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To: Members of the Executive Board

From: The Secretary

Subject: **1997 Annual Meetings—Excerpts from Speeches by Governors**

Attached for the information of Executive Directors are excerpts from speeches by Governors at the 1997 Annual Meetings on various policy issues.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

1997 ANNUAL MEETINGS

Hong Kong, China

Excerpts from Speeches by Governors

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1. Exchange Market Turbulence in Southeast Asia, and the Fund's Role

Australia (Governor Costello)

I would like to take this opportunity to thank the Fund for the key role that it played in assisting Thailand. We are confident that the Fund program, fully implemented, will restore confidence and economic stability and re-establish a firm foundation for strong medium-term growth. We look to their authorities to progress its implementation.

Cambodia (Governor Chhon)

We have witnessed just in the last three months how fragile and fickle the prolonged strong economic growth in this region has been. We have noted how much damage could be caused by speculative greed, shattering the dreams of the honest many, plunging governments and future generations into deep debt and devastating the prospects for quick economic rebound and for employment opportunities. Eternal vigil is the price we have to pay in the future.

Cyprus (Governor Christodoulou)

Massive amounts of foreign private capital have flowed into these economies, especially to Southeast Asia, to promote investment and rapid economic growth. However, the vulnerability of such flows to individual countries and regions in response to shifts in market sentiment has been underlined by the recent downward pressures on the currencies of a number of Southeast Asian countries and the large falls in equity prices in their markets. We need to put these developments into perspective and assess whether foreign investors and financiers and domestic players have exaggerated the deterioration in the prospects for Southeast Asian economies and have overreacted by shifting funds and capital out of these countries. If so, what else can the international financial community, including the Fund, do to help restore confidence in the currencies and financial assets in the affected Asian markets? Are the Fund's resources too limited to provide quickly the appropriate amount of emergency financing? What corrective measures should the authorities of individual countries take to enhance and reinforce policy credibility in the eyes of domestic and foreign investors?

Fiji (Governor Ah Koy)

The dynamic growth in Southeast Asia has been threatened by the turmoil in foreign exchange market at a time when we thought that the contagion effects of the Mexican crisis were well behind us. This brings into question the role of the Fund in its surveillance and the remedy it can offer. In my view, the Fund must urgently and seriously review its role of the custodian of exchange rate stability...[and] a clear message from these crises is that the Fund must move decisively and immediately at the first sign of trouble.

France (Alternate Governor Trichet)

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

Germany (Alternate Governor Waigel)

Delayed implementation of exchange rate policy adjustments in combination with other risk factors such as excessive and short-term foreign-currency debt and a high and potentially rising current account deficit will inevitably be followed by a loss of growth and jobs.

This has been clearly evident in some Southeast Asian countries in the past weeks and months. It is now important for those countries to implement the necessary reforms and make up the international loss of confidence.

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

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

The recent market turbulence in Southeast Asia has highlighted the importance of strong and confidence-building macro-economic and structural policies and early action when imbalances build up. The Fund has an important surveillance role in that regard but the ultimate responsibility lies with the countries themselves.

India (Alternate Governor Rangarajan)

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

Indonesia (Governor Muhammad)

This annual meeting takes place in the course of currency turmoil in the Southeast Asian region. Indeed, over the last decade, the Southeast Asian economies have demonstrated tremendous progress, a development that was described by the World Bank as *The East Asian Miracle*. Despite this progress, over the last 2-3 years Southeast Asian economies in general are marked by the following:

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

In addressing these issues, the countries in the region have made considerable efforts through structural adjustments. As a result, there are positive indications that the currencies are in the process of arriving at a new equilibrium in the near future.

Japan (Governor Mitsuzuka)

Once a currency crisis occurs in one market it may have an immediate and contagion effect on other markets. This will certainly have a negative impact on the sustainable growth of an entire regional economy.

