same spirit of consensus which prevailed during these meetings will allow us to find a good and solid financial agreement at future ones.

This agreement has made possible the participation of the IMF in the new debt initiative. It is remarkable that within three months of the impetus provided by the Lyon Summit, all the partners of the international community have been able to come to an agreement. The creditors of the Paris Club are committed to a new effort to increase debt relief from 67 to 80 percent for the highly indebted and poorest countries. I would like to renew my thanks to Mr. Camdessus and Mr. Wolfensohn for the exemplary spirit of cooperation which inspired their work and made this agreement possible. I hope they will participate in the implementation of this initiative to secure the flexibility and pragmatism necessary to its success. To my mind, this agreement is a major advance which will permit us to offer the highly indebted and poorest countries the prospect of emerging from debt, and thus, the hope of regaining a growth rate which can raise the living standards of their people. Naturally, they must also do their part in maintaining tight fiscal policies, openness to trade, and monetary stability, without which no progress is possible.

Gabon (Governor Doupamby Matoka) 1/

For many years the heavy burden of debt has stifled the growth of many African countries. There is now general agreement that a large number of these heavily-indebted poor countries (HIPC) have debt burdens that are likely to remain above sustainable levels over the medium term, even with strong policy performance and full use of existing debt-relief mechanisms.

The Development Committee, at its spring meeting, endorsed a joint Bank and IMF Initiative on a framework for action to resolve the debt problems of the heavily indebted poor countries. We would like to express our appreciation for the joint efforts of Messrs Camdessus and Wolfensohn and their colleagues in responding to the Development Committee's request to develop an action program by the time of the 1996 Annual Meetings. It is important that debt relief be comprehensive, provided in a flexible and coordinated manner, with broad burden-sharing and equitable participation by all creditors.

The success of the HIPC Debt Initiative will depend, to a very large extent, on the concerted efforts of all the principal creditors involved. Both bilateral donors and the

multilateral institutions as well as other creditors must be committed to providing significant levels of funding of an additional nature in support of the Initiative. Paris Club creditors will have a particularly prominent role to play in this endeavor, and we trust that we can count on them to make the extra effort required to make this Initiative successful by significantly exceeding Naples terms. Ultimately, creditor and debtor countries alike stand to benefit from an early and successful resolution of this protracted debt crisis. We are encouraged by the strong support shown for this Initiative by the members of the G-7 meeting in Lyon last June.

The Bank has played a lead role in this Initiative, and has shown a willingness to make a sizeable contribution to the proposed Trust Fund. We trust that the IMF will also play a proactive role by contributing some of its resources to the proposed Fund. We firmly believe that the sale of a portion of its gold reserves would be one way in which the IMF could make a sizeable contribution to the Initiative.

We believe that a larger number of countries than currently anticipated will need to be included in the Initiative, and we would caution against a rigid adherence to the numerical classifications by which debt sustainability is being determined. The eligibility criteria used in the proposal to determine access to the Fund may have the effect of excluding deserving countries. We also believe that the export growth assumptions inherent in the proposal are overly optimistic, and that more realistic projections should be incorporated in the calculations. A flexible, case-by-case approach must be followed in determining eligibility and, most importantly, a shorter, more realistic time-frame must be used to establish a country's track record of reform so as to enable eligible countries to begin to benefit from the Initiative as soon as possible, and to encourage them to maintain the momentum of reform.

Germany (Governor Tietmeyer)

The debt initiative in favor of a few poor countries has made decisive progress during the past months. All groups of creditors, IMF, World Bank, regional development banks and bilateral creditors must each contribute broad and equitable shares. We are pleased to note that IMF and World Bank have already declared their participation. Also, Paris Club creditors are prepared to contribute appropriately and to grant debt cancellation of up to 80 percent on a case-by-case basis. Germany supports these decisions fully even though they come at a time when fiscal consolidation places heavy burdens on most of the creditor countries. However, the debt initiative must be targeted at those countries whose debt situation is unsustainable according to the joint analysis of the IMF and the World Bank and which have proven their commitment to strong adjustment. Given these criteria, only a limited number of countries facing debt problems will be eligible for the initiative.

India (Governor Chidambaram)

The burden of debt bears heavily on some of the poorest countries, aid flows are declining and there are serious concerns about the highly uneven distribution of private capital flows to developing countries and about their potential volatility.

It is a matter of great satisfaction that we have at last made progress towards solving the problem of highly indebted poor countries. We hope that the remaining details will be sorted out expeditiously.

...I have already welcomed the World Bank role in the joint initiative to alleviate the debt problems of the highly indebted poor countries. However, I should like to emphasize the paramount importance of preserving the financial integrity and preferred creditor status of multilateral creditors. The present debt initiative must therefore be a one time initiative, with clear boundaries. The structural conditions which have led to the need for this extraordinary initiative have to be addressed in a forthright manner so that they do not recur.

Indonesia (Governor Muhammad)

Three years ago, when I had the honor of addressing this body for the first time, I noted that *...the successful resolution of the debt crisis is in the interest of developing and developed countries alike*. That is still true today. Although some developing countries have experienced robust growth, such is not the case for the most severely indebted countries. If they are to achieve long-run sustainable growth, they require long-term debt relief....

...Long-term debt relief is an essential element for economic progress and without such relief, the severely-indebted countries cannot achieve the growth needed to lift their populations out of poverty.

We, therefore, are very pleased by the agreement reached yesterday by members of the Development Committee to endorse the Action Program for the HIPC initiative. While supporting the initiative, we would like to underscore that there are elements of the program that we previously expected to be strengthened. First, Indonesia expected that the Bank and the Fund could have been more forthcoming in their contribution. Nevertheless, we welcome the commitment of the IMF to participate in the enhanced assistance to be provided under the HIPC initiative through special ESAF operations, including long maturity loans and grants. We strongly support the proposed US\$ 500 million as initial contribution of the World Bank to the Trust Fund and urge a much larger contribution by the Bank in the future to enable the Bank and other creditors succeed in helping the most severely indebted poor countries to exit from the unsustainable debt. Second, while Indonesia appreciates the need to monitor economic reforms for some time to ensure that they are well founded and effectively implemented, we hope that in its implementation the decision on the eligibility for a country to receive the debt relief assistance must be taken after due consideration of the particular problems faced by the

respective country. Finally, we hope that the initiative will be implemented immediately and expect to receive the report on its implementation at the Committee's meeting next spring.

Islamic Republic of Iran (Governor Mohammad-Khan)

I would like to proceed by acknowledging the applause joint initiative by the World Bank and IMF, particularly the personal dedication by Mr. Wolfenson and Mr. Camdessus, on relieving debt burden of the world's heavily indebted poor countries. It should be emphasized that sustainable levels will only be achievable by the joint action of bilateral creditors, multilateral financial institutions and other concerned parties.

Ireland (Governor Quinn) 4/

The progress of recent days with the initiative to address the problems of a limited number of poor countries with unsustainable levels of external debt which maintain sound policies is a welcome development. We look forward to the implementation of the outcome of the deliberations of the Interim and Development Committees on this issue.

The Member States of the European Union are prepared to support the alleviation of debt burdens in countries with sound economic policies, through bilateral assistance as well as through a contribution to the resolution of the ESAF financing issue. There is a widespread acceptance that the ESAF plays a meaningful role as a centrepiece of Fund strategy to help low-income countries, in conjunction with the IDA in a fully effective multilateral effort. A joint effort by bilateral donors and creditors, and the Bretton Woods Institutions, is essential to make a meaningful impact on the problems of these countries.

Italy (Governor Ciampi)

We also support reasonable Bank's and Fund's contributions to the debt initiative in favor of the low-income countries (the HIPC initiative), provided that it is restricted to a limited number of them, namely those where the external debt burden is clearly unsustainable in the medium-term, despite serious and sustained efforts to cope with it. We are also well aware of the risk of moral hazard that exceptionally favorable debt exit options carry within themselves.

About the proposed debt initiative, on which we heard reports at the Interim and Development Committees, we would like to stress just a few points: firstly, we must recognize that concessional resources, no matter their origin, are scarce, and that the external concessional financing that can be extended to member countries is useful only as long as it brings about the policy changes that are necessary for establishing sound and lasting growth; secondly, the provision of exceptionally favorable financing must be temporary in nature. If it were offered for an indefinite time, moral hazard would be enlarged, instead of being circumscribed. Besides, we must recognize that the Fund has a limited role in development assistance, for which IDA

remains the main avenue; last, but not least, resource transfers must not be financed by the use of "core" resources. This would, sooner or later, jeopardize our institutions' financial integrity and inevitably result in a reduction of their creditworthiness. We thus believe that the financing of ESAF in the interim period and of any HIPC initiative must be based by a judicious use of Bank's profits, and by a blend of non-core resources held by the Fund (such as GRA resources for loans and SCA-2 resources for subsidies), plus additional contributions, as needed, coming from those countries that wish to avoid the use of the GRA and SCA-2 funds. Such a blend would be amply sufficient to meet the net present value of the overall financing need. The burden must of course be distributed as broadly and equitably as possible. The use of other Fund-held resources, particularly the "core" ones, should be considered as the last option, after all others have been pursued and exhausted.

Japan (Governor Kubo)

With regard to the problems of heavily indebted poor countries (HIPC), it is vital that the IMF, the World Bank, and other international financial institutions make the most effective contributions. I welcome the President Wolfensohn's willingness to make a contribution. Japan joins the intention of the Paris Club to go beyond Naples terms, up to 80 percent, after confirming significant progress made at the IFIs. This action will be applied on a case-by-case basis, for a limited number of countries that successfully complete their HIPC programs with stronger modalities.

Korea (Governor Seung-Soo Han)

There are still more than 1.3 billion people in the world trying to live on less than \$1 a day, and despite their best efforts as well as the aid from the Multilateral Development Banks (MDBs), the Highly Indebted Poor Countries (HIPC) have not substantially improved their situation, mainly due to the heavy burden of their external debts.

In this regard, we believe that the initiative jointly taken by the Bretton Woods institutions to ease the debt burden of the *Highly Indebted Poor Countries* were very timely. We welcome the major progress made in the initiative and support close and extensive consultation with all interested parties to resolve the remaining concerns.

Lao People's Democratic Republic (Governor Phomvihane)

...we welcome the framework for action discussed by the Development and interim Committee at their Spring Meeting of resolving Debt problems of the Heavily Indebted poor countries.

We therefore welcome the progress the IMF has made toward financing a continuation of ESAF and participating in the Heavily Indebted Poor Countries Initiative. Toward this end, we strongly believe that some gold sales will be necessary as part of the optimization of the

IMF's reserve holdings. Furthermore, we also maintain that the financing of self-sustained ESAF should be made jointly through bilateral contributions and use of returns on investment of the gold sale proceeds.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...we strongly support your efforts to ensure the continuation of the enhanced structural adjustment facility (ESAF) activities, which will allow the IMF to continue providing concessional loans to low-income member countries and helping to solve the problems of heavily indebted poor countries. There is no doubt that these arrangements have a fundamental role in supporting the economic reform policies of these countries. In reality, the resources required to finance ESAF activities are very small when compared to their enormous impact on economic growth in these countries. We applaud the agreement recently reached by the members of the Paris Club concerning debt relief for poor countries, and we hope that a final agreement can be reached in the near future on continuation of the ESAF, which will include utilization of a small portion of the Fund's gold reserves for this vital purpose.

We applaud the World Bank's role in developing and monitoring the debt relief initiative for a number of poor countries, and its willingness to allocate US\$500 million for this purpose. While we are pleased with the prospects for implementing this initiative, we feel that the Paris Club countries should assume greater responsibility to avoid placing the brunt of the burden on the World Bank Group and other international institutions, which we agree must maintain their financial positions. It should also be mentioned that many other developing countries that have not met the conditions of the debt relief initiative are still suffering from the burden of indebtedness, which consumes a large share of their resources, including foreign assistance. A high degree of flexibility is required in addressing the indebtedness of these countries.

Malaysia (Governor Anwar Bin Ibrahim)

...despite continuous economic adjustment efforts growth in heavily indebted poor countries (HIPC's) is still retarded. This is because HIPC's are diverting resources towards debt repayment, making it almost impossible to expend capital on infrastructure and education.

Experiences in many countries have proven that external assistance to relieve repayments was crucial for the undivided pursuit of economic policies to promote growth.

We are relieved that the IMF has decided on the modalities to finance the ESAF. Although the understanding reached is less than desired, it nevertheless will enable the Fund to participate in the HIPC initiative. The debt relief will ensure a better chance of success for IMF programmes and lead to sustainable growth over the medium and long term. But this can only happen if debt relief is comprehensive and substantial.

We also welcome the joint Fund-Bank report on their continuing efforts to reduce the multilateral debt burden of highly indebted poor countries (HIPC) to a sustainable level. The broad framework of agreed principles should improve on the existing debt-relief mechanisms which are clearly inadequate for a number of HIPC. However, as time is of the essence, agreement on the specifics must be expedited, so that the HIPC Debt Initiative can be implemented without delay. In particular, we would urge for pragmatism and support the case-by-case approach to ensure flexibility in the provision of debt relief. While we agree to the linkage between debt relief and a strong adjustment programme, together with a commitment to reform by recipient countries, greater flexibility is necessary in determining which countries are more deserving of access to the HIPC Initiative. This is to avoid the risk of providing debt relief "too little and too late." The implementation of the HIPC Initiative must be more forward-looking and consider individual country circumstances in determining country eligibility instead of relying strictly on narrow numerical classifications. In addition, the evaluation of performance should be measured not only in macroeconomic terms but should also consider the social implications. We must avoid imposing excessive social costs on the affected populations which could derail the adjustment process in the domestic political economy.

The success of the HIPC Initiative hinges on coordinated and concerted assistance from all creditors. Bilateral donors and multilateral institutions must play their respective roles to provide exceptional assistance beyond the existing mechanisms. In this regard we welcome the World Bank's commitment to provide a significant financial contribution to the proposed HIPC Trust Fund, and its readiness to provide other forms of assistance including IDA Grants, supplemental credits and IBRD transfers of net income as needed. We urge the Paris Club and all creditor countries to review their positions and to consider debt relief beyond 80 percent.

Myanmar (Governor Win Tin)

We would like to express our deep appreciation for the debt relief initiative being undertaken by the Fund and the Bank for the heavily indebted poor countries. SDR allocation, quota increase, and the debt relief initiative are issues of great interest to developing countries. We, therefore, eagerly look forward to these issues materializing in the near future.

Nepal (Governor Mahat)

I wish to commend both the Bank and the Fund for their efforts toward resolving debt problems of heavily indebted poor countries.

The Netherlands (Governor Zalm)

We welcome the agreement by the Interim and Development Committees on the Debt Initiative for the Highly Indebted Poor Countries. It provides heavily indebted poor countries which perform well with an opportunity to achieve an exit from their unsustainable debt

position, while preserving the financial solidity and the preferred creditor status of the multilateral banks and the IMF. We are also pleased with the fact that all parties--creditors in the Paris Club as well as the multilateral institutions--have shown the readiness to take their responsibility. Now that this breakthrough has been achieved, the Netherlands will make a contribution to the HIPC Trust fund, if some other bilateral donors do the same.

New Zealand (Governor Horn)

Returning to the position of the highly indebted developing countries (HIPC), New Zealand supports the current efforts by the international community to address this problem on the basis of additional coordinated actions by all creditors. Clearly in some countries the legacy of past poor policies and performance has reached the stage where debt burdens are acting to stifle efforts to grow out of the problem. A limited and carefully designed debt-relief initiative could remove a serious impediment to the adoption of sound medium term policies. The framework developed by the Bank and Fund seems broadly appropriate as a means of providing incentives for the pursuit of responsible economic policies, and the requirement of a good track record before qualifying for debt relief is necessary in order to limit the risk of moral hazard. We would be prepared, however, to consider more flexibility in the procedures as a way of recognizing past good performance. Some flexibility is essential to make the initiative work, and is at the heart of the case-by-case approach being proposed.

As far as the role of the multilateral institutions in the initiative is concerned, we support the proposed modalities as a judicious balancing of the need to protect their preferred creditor status with the recognition that multilateral debt is a significant component of the debt burden of the HIPC....Progress since last year on the HIPC initiative has indeed been impressive. We would encourage all creditors to maintain the momentum and agree on equitable burden sharing arrangements.

On the IMF's role, we support use of the ESAF as the means by which the Fund will contribute to the [HIPC] initiative. To the extent that bilateral contributions fall short of the amounts to put ESAF onto a self-sustaining basis, we can support a consensus in favor of more active use of a limited amount of the Fund's gold.

Nicaragua (Governor Taboada Arana)

...we welcome the Heavily Indebted Poor Countries Initiative and await its implementation as a matter of urgency...

Pakistan (Governor Jafarey)

We commend the management of the two institutions for the initiative that has been launched to address the debt problem of the heavily indebted poor countries. All parties concerned must now reinforce their efforts towards finalizing the framework for action. It is

clear that the success of the program depends on the participation of all creditors, and action by them is vital if we are to resolve the debt problem decisively and in a sustainable manner. We hope that framework will be applied with a high degree of flexibility and take cognizance of the need to accord public finance indicators the same weight as traditional balance of payments indicators in the evaluation of debt sustainability.

Republic of Poland (Governor Kolodko)

The concrete proposal on the Financing of a Continuation of ESAF and the HIPC Initiative has its appealing weight. Among the three groups of partners involved, the governments of the poorest countries, the donor community, and the international financial institutions, we have been ready to take our part in this effort. Notwithstanding our share in contribution to ESAF financing, we are ready to reduce our claims in bilateral negotiations with our debtors' countries on the list of those covered by the Fund's and the World Bank initiative.