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

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

Lessons also must be learned from our experience in Thailand, as it has clarified a number of issues in the area of economic management that must be addressed in the wake of integration of financial markets.

First, an appropriate foreign exchange system and sound fiscal and monetary policies are both essential to currency stability.

Second, appropriate policy action in response to structural problems in each country's financial sector is also essential, especially in the wake of capital liberalization.

Third, close regional cooperation is essential for the prevention and control of crises, especially among the emerging economies in Asia, since turbulence in one market can easily spread to the rest of the region.

Libyan Arab Jamahiriya (Governor Bait Elmal)

Although world economic growth is expected to reach 4 percent in 1997 and 4.5 percent in 1998, which is among the highest annual rates since the beginning of the seventies, thanks to the performance of the world's industrialized as well as developing countries, this has been accompanied by several adverse economic developments in Southeast Asia, an important region in the world economy, owing to the currency and financial market crisis. Part of that crisis was due to external factors beyond the control of these countries as well as to policies of the major-currency countries. The Mexican crisis at the end of 1994 and the current events in Southeast Asian countries represent a serious development and are a source of great concern to the developing countries. Despite the positive approach of the Fund in dealing with such crises, a major part of the solution lies in the major currency industrial countries shouldering their responsibilities for adopting economic, financial and monetary policies that take the conditions of other countries into account. It also requires a comprehensive supervisory role by the Fund over economic indicators in various countries of the world.

Luxembourg (Governor Juncker, speaking on behalf of the Governors of the Member States of the European Union)

A number of Southeast Asian countries...have recently experienced serious financial market turbulence. These developments highlight the urgent need for containing external deficits better, reducing the reliance on short-term borrowing, maintaining realistic exchange rates, and strengthening fragile banking systems.

Malaysia (Governor Anwar bin Ibrahim)

...the recent depreciation of the region's currencies illustrates that sound policies are no guarantee against speculative activities. In the light of recent developments, there is a need to focus attention on the problems that should be addressed, especially when these problems are faced by countries with less sophisticated financial systems.

Though the openness has led to problems, it is not necessarily true, however, that financial crises in any one country would lead to systemic ramifications elsewhere in the region. Nevertheless, the contagion effects of the crisis in Thailand, for example, have reached an intensity beyond our expectations, to no small extent aggravated by the workings of unscrupulous speculators. All this has led to a cumulative psychological effect of viewing the entire region in turmoil. It is therefore necessary to put things in the proper perspective and not view recent and current developments outside of their proper context. We have indeed the political resolve to put the appropriate macroeconomic policies in place. Nevertheless, we should not be befuddled by statistical abstractions into prescribing macroeconomic policies divorced from social realities....

The recent financial turbulence in the region is not without its positive developments. We have witnessed the mobilization of regional financial support for Thailand. The Fund played a catalytic role in this exercise with several bilateral contributions from Asian countries. The expeditious response of the Fund and the Asian countries in providing a $17.2 billion facility is a unique demonstration of regional solidarity. The financial turbulence has provided the impetus for the formation of a forum to discuss common regional issues, as well as explore remedial policy action. This forum now provides a basis for the establishment of a facility to enhance efforts toward economic and financial stability to support macroeconomic adjustment.

...the Fund should initiate a study and introduce measures to ensure market stability.

Myanmar (Governor Win Tin)

...the recent currency turbulences of some countries of the ASEAN region have clearly demonstrated that these destabilization developments go beyond the realm of economic fundamentals and can be attributed to ill-intentioned speculators.

Nepal (Governor Sharma)

The recent experience of Mexico and the turmoil in the currency and financial markets of Southeast Asia have reminded us of the world we live in. Events have also demonstrated, however, the willingness and ability of the international financial community to come to the assistance of countries in distress and help remedy situations of crisis.

The Netherlands (Governor Zalm)

...preventing a crisis is better than the cure. The recent turmoil in Southeast Asia has illustrated once again the necessity of an appropriate sequencing in connection with economic and structural reforms.