Portugal (Governor De Sousa Franco)

The debt initiative is at the core of our deliberations. It will contribute to solve the problems of those countries facing an unsustainable debt situation. We warmly support this initiative to assist the poorest countries. We attach particular importance to key elements such as: the full commitment of beneficiary countries to adopt strong economic policies, the compliance with the agreed basic principles, in particular those to preserve the financial status of our institutions, and - the equitable and broad participation of all creditors in the initiative. Furthermore, the increasing scarcity of resources requires that they are allocated to those countries where they are most needed and are most effectively used.

Spain (Governor De Rato Figaredo)

As regards the Fund and Bank's initiative for enabling *heavily indebted poor countries* that adopt appropriate policies to achieve debt sustainability in the medium term, I would like also to affirm our support for an agreement in principle to guarantee IMF participation through a continuation of the enhanced structural adjustment facility.

Sri Lanka (Governor Peiris)

We...commend the progress made by the Fund and the World Bank in developing a relief package for the heavily indebted poor countries (HIPC's initiative). As a token of our strong support for these two initiatives, we wish to contribute as a grant the funds that are lying to our credit in the SCA-2. We hope that our colleagues here too would be able to make similar contributions, in addition to whatever other funds they would be able to advance to the ESAF Trust and the subsidy account. If, however, sufficient funds could not be raised for these two important initiatives, we have no objection, as a last resort, to the sale of a modest amount of gold and investing the profits therefrom toward raising the shortfall. We would, however, wish

that the HIPC initiative would not lead to a reduction of the access traditional non-debtor borrowers have so far enjoyed to the concessionary funds.

St. Kitts and Nevis (Governor Douglas) 7/

Prominent among these new policies is the joint work of the World Bank and the IMF to reduce the debt of the heavily indebted poor countries. We are pleased that the extremely complex issues holding up this initiative are now largely resolved and the way is clear for all partners to play their part.

Beyond this vitally important debt initiative, we must continue to keep the overall question of the debt burden of developing countries under close review. The experience of the last 15 years has taught us that, progress notwithstanding, there is never a point where concerns over debt are finally settled. We must stand prepared to examine rigorously and dispassionately what further advances we can usefully make to reduce the onerous debt position of other countries.

Sweden (Governor Åsbrink) 6/

I welcome the recent understandings regarding the financing of the interim ESAF and the Fund's participation in the initiative for the indebted poor countries. This is an important step in the work towards implementing the initiative. The recent progress made in the Paris Club also paves the way for a balanced overall agreement based on a combination of bilateral and multilateral contributions. I hope that the creditors in the Paris Club will apply considerable flexibility and tailor the debt relief to the specific circumstances of individual countries.

Switzerland (Alternate Governor Villiger)

...I warmly welcome the Bretton Woods Institutions' determination to help meet the challenge the most highly indebted poor countries of the developing world are facing. The initiative to assist these countries is an excellent example of constructive cooperation between the World Bank and the Fund. I fully endorse the initiative. It is crucial that debt sustainability be targeted on a case by case basis for countries with a convincing track record of sound economic policy and that the preferred creditor status of the multilateral financial institutions be preserved. In this context, it is essential that bilateral creditors contribute according to their share of the outstanding debt.

Although some of the modalities regarding the participation of the various creditors in the initiative remain unclear, important steps have been taken. The World Bank has set aside 500 million dollars to fund its initial contribution. The Fund will contribute to the initiative through the Enhanced Structural Adjustment Facility. We welcome the agreement reached on the continuation of this concessional financing mechanism, which is the centerpiece of the Fund's strategy to help low-income countries.

Thailand (Alternate Governor Sonakul)

I reaffirm Thailand's support for the HIPC debt initiative. However, I wish to emphasize that appropriate burden...and urge donor countries who support the Initiative to make their fair contribution to the Trust Fund.

Tonga (Governor Fakafanua)

On the financing of the Self Sustaining Economic Structural Adjustment Facility (SSESAF) and the HIPC initiative, we, like many other developing member countries, urge a quick and effective resolution of these issues.

Turkey (Governor Söylemez)

It is particularly regrettable that the debt situation of the poorest countries has not improved. The international community needs to increase the supply of concessional resources and work to create a more favorable economic climate to that these countries can reach higher rates of sustainable growth.

United Kingdom (Governor Clarke)

Two years ago I brought to these meetings a proposal to reduce the burden of multilateral debt on some of the very poorest countries which are following successful economic development programmes.

Since then, we have addressed the problem that unsustainable debt causes in many of the poorest countries, and agreed that, for some countries, existing mechanisms will not be enough to solve the problem.

Two years on, we have finally come up with a proposal that can release these countries from unmanageable debt burdens. And we have secured an undertaking by the three major creditors--the IMF, the World Bank, and the Paris Club--to finance this proposal. We all owe our thanks to Jim Wolfensohn and Michel Camdessus for their energy and dedication in bringing us to this point.

By the standards of global international diplomacy, that is a lot to accomplish in just two years. But it is not yet enough. The IMF and the World Bank must now focus on implementation. Each creditor must take the necessary steps to ensure that they coordinate their actions. And those countries which have already demonstrated a substantial commitment to economic reform must continue their efforts in order to qualify for enhanced relief.

I hope that the implementation of debt relief measures for the most impoverished and best performing countries will now be pursued with some urgency. Each country must be

considered sensibly and flexibly on a case-by-case basis without the over-rigid application of bureaucratic rules. Countries that have already demonstrated a good track record should not be obliged to wait for long for further help. I look forward to immediate action and to the first tranche of eligible countries being well on their way to an exit from their burdens of unsustainable debt before our Spring Meetings.

United States (Governor Rubin)

One clear obstacle to growth has been unsustainable levels of debt in some of the poorest countries. The World Bank, the IMF and the Paris Club have now reached agreement with a program that will be a comprehensive approach to reducing the excess of debt of several of the poorest countries to sustainable levels. We now need to work to bring together the rest of the international financial institutions into this effort.

Uruguay (Governor Mosca) 8/

...the initiative now under discussion for providing relief for the heavily indebted countries both recognizes the reality of the situation, and provides a response to the pressing needs of many countries affected by external payment problems, and is thus a milestone in the history of the Bretton Woods institutions. For the first time, definite mechanisms will be set up for reducing the burden of the debt owed to multilateral organizations. Both pragmatically and imaginatively, an effort has been made to solve the problem of the unsustainable debts of number of countries and to enable them to resume growth. In this same context, we believe it is essential to preserve the Bank's preferred creditor status, and that bilateral debt continue to be classified as subordinate.

Venezuela (Governor Azocar) 3/

We support the joint initiative of the IMF and the World Bank on behalf of the heavily indebted poor countries, but maintain that the eligibility criteria must attach equal importance to the fiscal burden of debt service as it does to external debt-to-exports ratios. One should also take into account, on a case-by-case basis, the particular circumstances of countries with a high proportion of multilateral debt.

11. Eleventh General Review of Quotas

Austria (Governor Klima)

...it is clear that the successful completion of NAB negotiations cannot obviate the need for strengthening the IMF's quota resources, as the NAB's use would be limited to systemic crises and would not be available for regular Fund operations. Here, while the IMF's liquidity ratio seems comfortable for the time being, caution would call for an early completion of the

Eleventh Quota Review in order to meet potential demands for Fund resources. I hope we will be able to make more progress on that score in the coming months than was the case so far.

Bangladesh (Governor Shah A.M.S. Kibria)

We also hope that appropriate measures will be taken for equitable SDR allocation and the Eleventh Review of the Quotas, preferably on an equi-proportionate basis.

Canada (Temporary Alternate Governor Peters)

We must ensure that the Fund has adequate resources for regular lending operations. Accordingly, we must make early progress on the size of the quota increase in the Eleventh General Review of Quotas.

China (Governor Dai)

The sustained high economic growth rate over the past 17 years, which has far exceeded that of the world average, has significantly enhanced China's relative economic strength. However, its share in Fund quotas has continued to decline, which is contrary to the principle that the distribution of Fund quotas reflects the relative economic positions of members. Effective measures are called for to address such anomalies.

Fiji (Governor Vunibobo)

I...fully share the concern of fellow Governors that the expected financial requirement of members may impose severe strain on the future resources of the Fund and the Bank.

I am, therefore, happy to note the progress on the Eleventh General Review of Quotas. ... I fully agree that the quota and the GAB are not substitutes. I would like to see the Fund remain as a quota driven institution....The existing formula for the quota increase appear broadly appropriate. I would go along with an equi-proportionate increase in quotas and a relatively smaller special increase to address the quotas of member countries which are seriously out of line

France (Governor Arthuis)

I am happy that we have been able to agree to double the GAB. The first-time participation of a number of emerging countries is also a sign of the times, and accurately reflects the new economic and financial world. As Mr. Maystadt, the President of the Interim Committee, reminded us, this exceptional financing must be rapidly coupled with a strengthening of the normal financing of the IMF--a quota increase.

Gabon (Governor Doupamby Matoka) 1/

We believe that the size of the IMF must keep pace with growth in the world economy. While we agree that efforts to enhance borrowing arrangements under the General Arrangements to Borrow (GAB) are a prudent step in preparing for potential shocks to the international financial system, this is not a substitute for a quota increase and, therefore, we attach great importance to reaching a timely agreement under the 11th Quota Review.

Having said this, we must also emphasize the importance we attach to finding a more equitable approach to the calculation of quotas, in view of the fact that past reviews have led to successive declines in the voting strength of most developing countries, especially low-income countries, most of which are in Africa. This means that our influence in the decision-making process of the IMF continues to decline with each increase in quotas. Besides having negative implications for the maximum amount of financing that our countries could obtain from the IMF, this unfavorable trend threatens the representation of Africa in the Board of the IMF. The situation calls for an examination of the variables in the quota formulas and the possibility of including new variables. In addition, we feel it opportune for the Fund to reactivate the system of basic votes so as to compensate for the weakness in voting power of certain countries or groups of countries, particularly those representing Sub-Saharan Africa in the Fund. The IMF must be prepared to consider other options, including selective intervention, in view of the very limited access of many of these countries to private capital and much more limited latitude than the rest of the Fund members to finance their payments deficits out of their own resources.

Germany (Governor Tietmeyer)

...Germany remains willing to cooperate in the 11th Quota Review in a constructive manner with the view to meeting the IMF's need for liquidity as justified by its mandate....

Germany will make a substantial contribution to these arrangements. However, these lines of credit must not become a substitute for an appropriately sized quota increase.

India (Governor Chidambaram)

...access to borrowed resources cannot be a substitute for an increase in Fund quotas. The Fund's basic financial strength must be derived from a substantial expansion of its own resources through quota increases. There is an urgent need to reach a satisfactory conclusion on the Eleventh General Review of Quotas.

Islamic Republic of Iran (Governor Mohammad-Khan)

Large use of IMF resources during 1995/96, and expected high demand for its resource over the next few years on one side, and the constraints of the IMF liquid resources on the other side, call for an increase in Fund resources. In this regard, a general increase in quotas within the context of Eleventh General Review of Quotas enjoys our full support.

Ireland (Governor Quinn) 4

The European Union notes that progress has been made on the Eleventh General Review of International Monetary Fund quotas and that the Interim Committee has asked the Executive Board to agree on the outlines of the next IMF quota increase as soon as possible. The EU calls for a timely conclusion of this review.

Italy (Governor Ciampi)

We consider essential to preserve the Fund's role and operational capabilities. This implies not only keeping the Fund's size broadly in line with that of the world economy, but also preserving its liquidity and financial resources at the levels needed to meet the ever changing needs of its membership, in both ordinary and exceptional circumstances. Although it will remain comfortable through end-1997, the Fund's liquidity position has gradually weakened, and in the not-so-distant future it could fall below safe levels. We must not allow this to happen.

We believe that an increase in overall Fund's quotas is in order, and that it should be agreed in the context of the Eleventh General Quota Review. We also continue to believe that an overall quota increase should go hand in hand with a realignment of individual quotas, to make them better reflect the members' relative weights in the world economy. The cooperative nature of the Fund requires that individual members' responsibilities and capacity to discharge them be strictly interrelated. However, a large part of the membership has seen its actual quotas depart significantly from what quotas should be, and it is now time to remedy such a situation. Given the size of the divergence problem, we favor "ad hoc" solutions aimed at rectifying the positions of only a restricted group of members. On the contrary, we continue to believe that it is in the best interest of the Fund and the Bank to tackle the problem on a general basis and for the whole membership.

Japan (Governor Kubo)

Japan also strongly supports the call for the earliest possible quota increase under the Eleventh General Review in a way that reflects the relative position of each member in the world economy by fully respecting the wish of many emerging economies to minimize the gap between calculated and actual quota shares....

Both the quota increase under the Eleventh General Review and the allocation of SDRs are challenges that must be addressed to redefine our rights and responsibilities in a new environment characterized by emerging economies as well as by economies in transition. In this respect, I believe that dealing with both issues simultaneously and as a package will make more sense and will also allow members to win support at home more easily.

Korea (Governor Seung-Soo Han)

...the fundamental task of enlarging the quotas of the Fund has not progressed as much as we would have expected. I would like to remind you of two of the key principles that had been agreed in the earlier stages of the discussion on creating the New Arrangements to Borrow. First, the IMF should remain a quota-based institution. Thus, enlarging the borrowing facility should not be a substitute for a quota increase. Second, the quota structure should better reflect the changes in the economic map of the global economy. Towards this end, the Eleventh General Review of the Quotas should include an ad hoc increase for member countries that have a significant gap between their calculated and actual quotas. Thus, while keeping in mind these two principles, I urge the major shareholders of the Fund to expedite the progress of the Eleventh Review of Quotas in the same cooperative spirit demonstrated in making the New Arrangements to Borrow.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

We look forward to the Eleventh General Review of Quotas of IMF members and wish to stress that any increase in quotas must be based on the principal of equitable increases for all members. We must avoid at all costs any distribution of increases that would reduce the ratio of developing countries' quotas to the total quotas of all members, to prevent the marginalization of the role of these countries.

Malaysia (Governor Anwar Bin Ibrahim)

While we continue to provide resources to the Fund through existing and new financial assistance for the ESAF, the NAB and regular lending to the Fund through the operational budgets, we look forward to international recognition of this effort. This recognition should be reflected in the new quotas under the quota review to be completed soon. In this regard, we look forward to representation in the Fund that is more in line with relative economic strength.

Malta (Governor Vassallo)

In focusing on the liquidity position of the Fund, I would like to associate myself with other Governors who have advocated a balanced distribution of the IMF's resources. Indeed, there is a possibility that the large amounts borrowed by some countries might crowd out the amount of money available for other countries, in particular the heavily indebted low-income countries. For this purpose, Malta favors an early conclusion of the discussions on the Eleventh

General Review of Quotas. These discussions should of course take into account the changes in the economic and financial weight of member countries. However, at the same time, it should also be ensured that such a quota increase does not unnecessarily dilute the voting power, within the Fund, of the smaller countries.

Federated States of Micronesia (Governor Ehsa) 2/

...like any other financial institution, the Fund's liquidity is of utmost importance to the Fund to carry out its mandates effectively, and to respond to crisis of major proportion. We therefore support a doubling of the Fund's quotas with a significant equiproportional component in the increase. In view of the growing disparities in the voting rights of member countries, we also urge the Fund to review the basic votes allocated to member countries.

Myanmar (Governor Win Tin)

As regards the Eleventh General Review of Quotas too, discussions have yet to be concluded for action.

SDR allocation, quota increase, and the debt relief initiative are issues of great interest to developing countries. We, therefore, eagerly look forward to these issues materializing in the near future.

Nepal (Governor Mahat)

Review of ...quota, though taken up seriously by the Fund, has come to respite as agreement on its modality could not be reached. We hope that the review process will resume soon.

New Zealand (Governor Horn)

With respect to the adequacy of the IMF's general quota resources, in our view the Fund's liquidity position remains comfortable, and there need be no urgency to conclude the Eleventh Quota Review. We agree the Fund should remain primarily a quota-based institution, although we consider there is an important role for Fund borrowing in certain circumstances. We do not consider, however, that the increased globalization of financial markets points to a need to increase the Fund's quota resources in any major way.

Pakistan (Governor Jafarey)

The Fund must have the resources necessary to discharge its obligations as the central institution of the international monetary system. We have always been supportive of its mandate and of actions that will ensure that the institution remains strong enough to serve its purpose in the new environment of globalized markets. The prospect of a decline in the Fund's liquidity

ratio to its lowest level since 1983 adds urgency to the need for an early completion of work on the Eleventh General Review of Quotas, and we urge the Executive Board of the Fund to do its utmost to reach a conclusion as soon as possible. It is our hope that the size of the increase in quotas will be of a magnitude that will ensure that the Fund keeps pace with the growth of the world economy and reflects the increased scale of international financial flows.

Russian Federation (Governor Potanin)

In light of the growing demand for the Fund's resources by the states that are pursuing profound macroeconomic and structural reforms, and also with a view to maintaining at an adequate level the Fund's preparedness to provide assistance to member countries in overcoming sudden financial shocks, it is necessary to strengthen soon substantially the financial basis of the Fund. Efforts in this area should be directed primarily at the speedy completion of work on an increase in the Fund's own capital within the framework of the Eleventh General Review of Fund Quotas. Russia supports the proposal by the Managing Director of the Fund to double the Fund's quotas and would favor implementing it, primarily, on an equiproportional basis.