New Zealand (Governor Peters)

At a time when there has been some turmoil in Asian markets, some people might have thought it awkward that we should meet here in China, in the heart of Asia, to discuss financial issues....

The recent market fluctuations are simply a passing moment. The real story is the industry, production, and construction which characterize the booming economies in this region....

Sustained annual growth rates of 7 percent or more enjoyed by many of the Southeast Asian countries for the last decade have been the envy of the rest of the world. However, recent months have seen a wave of speculation against many of the currencies starting in May with sustained pressure on the Thai baht leading to depreciations in Thailand and a number of other countries in July. Foreign investors focused on weaknesses that certain Asian countries, namely Thailand, Indonesia, Malaysia and the Philippines, were perceived to have in common. Such weaknesses included large current account deficits, currencies linked to the US dollar and over supply in property markets.

The currency sell offs in the region, however, have been more a product of guilt by association rather than a result of necessarily shared weaknesses. Thailand stands out amongst the countries affected in that it has been running a large current account deficit, equivalent to around 8 percent of GDP, financed by a significant amount of short term capital inflows, very much like Mexico 1994. Investor concerns were exacerbated by Thailand's fragile banking system. Spillovers from the crisis in Thailand have been felt by fundamentally more sound currencies such as the Singapore and Hong Kong dollars. There are clear distinctions to be made between Thailand and its immediate neighbors. Indonesia's current account deficit, for example, is not particularly high while the Philippines is somewhat behind some of the other Southeast Asian countries in terms of development and is not suffering from a property glut.

Pakistan (Governor Aziz)

It is satisfying to note that the net private capital flows to the developing countries have reached a record high of $200 billion last year. This event has however been constrained by the spectacle of turbulent financial markets in the Southeast Asian region. While welcoming the inflows of productive long-term investment capital from abroad, the region has simultaneously become hostage to the volatile judgments and aggressive activities of foreign portfolio managers. There is too much footloose capital at play, that moves from one country to the next, and forcing them to make policy adjustments that are destructive of business confidence and throw their economies off-track. In many cases, the original constellation of policies might have been optimal but became unsustainable simply because the countries were caught in the path of a spreading contagion.

Philippines (Alternate Governor de Ocampo)

In response to the currency turmoil, we supported greater exchange rate flexibility and enhanced monetary prudence. However, we remain deeply committed to the foreign exchange liberalization that we have undertaken over the past few years.

We believe that this storm hitting the region is only a temporary set-back for the economy, and confidence in the economy will return.

Spain (Governor de Rato Figaredo)

Latin America is no longer the source of anxiety that it once was. The troubles have shifted to Southeast Asia, where recent financial events in Thailand have been arousing much concern at the international level. Supported by the main countries in the region, the Fund has played a decisive role and we trust that the recent agreements will help to restore market confidence in the economies of the Far East, where economic fundamentals remain favorable.

United Kingdom (Governor Brown)

We now live in a world where instability anywhere can rapidly become a threat to stability everywhere.

That is why this week we have considered important initiatives to bring greater stability to the international economy. The turbulence in the Southeast Asian economy has brought to our attention this week a truth that applies to us all—that, in addition to the pursuit of prudent policies, nothing is more important for maintaining stability than effective decision-making based on openness, transparency and accountability.

United States (Governor Rubin)

A commitment to sound macroeconomic policies on the part of all governments is the global economy's best safeguard against financial crises of the kind that have reverberated around Southeast Asian markets in recent months. But important though these policies are, they are not sufficient. Particularly among the emerging economies, though for all of us, there is an urgent need to strengthen the legal and supervisory infrastructure underpinning the financial market—to promote growth, and preserve stability.

Vietnam (Alternate Governor Le)

...an event drawing much attention recently is the currency turmoil in some Southeast Asian economies, which have grown fast for many years. This event highlights the need to strengthen policy consultation and economic and financial cooperation in the region.

Furthermore, economic and financial developments during the last few years may call for the review of some policies, facilities and other cooperation arrangements between the Fund and the Bank and member countries as well as those among member countries themselves.

2. Flexible Exchange Rates

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

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

Fiji (Governor Ah Koy)

...the recent exchange crisis in Southeast Asia has placed considerable attention on fixed exchange rate arrangement and capital account convertibility—issues which are very important to small countries like Fiji with narrow domestic markets and export base. The currency stability and the inflation anchor that a fixed arrangement offers has worked well for us. We, however, realize that we need to regularly review this arrangement and the current discussion of exit policy in the Fund will provide some guidance to our future direction.

The Netherlands (Governor Zalm)

...we would favor further discussion in the Board of the characteristics of different exchange rate regimes....

Russian Federation (Governor Chubais)

It becomes increasingly important to choose the right exchange rate arrangement which should allow to avoid misalignments and thus prevent the national currency from turning into an attractive target for speculators. I am referring not only to the shortcomings of a unilateral peg to just one of the leading currencies, but also to the risk of excessively rigid exchange rate regimes. While the use of pegged exchange rates as nominal anchors is justified at the stage of curbing high inflation—and Russia's own experience is a good proof—a more flexible policy is preferable for open economies where financial stabilization has already been accomplished and economic growth has resumed. Nevertheless, too much of a generalization is counter productive here, and the choice in favor of one or another exchange rate regime must depend on the specific circumstances of each country.

Spain (Governor de Rato Figaredo)

...exchange rates must be able to adapt rapidly to changing conditions in international markets.

...economic policy programs (both fiscal and monetary) should be compatible with the chosen exchange rate regime and should foster a credible climate of stability.

Thailand (Governor Bidaya)

...efforts should be made to devise an appropriate mode of monetary operation to deal with the dilemma of exchange rate versus growth effect of high interest rate policy to ward-off currency attacks.

3. Fund's Crisis Management

Australia (Governor Costello)

The Fund and the multilateral development banks have an indispensable role to play in facilitating adjustments in member economies facing severe structural problems. This was evident in Latin America in the late 1970s and early 1980s, and more recently in Mexico and now Thailand.

Chile (Governor Massad, on behalf of the Latin American Governors of the Fund)

In this new age of increasingly fluid capital markets, the role of international financial institutions is also affected. For the Fund, balance of payments crises will continue to emerge. Though such crises will probably be less frequent, they may well be more severe; thus, continually reviewing the modalities of the different available lending facilities will be an important future task of the Fund. We must also endeavor to provide the Fund with adequate resources and further facilitate drawings by member countries as the volume and scope of private capital movements increase.

Colombia (Temporary Alternate Governor Ocampo Gaviria, speaking on behalf of the Bank Latin American Governors)

It is important to emphasize that the recovery in the [Latin American] region in the aftermath of the Mexican crisis, as opposed to the devastating effects of the debt crisis of the 1980s, was largely determined by the rapid intervention of multilateral agencies.... We...welcome the timely response of the Fund to the recent problems faced by some Southeast Asian countries.

Cyprus (Governor Christodoulou)

We consider the issues of the ability of the Fund and World Bank to help promote and sustain economic growth in the least developed countries and to provide emergency financing to countries affected by sudden private capital outflows are of great importance. The Fund and the World Bank must have the financial resources to respond quickly, flexibly and adequately to meeting such responsibilities.

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

There is no doubt that globalization has added to the burden of responsibilities carried by the World Bank and the Fund, and we consider the rapid response of the two organizations to the crisis in Southeast Asia to be clear proof of their effective role in limiting the effects of financial crises.

France (Alternate Governor Trichet)

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

Germany (Alternate Governor Waigel)

Recent events in Southeast Asia have shown that the classic role of the Fund should continue to be the central pillar of its activity. In particular, this includes the surveillance of economic policies in member countries to prevent crises and the temporary provision of conditional financial resources in the event of balance-of-payments need.