Generally, we believe that the Fund should remain an institution whose financial basis rests upon its quotas, while borrowing arrangements by the Fund should play only a complementary role. We welcome the progress in expanding the group of the Fund's potential creditors beyond the list of participants in the General Arrangements to Borrow. Nevertheless, in our view, development of this initiative should not substitute for or delay the work on the Quota Review.

Spain (Governor De Rato Figaredo)

With respect to the **Fund's financial resources**, Spain firmly supports an increase in quotas--which constitute its principal and basic resource--as a means of responding to members' financing needs. It is most important that this general increase in quotas should contain an *ad hoc* component to reflect institutionally the relative positions that economies such as Spain's occupy in the global economy, in such a way as to eliminate the differences existing in a small number of countries between theoretical quotas and real quotas.

Sri Lanka (Governor Peiris)

We hope the Executive Board of the Fund would be able to reach a satisfactory conclusion soon on the Eleventh Review of Quotas. Being a quota-based institution, a greater part of the Fund's liquidity should come from its quotas. The importance of strengthening the liquidity of the Fund so as to make it effectively fulfil its mandate in a world of rapid globalization and fast expanding needs of member countries needs no emphasis. Doubling of present quotas, would, in our view, satisfy this objective to a great extent. It is our fervent hope,

however, that in any quota increase exercise, greater weight should be given to an equiproportional increase.

St. Kitts and Nevis (Governor Douglas) 7/

Quotas must continue to constitute the centerpiece of the Fund's financing. We regret, however, that in spite of the extensive discussion, there is as yet no conclusion on any of the principal elements of the Eleventh General Review of Quotas currently underway. We continue to support a doubling in quotas to ensure the capacity of the Fund to meet the likely financing needs of members while maintaining a comfortable liquidity margin. We also believe that a major portion of any quota increase should be distributed equi-proportionally, even as efforts are made to address each selected case where a member's position in the world economy is markedly out of line with its quota share. Further, in order to avoid any precipitate erosion of the voting power of small developing member-countries of the Fund, we suggest that the ratio of basic votes to total votes be restored to the level that obtained at the inception of the Fund and that this ratio be made permanent. We in CARICOM look forward to seeing substantial progress on the quota review exercise in the coming months.

Sweden (Governor Åsbrink) 6/

Let me now proceed to the second "pillar" of the Fund's activities - provision of financial assistance. I would like to underscore the importance of an adequate expansion of the IMF's resources to match the potential needs of members in today's global economy.

The eleventh review of the Fund's quotas was initiated in early 1995. In view of the projected sharp fall in the Fund's liquidity through 1997 and early 1998, most members today favor a substantial increase in quotas - so do the members of my constituency. Therefore, I find it unsatisfactory that very little progress has been made so far in this review. It is imperative that work on this issue be accelerated with the aim of reaching an early conclusion on a substantial quota increase.

Quotas should continue to be the Fund's prime source of financing. However, the speed with which financial crises develop in interdependent economies, as well as their size, underlines the need for a substantial strengthening of the Fund's financial resources...

...it is essential to underline that expanded borrowing arrangements can never be a substitute for a quota increase.

Switzerland (Alternate Governor Villiger)

...the work on the Eleventh General Review of Quotas should be completed at the time of the next Annual Meeting. The New Borrowing Arrangements, which are presently being negotiated should also become operational at that time.

Thailand (Alternate Governor Sonakul)

We strongly urge the Fund to expedite the Eleventh Review of Quotas to ensure adequate financial assistance to all members. Due regard, however, must be given to issues concerning size and distribution. Adequately considerations should be given for selective increases to bring members' actual quotas more in line with the size of their economies, and in appropriate cases, allow for ad hoc increases for the 'out of line' cases.

Turkey (Governor Söylemez)

Given existing uncertainties about future demand for Fund resources, it is important for the Fund to remain strong at all times. An early decision on the Eleventh General Review of Quotas is needed to improve the Fund's liquidity position more durably.

Ukraine (Governor Pynzenyk)

We hope that the IMF would also be in a position to assist more effectively new emerging market economies in undertaking radical restructuring, and thus expect the eleventh review of quotas to be completed soon.

Venezuela (Governor Azocar) 3/

As representatives of Latin America in the Fund, we also believe that a more rapid conclusion of the Eleventh General Review of Quotas is necessary for the Fund to be able to carry out its financial mission. In this connection, we have been in support of doubling of the current quotas.

12. New Arrangements to Borrow**Australia (Governor Costello)**

We are close to finalizing new arrangements for the IMF to borrow from its members. This will greatly enhance the Fund's financial position in handling large demands in emergencies.

I am particularly pleased that Australia has been able to play a constructive role in the design of the New Arrangements to Borrow. Their formal establishment as the Fund's principal borrowing facility will be a milestone for the institution and the international monetary system.

The New Arrangements will enhance the Fund's ability to safeguard the international monetary system. Importantly, the new facility will be open to all Fund members that have the

capacity, and are willing, to support the international monetary system and participants will have equal rights and responsibilities. These two features will do much to ensure that the arrangements have the broad support which will make them a central element in the management of the international financial system into the next century. The wider participation of member countries in the New Arrangements appropriately reflects the changing structure of the world economy.

Austria (Governor Klima)

...negotiations on expanding the present General Arrangements to Borrow (GAB) into the New Arrangement to Borrow (NAB) through including a number of new participants have been completed in all important aspects and are ready for acceptance by the respective authorities and parliaments. The international financial system is thus in a better position to withstand possible challenges of a systemic nature than in the past. We are reassured by the fact that the NAB constitutes not only an increase in financial resources but also manages to maintain an efficient organizational mechanism in the form of the IMF acting as the secretariat of the Arrangement. We also feel that the establishment of the NAB represents a necessary adjustment and diversification of the circle of responsible countries to the new realities of global financial markets which are no longer limited to the G-10 countries. In this sense, the NAB is the beginning of a new more transparent and less exclusive era in international financial relations, in official policy dialogue and coordination as well as sharing of responsibility.

At the same time, it is clear that the successful completion of NAB negotiations cannot obviate the need for strengthening the IMF's quota resources, as the NAB's use would be limited to systemic crises and would not be available for regular Fund operations. Here, while the IMF's liquidity ratio seems comfortable for the time being, caution would call for an early completion of the Eleventh Quota Review in order to meet potential demands for Fund resources. I hope we will be able to make more progress on that score in the coming months than was the case so far.

Belgium (Governor Maystadt)

...it is clear that the fast-growing emerging economies, which have benefited from trade and market liberalization, will be called upon to play an increasingly important role in this process. Preliminary evidence of this is provided by the fact that some of these countries are taking part in the New Arrangements to Borrow.

Canada (Temporary Alternate Governor Peters)

Final agreement has been reached on the New Arrangements to Borrow (NAB), doubling the resources currently available to the Fund in a financial emergency. This new agreement reflects the participation of a wide range of countries, extending far beyond the G10,

with the capacity to support the international financial system. I am particularly pleased by the important role Canadian officials played in bringing this about.

Fiji (Governor Vunibobo)

...I also note the somewhat faster progress toward doubling the borrowed resources currently available to the IMF under the General Arrangements to Borrow (GAB)....The GAB can play a supporting role in helping out with international emergencies supplemented by other Emergency Funding Mechanism.

France (Governor Arthuis)

I am happy that we have been able to agree to double the GAB. The first-time participation of a number of emerging countries is also a sign of the times, and accurately reflects the new economic and financial world. As Mr. Maystadt, the President of the Interim Committee, reminded us, this exceptional financing must be rapidly coupled with a strengthening of the normal financing of the IMF--a quota increase.

Gabon (Governor Doupamby Matoka) 1/

While we agree that efforts to enhance borrowing arrangements under the General Arrangements to Borrow (GAB) are a prudent step in preparing for potential shocks to the international financial system, this is not a substitute for a quota increase and, therefore, we attach great importance to reaching a timely agreement under the 11th Quota Review.

Germany (Governor Tietmeyer)

The envisaged New Arrangements to Borrow (NAB) will provide the Fund with additional credit lines to cope with balance of payments dislocations threatening the stability of the international monetary system....

Germany will make a substantial contribution to these arrangements. However, these lines of credit must not become a substitute for an appropriately sized quota increase.

India (Governor Chidambaram)

We also welcome the progress made in establishing the new arrangements to borrow, which would effectively double the resources available to the IMF under the General Arrangements to Borrow, and thus improve the Fund's ability to provide emergency financing to members in situations of systemic stress.

Ireland (Governor Quinn) 4/

The [European] Union welcomes the agreement in principle reached on a new framework for borrowing (NAB) for doubling the resources currently available to the IMF under the General Arrangements to Borrow. This arrangement will include a broader group of countries with the capacity to support the international monetary system. The availability of these additional resources will increase the capacity of the IMF to cope with exceptional situations that pose a threat to the international monetary system. Such borrowing arrangements, however, cannot substitute for a quota increase which is the main source of IMF liquidity.