Indonesia (Governor Muhammad)

Although we are in favor of market mechanism, we are concerned with the excessive volatility of many currencies which undoubtedly creates uncertainties in the business community, and in turn could lead to an economic crisis. In this regard, I would urge the Fund to take an active role according to its mandate.

Since excessive volatility of currencies can hinder the world economy, we warmly welcome any regional or global initiatives to stabilize currencies.

Japan (Governor Mitsuzuka)

Each country's circumstances are different. Each has a different industrial structure, and is at a different stage of development. Some economies are developed. Some are developing. Some are in transition. Yet others are emerging.

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

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

Korea (Governor Kang)

I felt the rapid response of the Bretton Woods institutions and the international community to the turbulence in Southeast Asia was an excellent example of...collective commitment to multilateral and bilateral cooperation.

Indeed, Korea's active contribution to the Fund's package for Thailand is only one indication of our readiness to undertake the cooperative responsibilities that come with a larger economy.

Malaysia (Governor Anwar bin Ibrahim)

In the light of recent developments, the Fund has an important role to play to assist countries in curbing the tendency for markets to over-react to any perceived contagion effects... Market players have a tendency to over-react to isolated events and sometimes exaggerate them....

...the Fund could devise a framework to enable countries to adapt and cope more effectively with market excesses associated with destabilising capital flows. It is not sufficient that only member countries abide by Fund advice and observe "international rules."

New Zealand (Governor Peters)

Recent instability in the Thai economy has highlighted the useful role the Fund can play in rapidly mobilizing resources in the face of a crisis. This is an important role for the Fund. However, being the proverbial 'ambulance at the bottom of the cliff' is clearly much less desirable than playing a preventative role where possible. Since the Mexico crisis, the Fund has carefully scrutinized the adequacy of its surveillance, and has implemented initiatives to strengthen data quality and dissemination. This needs to be kept under active review. More thinking also needs to be done on how to encourage adoption of the Fund's advice by member countries. This could include closer analysis of the moral hazard element associated with Fund financing.

Philippines (Alternate Governor de Ocampo)

The Bretton Woods institutions have critical roles to play in both preventing excesses by filling market information gaps and containing their consequences through speedy assistance. In this respect the Fund needs to reinvigorate its surveillance functions, and improve its data dissemination.

Russian Federation (Governor Chubais)

As for new modalities of operation, this year the Fund has already used the recently adopted emergency financing mechanism twice in its efforts to minimize the effects of currency crises.

Sri Lanka (Governor Peiris)

We welcome the timely efforts of regional and multilateral cooperation in assisting affected countries recently. In particular, we commend the Fund for its prompt response in extending assistance to such countries under its emergency procedures. Nevertheless, let me emphasize that it is extremely important to have in place a more coordinated approach by the multilateral and regional financial institutions in this area.

4. Financial Sector Soundness

Armenia (Governor Darbinian)

We strongly support the Joint Statement of the President of the World Bank and the Fund Managing Director on the collaboration in strengthening financial systems. It is extremely important for ensuring that emerging financial sector problems in all countries are promptly identified, and as such—more recognized the problems will be, more nonemerging the markets will become.

Australia (Governor Costello)

A key factor in the recent turbulence in financial markets in the region has been concern over macroeconomic settings. Provided the fundamentals are restored and maintained, there is a strong basis for continuing growth well into the future.

Nevertheless, the recent experience underlines the point that good policy requires continuing effort. Good policy never takes a holiday. Sound financial systems are particularly important.

Financial supervision must be flexible so it can respond to new challenges. As economies open to global financial markets in order to draw upon international capital flows, appropriate policy and prudential frameworks become more important, requiring more sophistication, more transparency and disclosure. This lesson is as relevant to developed countries as to the emerging market economies.