Italy (Governor Ciampi)

While the increase in the Fund's ordinary resources is necessary for it to operate under normal circumstances, the availability of adequate supplementary resources, to be called upon in exceptional situations, can provide an important safeguard in an environment where markets are global and ever more integrated. Therefore, we welcome the *New Arrangements to Borrow*, that will make available supplementary resources to cope with exceptional situations posing a threat to the stability of the international monetary system. The Italian government, through the presidency of the negotiating group, has contributed to a balanced solution to the problems of representation and contribution of the new participants.

Japan (Governor Kubo)

...I particularly welcome the fact that the G10 countries, along with new players in the international economy, had a hand in creating the New Arrangements to Borrow (NAB).

Korea (Governor Seung-Soo Han)

As for managing any future financial crisis, remarkable progress has been made in reinforcing the Funds resource base through the successful creation of the New Arrangements to Borrow. The Group of Ten countries and the new participants deserve much credit for their farsighted efforts which made this important initiative possible.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

We attach particular importance to ensuring the adequacy of the Fund's own resources, thus enabling it both to carry out its traditional functions and respond to unforeseen emergencies. We also consider it crucial to provide the Fund with additional resources that will enable it to respond rapidly, when required, to requests for exceptional financing. We welcome the New Arrangements to Borrow, which are expected to be finalized shortly, and which constitute an important and necessary addition to the Fund's exceptional resources.

Malaysia (Governor Anwar Bin Ibrahim)

Malaysia is also committed to participate in the NAB to play her part to ensure a stable global financial system.

The Netherlands (Governor Zalm)

...we also welcome the considerable progress that has been made in a good atmosphere on issues that have been on the Fund's agenda for a while now, like the equity-allocation of SDRs and the establishment of the New Arrangements to Borrow. We hope that this pace can be maintained in our discussions on the quota increase.

Pakistan (Governor Jafarey)

We...welcome the progress that has been made in establishing the new arrangements to borrow.

Russian Federation (Governor Potanin)

Generally, we believe that the Fund should remain an institution whose financial basis rests upon its quotas, while borrowing arrangements by the Fund should play only a complementary role. We welcome the progress in expanding the group of the Fund's potential creditors beyond the list of participants in the General Arrangements to Borrow.

Spain (Governor De Rato Figaredo)

...I would like to emphasize the importance of the agreement to double the lines of credit provided for the Fund. Spain has contributed toward the doubling of these resources under the **new arrangements to borrow**, which we hope will become an effective tool for dealing with balance of payments problems that have potential systemic implications.

Sri Lanka (Governor Peiris)

We are encouraged by the progress being made by all parties concerned towards reaching an agreement on New Arrangements to Borrow (NAB). We particularly welcome the prospective new participants to this proposed Arrangement. We hope that the ongoing discussions would soon lead to a satisfactory conclusion of this matter.

St. Kitts and Nevis (Governor Douglas) 7/

We welcome the solid progress made towards enlargement of the borrowing arrangements of the Fund, and are particularly pleased that the group of countries participating in the new system is being widened considerably, with the likely inclusion of emerging market

countries. We agree that the borrowing arrangements should not be seen as a substitute for a substantial increase in quotas, and that access to these additional resources should only be in exceptional circumstances, and disbursements should be speedy.

Sweden (Governor Åsbrink) 6/

Quotas should continue to be the Fund's prime source of financing. However, the speed with which financial crises develop in interdependent economies, as well as their size, underlines the need for a substantial strengthening of the Fund's financial resources. The agreement in principle that has been reached on a new borrowing arrangement (NAB) will give the Fund the financial ability to deal with crises of this magnitude. We welcome that a broader group of countries has agreed to support the Fund by participating in this new arrangement. Having said that, it is essential to underline that expanded borrowing arrangements can never be a substitute for a quota increase.

Switzerland (Alternate Governor Villiger)

...the work on the Eleventh General Review of Quotas should be completed at the time of the next Annual Meeting. The New Borrowing Arrangements, which are presently being negotiated should also become operational at that time.

Thailand (Alternate Governor Sonakul)

We welcome the progress on the proposal for the New Arrangements to Borrow and see this as a symbol of close cooperative spirit to safeguard the international monetary system against global disturbances.

United States (Governor Rubin)

At Halifax and again at Lyon, G-7 leaders agreed to an ambitious program of initiatives to safeguard financial stability in the global markets. Virtually, all of the initiatives that were brought forth have now been brought either to completion or almost to completion, including strong IMF disclosure standards to prevent future crises, the new arrangements for borrowing to expand the resources available to the IMF and financial emergencies and recommendations to facilitate market-based solutions to sovereign financial crises to reduce the expectation of official finance and encouraging private investors to focus more attention to risk.

Venezuela (Governor Azocar) 3/

We also welcome the New Arrangements to Borrow, but we hope that these new lines of credit will be more useful than the General Arrangements to Borrow proved to be when Mexico faced the first crisis of the twenty-first century.

13. SDR**Austria (Governor Klima)**

While progress on the Quota Review falls to date short of policy requirements, the signs of a resolution of the open and protracted SDR issue along the lines of a Special Allocation are very promising. We need to recognize the spirit of compromise shown by the developing countries in that respect. It is now up to industrial countries to take the next step and take up elements of the compromise proposal made by the Managing Director.

Bangladesh (Governor Shah A.M.S. Kibria)

We also hope that appropriate measures will be taken for equitable SDR allocation and the Eleventh Review of the Quotas, preferably on an equi-proportionate basis.

Canada (Temporary Alternate Governor Peters)

A number of new members did not participate in earlier SDR allocations, leading to the present inequitable distribution of SDRs. We must reach decisions soon on the size and distribution of a special equity SDR allocation.

Fiji (Governor Vunibobo)

I also support the agreement on the Managing Director's proposal for an SDR allocation to resolve the equity issue. I, therefore, urge the Executive Board of the Fund to quickly finalize its deliberation and call on all member countries to accelerate the political process needed for the quick ratification of the 11th quota increase and the SDR allocation.

Germany (Governor Tietmeyer)

In decisions on financing the IMF, the abundant supply of credit in the international markets must be taken into consideration. Countries with sound financial policies can draw there on ample liquidity at favorable conditions. Hence, there is no global need for an allocation of Special Drawing Rights. Nevertheless, we would support a one-off "equity allocation" on the basis of an amendment of the IMF Articles of Agreement enabling new members to participate in the SDR system. In this spirit we welcome the recent proposals made by the Managing Director as a basis for further progress in this area.

India (Governor Chidambaram)

It is also necessary to act on a fresh allocation of SDRs. A fresh general allocation of SDRs remains in our view, the best solution. However, as this does not have sufficient support, we have, in a spirit of compromise, supported the proposal for a special allocation with an

agreed bench mark ratio to quotas through an amendment of the Articles of Agreement. We welcome the Interim Committee's conclusion that such an amendment of the Articles would not in any way affect the power to have a general allocation of SDRs when there is sufficient support for this long overdue initiative.

Islamic Republic of Iran (Governor Mohammad-Khan)

We...fully support the proposal of the Managing Director of the Fund for a one time special allocation of SDR of billion SDR 26.6 through the amendment of Article of Agreement. We give our support in the spirit of compromise to achieve an equitable SDR allocation ratio for quota for all members. We expect, as part of this compromise, that the Managing Director of the Fund will propose a general allocation should the amendment not be ratified.

Ireland (Governor Quinn) 4/

The European Union notes the Interim Committee's endorsement of the consensus reached in the Executive Board of the IMF on a way for all members to receive an equitable share of cumulative SDR allocations, and now looks forward to the finalisation of work by the Executive Board on this issue.

Italy (Governor Ciampi)

Concerning the SDR, we believe that its role in the international monetary system must not be diminished. At the same time, we remain convinced that the creation of SDRs should be determined on the basis of global liquidity needs, a condition which does not seem to be present today. On the other hand, we have long recognized that a problem of equity existed, especially for those new members that have never participated in previous allocations. We are, thus, ready to support a special SDR allocation aimed at addressing this specific equity problem.

Japan (Governor Kubo)

...due attention should be paid to the fact that many new members of the Fund have not been allocated special drawing rights (SDRs). This is an inequity which must be addressed, and I call on member nations to redouble our efforts so that a final agreement will be reached by the time of the Interim Committee meeting next spring.

Both the quota increase under the Eleventh General Review and the allocation of SDRs are challenges that must be addressed to redefine our rights and responsibilities in a new environment characterized by emerging economies as well as by economies in transition. In this respect, I believe that dealing with both issues simultaneously and as a package will make more sense and will also allow members to win support at home more easily.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

...our continued conviction of the need to increase international reserves leads us to call once again for a new allocation of special drawing rights (SDRs). We would still prefer a general allocation, in accordance with the Fund's Articles of Agreement, and consider it the best way to carry out a new allocation of SDRs. However, in order to ensure the fair distribution of SDRs among members, we are prepared to support a new allocation that would result in a unified ratio of accumulated allocations for all members. Nevertheless, we believe that the principal of general allocation should remain the basis for future allocations of SDRs.

Malta (Governor Vassallo)

...Malta wishes once again to show its support for a general allocation of SDRs. In this regard, it also favors a selective increase for those countries which have never received an SDR allocation.

Myanmar (Governor Win Tin)

...although SDR allocations have an important role to play in the international monetary system, agreement has not been reached for new allocations.

SDR allocation, quota increase, and the debt relief initiative are issues of great interest to developing countries. We, therefore, eagerly look forward to these issues materializing in the near future.

The Netherlands (Governor Zalm)

...we also welcome the considerable progress that has been made in a good atmosphere on issues that have been on the Fund's agenda for a while now, like the equity-allocation of SDRs and the establishment of the New Arrangements to Borrow. We hope that this pace can be maintained....

Pakistan (Governor Jafarey)

It is difficult to hide our disappointment over the failure to reach a consensus on the SDR as envisaged at the time of our Annual Meetings in Madrid. Nevertheless, in a spirit of solidarity, we are prepared to support a one-time move to equalize the ratio of cumulative SDR allocations to present quotas.

Russian Federation (Governor Potanin)

To our deep regret, Russia and 37 other Fund members have not been given so far the opportunity to participate fully in the SDR mechanism. Once again, we call upon all the Fund members to demonstrate the necessary will to reach a compromise, in order to resolve this "problem of equity." We welcome the constructive attitude of those countries that have already indicated their willingness to support the formula for resolving this matter proposed by the Managing Director. Now it is necessary that the rest of the membership make their move toward the compromise on all remaining unresolved aspects of the proposed solution. It is our hope that the Fund will finally manage to leave behind the stage of declarations and consultations on this subject, and take up soon the practical aspects of the decision to allocate SDRs.

Spain (Governor De Rato Figaredo)

It is also important that a final agreement be reached on the equitable allocation of **new special drawing rights**, and such an agreement is now within reach.

Sri Lanka (Governor Peiris)

We commend the Executive Board and the management of the Fund for the substantial progress already achieved in seeking a solution to the SDR issue. We would encourage the Fund to complete the remaining work and put up its final recommendations soon. We would however feel that the quantum mentioned in the Managing Director's proposals appears rather insufficient. In our view, the size of the proposed new issue should be double the existing amount if it is to achieve the twin objective of meeting equity and satisfying, at the same time, the needs of many developing member countries for owned and low-cost reserves.

As regards the amendment route proposed by the Managing Director for resolving the issue, we wish to reiterate our position that if unforeseen difficulties or protracted delays were to occur in this path, we should fall back as early as possible on the Fund Articles to proceed with a general allocation.

St. Kitts and Nevis (Governor Douglas) 7/

We in CARICOM believe that there is a continuing role for the SDR, and have supported a new general allocation, along with action to address the equity problem. We are pleased that some progress has been made on the SDR issue, on the basis of the most recent proposals tabled by the Managing Director. We urge that the matter be concluded early with a special allocation of at least SDR 26.0 billion.

Sweden (Governor Åsbrink) 6/

...I welcome the Executive Board's recent agreement on the broad principles of a solution to give all Fund members a stake in the SDR Department. This solution, based on a one-time allocation, will eventually require an amendment of the Articles.

Thailand (Alternate Governor Sonakul)

On the issue of SDR allocations, we believe that the challenges of globalization and greater openness, together with the need to address equity considerations, call for significant strengthening of member countries' own reserves. We therefore support the Managing Director's proposal and hope that some members will consider their positions in a spirit of compromise, and that consensus will be reached soon.

Tonga (Governor Fakafanua)

...we join other developing member countries in supporting the Managing Director's proposed compromise package on the issue of the SDR allocation.

Ukraine (Governor Pynzenyk)

My government also counts on an additional SDR allocation achieving greater equity among the IMF member countries.

14. Governance**Denmark** (Governor Nielson) 5/

Reforms of the public sector and good governance are important prerequisites in the struggle against poverty. The public sector can and should facilitate development of physical and social infrastructure, especially health and education. It requires planning, financing and monitoring capacity. At a time of increased globalization, the state should also have the capacity to address issues of common global concern such as environmental degradation, climatic change and migration. Public sector and civil service reforms should be aimed towards these objectives.

Good governance plays an important role in economic development and we welcome increased priority in the Bank to this issue. The public sector must be credible, transparent and accountable. There is a need for improving good governance through enhancing the capacity and institutional competence of the public sector. By bringing resources and authority close to those involved, decentralization of government would facilitate that priorities of the people are reflected in decision-making.

Finally, I would like to mention that Nordic experience has shown that decentralization can consolidate democracy and contribute to improved service delivery and increased accountability in the use of public funds. The Nordic experience is not unique. Well implemented public sector reforms, including decentralization, have facilitated economic and social development in Africa, Latin America and Asia. The Nordic countries wish to encourage the Bank and member countries to give priority to such governance and reform issues.

Islamic Republic of Iran (Governor Mohammad-Khan)

One of the important issues which has drawn increasing attention in recent development debate, matters in relation to good governance. No doubt, policy environment in which development takes place should be appropriate, and that accountability, participation, predictability, and transparency issues, should be addressed. Despite any constructive feeling that might have been laid behind the idea, there is concern regarding its abuse, as a tool of the extraterritorial aspects of certain internal legislations, by transgressing the globally accepted rules and principles exert undue political pressures on other countries which are merely seeking their own freedom and independence. As a result, the Bretton Woods institutions, by taking hold on the notion which is explicitly stipulated in their founding charters, should maintain their full independence, and elude any discriminatory treatment being forced by certain members against the others.

Pakistan (Governor Jafarey)

Let me say a few words about the issue of good governance which appears to have gained momentum and needs to be managed carefully. We in Pakistan are fully committed to the principles of good governance, and are conscious of the need to address the problem in a decisive and comprehensive way. But, given their apolitical mandate, the Fund and the Bank need to proceed with extreme caution, being drawn into an area which defies easy quantification, entails subjective evaluation, and requires symmetry of treatment between debtor and creditor governments, especially in the two-sided area of corruption. As emphasized by the Chairman of the G-24, we would ask that Fund and Bank concerns on the issue of governance should be translated into a collaborative role of providing technical support for initiatives that are taken by member governments themselves, and which are aimed at improving efficiency and accountability in state institutions.

United States (Governor Rubin)

I developed a very strong feeling or view that one of the principal impediments to development in the developing world was the issue of corruption.

I would like to very much identify with and support the comments of Michel Camdessus and Jim Wolfensohn yesterday with respect to lifting the fight against corruption to the top of

their agendas, and also express the full support of the United States to this very important initiative.

But we need to continue in encouraging good governance, and that very much includes the issue of corruption that Michel Camdessus and Jim Wolfensohn raised yesterday, increasing transparency, measuring results, expanding micro-enterprise lending, strengthening our capacity to deal with the national crises, as well as the issues I discussed a few moments ago.

Venezuela (Governor Azocar) 3/

Achieving good governance is another of the major challenges facing Latin American countries. This can have a profound positive effect on income distribution and, consequently, help reduce and possibly eradicate poverty in our countries.

Bearing that in mind, our efforts should now be directed at reinforcing mechanisms that provide for sound management and supervision of markets and economic operators; at more efficient taxation; at strengthening the rule of law and the legal security of persons and investments, which includes a strong commitment to fight against corruption; at regional administrative decentralization, guarding against the proliferation of unproductive and inefficient bureaucracies; and at guaranteeing that our citizens are provided with health, education, and social security services--the best tools governments can use to place people at the center of the development process, truly achieve better income distribution, and reduce poverty in a democratic society.

15. Technical Assistance

Bosnia and Herzegovina (Governor Omicevic - Fund)

The staff of the IMF, and the staff of the High Representative's Office is significantly supporting technical preparations for the establishment of the Central Bank, and the steps towards the creation of the conditions to start the reconstruction of commercial banks. This will facilitate the transition process (from war to peace economy, and from socialist to market economy--with private property as a dominating factor), which will represent one of the key factors of economic reconstruction and development of the country.

Bosnia and Herzegovina (Governor Muratovic - Bank)

We also expect cooperation with the IMF in the establishment of a new Central Bank in the very near future, and swift introduction of a new single currency for Bosnia and Herzegovina soon afterwards.

Cambodia (Governor Chhon)

...It is necessary for institutions like the IMF and the World Bank to persuade our creditors to adjust repayment terms of current rates of exchange rather than the highly illusory rates at the time the debts were incurred...there is a strong case for increasing technical assistance on a grant basis from international institutions like the IMF and the World Bank.

Fiji (Governor Vunibobo)

Technical assistance must take up a major portion of the Bank and the Fund's assistance to the region. I would like to take this opportunity to express Fiji's satisfaction at the attention the Bretton Woods Institutions have placed on the Pacific region.