Austria (Governor Ruttenstorfer)

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

Chile (Governor Massad, speaking on behalf of the Latin American Governors of the Fund)

Development of a sound framework of prudential regulations and financial supervision, which our countries are working toward, is essential for ensuring the proper channeling of domestic and external financial saving into profitable ventures with a high probability of repayment. Too much private spending, financed by a poorly regulated and supervised financial system, may have been a determining factor in the recent financial and balance of payments crises in the emerging economies.

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

It is also crucial to ensure that the financial and banking sectors are sound, and to strengthen financial markets in the developing countries, thus enabling them to keep pace with the latest economic developments. Here I would like to stress the importance of the technical assistance provided to developing countries by the Fund and the World Bank, to support their efforts aimed at integrating themselves into the new world order.

Finland (Governor Niinisto, speaking on behalf of the Bank Nordic Governors)

Recent turbulence in financial markets particularly in Asia is a reminder that the financial sector remains highly sensitive to imbalances with sometimes severe consequences for the people and societies involved. In an interdependent world such problems are spreading rapidly.

Concerted and systematic international efforts are needed to restore public confidence and to consolidate financial sectors nurturing growth and development....The Nordic countries welcome efforts by the Bank and the Fund to increase collaboration and also to clarify further the division of labor in this field.

France (Alternate Governor Trichet)

We all stress—and the Fund will never do it too much—the importance of strengthening the safety of the financial sector and the reliability of prudential control systems. Clearly, the Fund will play a decisive role in detecting potential crises through its surveillance, and in disseminating and monitoring the implementation of the core prudential principles formulated by the Basle Committee in close conjunction with the banking supervisors of emerging and transition countries.

Japan (Governor Mitsuzuka)

...developing and strengthening financial and capital markets are vital for sustainable growth of developing countries. For these countries to fully benefit from globalization, it is essential that they win investor confidence and increase efficiency of their domestic financial markets by implementing financial reforms.

Developing and strengthening financial and capital markets are also indispensable to steadily facilitating private infrastructure development.

Malta (Governor Brincat)

An important development in connection with surveillance is the increased attention being given to issues concerning members' banking and financial sectors. There is a need in many countries to develop a framework for sound banking practices, since these have important implications for macroeconomic policy and for international monetary and economic co-operation. The Fund should thus continue to promote sound practices and be in a position to alert members to address weaknesses in their banking system. In this context, the Fund's technical assistance program has a vital role to play in supporting members' drive to enhance their prudential financial regulatory regime.

The Netherlands (Governor Zalm)

On cooperation between the Fund and the Bank, while progress has been made, we look forward to the implementation of the financial sector strategy by both institutions and their application of the Core Principles of the Basle Committee.

Philippines (Alternate Governor de Ocampo)

It has become abundantly clear that it is not enough to just do the three d's: denationalize, deregulate, and dispose in order to address the inefficiencies of the public sector. Without an appropriate regulatory framework and knowledgeable and competent supervisors, market excesses and private inefficiencies will result. "Steering" requires less manpower than "rowing" but is an expertise that need to be honed with much effort and care. Nowhere is this more critical than in the financial sector where poor quality of supervision and prudential lapses can exact a heavy toll on the entire economy, especially the most vulnerable members of society. Upgrading the capabilities of regulators must keep apace with the speed of liberalization.

Portugal (Governor de Sousa Franco)

Promoting private investments in developing countries and undertaking actions to combat corruption and improve governance are some of the challenges. The emphasis on sound financial systems is of crucial importance. In fact these topics are complementary and part of the only way to promote and sustain growth. We greatly support the emphasis our Bretton Woods institutions are putting on these aspects of the development agenda.

Sound and healthy financial systems are another crucial if not the most important factor to maintain macroeconomic stability and to promote economic growth and poverty reduction, which remain the ultimate objective of our institutions as well as of our governments. We strongly endorse the call for a renewed effort from the Bretton Woods institutions in strengthening financial sectors of developing countries. Several weaknesses of the banking systems have been exposed recently. Supervision of the banking system has to be revamped and subject to demanding and efficient patterns and concepts. Quality of credit portfolio has to be monitored closely to avoid unmanageable levels of nonperforming loans. We call again on the international financial institutions to play their part in contributing to the prevention of the occurrence of this type of crisis. We welcome the emphasis on strengthening the Bank and Fund partnership in this field.