Socialist People's Libyan Arab Jamahiriya (Governor Bait Elmal)

We would also like to express our appreciation of the effective role of the Bank and the Fund in meeting the challenges resulting from the fundamental changes that have taken place in the world economy, and their valuable participation in helping countries meet these challenges by monitoring economic developments and providing financial assistance and technical advice.

...we ask the World Bank and the IMF to expand the technical and financial assistance they provide to individual countries and regional institutions in the Arab World.

Malta (Governor Vassallo)

...the various technical missions that have visited Malta in recent years have played a significant role in enabling us to implement the important economic and financial reforms that were necessary to liberalize our economy and transform it into a market-oriented system.

Federated States of Micronesia (Governor Ehsa) 2/

...on behalf of the Pacific Island members of our constituency, I would be remiss if I concluded my remarks today without expressing how appreciative and delighted we are for the work and technical support provided by the Bank and the Fund through their field offices in the Pacific, namely: the Pacific Financial Technical Assistance Center (PFTAC) in Suva, Fiji; the South Pacific Project Facility (SPPF) in Sydney, Australia; and the Foreign Investment Assistance Service (FIAS) also in Sydney, Australia. Their work has been proven to be effective for which we all appreciate. Their establishment increase our accessibility to your assistance and enhance our partnership in development. For all of these, we are indeed grateful.

Republic of Poland (Governor Kolodko)

Poland and other economies in transition appreciate the financial and technical assistance which has been provided by the Bretton Woods institutions during this difficult period. A part of credit for the recent success of the Polish economy is due to the IMF and the World Bank...

Tonga (Governor Fakafanua)

With respect to the Fund's technical assistance programme, we are concerned with the tightening of the Fund's operating budget and consequent cuts in allocations for technical assistance, particularly with regard to the allocation for the Pacific region. In this regard, we would like to acknowledge the valuable assistance provided by the Pacific Island Financial Technical Assistance Facility based in Suva, Fiji and pledge our support for its continuity.

16. Miscellaneous Topics**Bangladesh (Governor Shah A.M.S. Kibria)**

Reforms and restructuring are difficult processes, though admittedly necessary. There is no unique prescription or panacea for all problems for all countries. Program for reforms, therefore, need to be based on contextually specific and realistic assumptions. More importantly, the relevant countries should have greater role in designing the reform program which alone can ensure a sense of "meaningful ownership". This is ignored all too often, which results not only in incomplete or incoherent reforms which fail to deliver the promised benefits but also causes political instability and social unrest. It is needless to mention that political stability and "ownership" are essential for policy and structural reforms. I would, therefore, emphasize, Mr. Chairman, that the Bank and the Fund take into account the political and economic realities in designing reforms programs and the associated conditionalities. Rigidities in the technical details of conditionalities--which are liable to bureaucratic interpretation--are also likely to be counter-productive; what is required is a realistically designed and contextually specific set of reforms package.

Belgium (Governor Maystadt)

Programs must be drawn up to enable the poorest countries to achieve higher growth rates, and I attach considerable importance to the current evaluation of ESAF-supported programs, to be discussed by the IMF Executive Board in the Spring of 1997. This will provide a unique opportunity for learning from the experience acquired since the ESAF was established, and adapting the ESAF to meet current needs.

Gabon (Governor Doupamby Matoka) 1/

We strongly believe that economic cooperation and regional integration, as provided for in the Abuja Treaty, are a means of promoting sustainable development in Africa, as in other regions of the world, to strengthen regional peace and political stability, to guarantee our participation in international trade and to halt the growing marginalization of our economies. This is why, by combining our limited resources, we are striving to harmonize and to coordinate our countries' macroeconomic policies, to develop cross border trade and investment, and to improve the international competitiveness of our productive sectors, in particular, through the progressive elimination of obstacles to the free movement of labor, capital, goods and services, and through the improvement of the political and social environment.

This strategy merits support by the international community, in the context of the various initiatives already taken by our Governments. To this end, the World Bank and the International Monetary Fund should develop the appropriate resources and instruments, to enable them to contribute more actively to the attainment of these objectives, through constant and enhanced support of our regional and subregional organizations for economic cooperation and integration.

Germany (Governor Tietmeyer)

...we are viewing the rise in the IMF's lending to a record level with mixed feelings. First of all, we note that the IMF has been in a position to support some of its members in a particularly difficult situation in an unconventional manner by providing large amounts of financial assistance. At the same time, however, we have two concerns:

Firstly, the IMF must not become a lender of last resort for certain groups of creditors who have entered into excessively large exposures and, as a result, have reaped large risk premia. Bail-out operations of this kind could undermine the discipline of the international financial markets to the detriment of global stability.

Secondly, building up undue credit exposures financed by central bank resources is problematic in terms of global anti-inflation policy and might ultimately undermine the financial integrity of the IMF.

A greater appreciation of these principles, including the catalytic role of the IMF, would appear to be warranted.

The International Monetary Fund and the World Bank must continue to perform their tasks, under their respective mandates, in a flexible and constructive manner, whilst preserving their tried-and-tested division of Labor. They must avoid short-termism and the search for "free-of-charge" and "free-of-pain" solutions, and must deploy the available resources as effectively as possible. In those terms, both institutions have our full support. For the IMF it will chiefly

remain important to make a contribution to macroeconomic stabilization as a precondition for the successful integration of its members in the world economy.

Islamic Republic of Iran (Governor Mohammad-Khan)

Among other issues deserving special attention, is the procedure for compulsory withdrawal pursued by IMF against certain members with protracted arrears. Recognizing that non-fulfillment of obligations by these members is the direct consequence of existence of poverty in these countries, and where the international efforts, particularly the joint debt initiative by the World Bank and IMF are directed towards the alleviation of debt burden of the heavily indebted poor countries, compulsory withdrawals will not help the situation, but will further intensify the already existing deteriorating conditions. We believe IMF should continue to work closely with countries in arrears to help them resolve their overdue financial obligations.

Malaysia (Governor Anwar Bin Ibrahim)

We are concerned that over the past few years the Fund has tended to apply different standards in its treatment of member countries. The Executive Board must not be a mechanism to pressure member countries to acquiesce to demands on non-economic matters by denying the rights of members to the Fund's financial and technical assistance. Difficult as it may be, the Fund must ensure that its decisions and recommendations are based purely on economic considerations. This is necessary to restore the credibility of the Fund as an institution that is committed to assisting the poor countries and improve their economic management to create growth and employment.

Nepal (Governor Mahat)

Like many developing countries in the world, we are engaged in deepening as well as widening liberalization process to establish private sector's lead role in economic development. In this context, we feel that both the Bank and the Fund should speed up their actions to help promote the private sector.

Papua New Guinea (Governor Haiveta)

I am sure that the Fund shares the view that the road to economic prosperity requires commitment, sacrifice and hard work combined with the openness to understand constraints and timing considerations. Among the important constraints has been a fundamental inconsistency between World Bank structural targets and IMF macroeconomic targets.

Sweden (Governor Åsbrink) 6/

In spite of the rapid and profound changes in the Fund's external environment, the Articles of Agreement have stayed remarkably relevant. They have provided the Fund with a solid mandate, but also with sufficient flexibility to allow the Fund to adapt to new challenges. But, over the last years, a number of proposals for reform have been put forward which would require a change of the Articles. Most recently, the discussions on the SDR issue show that a solution to the so-called "equity problem" will require such a change.

A review of the Fund's Articles has to be carefully prepared. Otherwise, there is a risk that the discussion will be very time-consuming and complicated, with too many competing proposals. We also need to be certain that any changes which we decide today will stand the test of time many years from now.

In order to have a reasonable chance of success, a review of the Articles has to be limited to a relatively small number of well defined issues. In fact, an agreement on which issues to include should be a precondition for going into discussions on substance. In particular, I believe there are three such issues that merit consideration.

The first area to be considered is the SDR issue. Here, I welcome the Executive Board's recent agreement on the broad principles of a solution to give all Fund members a stake in the SDR Department. This solution, based on a one-time allocation, will eventually require an amendment of the Articles.

A second issue is capital account convertibility. The present Articles were agreed upon in a different environment. Since then, the importance of capital account issues has increased, and recent experience points to the minimal effectiveness of exchange and capital controls. There are good arguments for reviewing the Fund's jurisdiction in this area.

A third candidate is the system for financing the costs of the Fund. The widespread interest in moving to a more transparent and equitable system argues for including this matter in a review of the Articles.

To sum up, even if a review of the Articles may run the risk of opening up for discussions on too many issues, there are still substantial benefits to gain in the long term. It is clear to me that it is not a question of *if*, but rather a question of *when* to undertake this review. The time is now ripe for starting serious work.

Switzerland (Alternate Governor Villiger)

...we encourage the Fund to pursue its efforts to improve its transparency and its accountability. In this respect, we particularly welcome the decision to ask outside experts to evaluate activities of the Fund.