Russian Federation (Governor Chubais)

The new focus on the soundness of banking systems was fully warranted.

Sri Lanka (Governor Peiris)

...we believe that the risks and challenges due to rapid globalization need to be addressed through sound macroeconomic management and strengthening of the financial system.

Switzerland (Alternate Governor Villiger)

By enhancing the focus of bilateral and multilateral surveillance and by paying increased attention to crucial areas such as the soundness of the financial sector and good governance, the Fund's role has been strengthened.

Thailand (Governor Bidaya)

The problems of financial sector rehabilitation are a major concern and many questions have arisen on the strategy to achieve an early and comprehensive solution. We regard our present difficulties as offering the opportunity to solve the fundamental problems of the system in a transparent way so that it can better manage the risk and rewards of large capital inflows.

In August, we agreed with the Fund on the basic principles of our strategy to rehabilitate the financial sector as an integral part of achieving broader macroeconomic stability and sustainable economic growth. Now, we are moving rapidly to finalize the details of the strategy which began with the suspension of 58 finance companies that were financially weak and in difficulties.

Turkey (Governor Taner)

The recent pressures on Thailand warn all developing countries with considerable external deficit positions. The soundness of financial systems in the country has crucial importance especially under crisis conditions.

United States (Governor Rubin)

...there is an urgent need to strengthen the legal and supervisory infrastructure underpinning the financial market—to promote growth, and preserve stability.

Development of a sound financial system is a difficult task. It takes sustained efforts, on many fronts. Once again, success in this area will depend ultimately on national authorities having the will to take the steps necessary to develop healthy and efficient financial systems. But the international community can also help. And here in Hong Kong it has moved to support those efforts.

5. Financial Markets

Bangladesh (Governor Kibria)

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

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

Chile (Governor Massad, speaking on behalf of the Latin American Governors of the Fund)

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

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

China (Governor Liu)

The international financial market has experienced some unrest. The international capital flows create opportunities for developing countries, and cause risks as well, such as speculative attacks. Global inflation could re-emerge, and interest rates in developed countries are under greater pressure to trend higher—this could reduce the capital flows to developing countries.

Colombia (Temporary Alternate Governor Ocampo Gaviria, speaking on behalf of the Bank Latin American Governors)

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

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

We...hope that the reserve currency countries will intensify their efforts to reduce fluctuations in the exchange rates of their currencies, as such fluctuations have a negative effect on the economies of developing countries, especially those tied to the exchange rates of the principal currencies.

...the global economy is currently undergoing great changes. The globalization of financial markets and the elimination of constraints to international trade have led to a new challenge—not only for the Bretton Woods institutions—but also for the policy makers of their member countries. Although the new economic environment has led to the creation of investment opportunities and worldwide growth, it has also resulted in new challenges for the member countries and the international financial organizations, including the increased size and sophistication of world financial markets, advances in information technology, and increases in the size of capital flows and the ease of transfers between various financial markets. The Bretton Woods institutions have a particularly important role to play in helping their member countries, especially the developing countries, to take full advantage of this new climate, while reducing the associated risks.

The recent problems of financial markets in many emerging markets are largely the result of the increased globalization of these markets. In order to obtain the maximum benefit from globalization and to minimize its negative effects, many developing countries have implemented a series of sound economic reforms, accompanied by comprehensive structural reforms. But these measures alone are not sufficient, as recent developments in Southeast Asia have shown. Even countries that follow sound economic policies are not safe from the effects of financial disturbances in the region.

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

Ethiopia (Governor Ahmed, speaking on behalf of the African Governors)

We are determined to pursue the economic reforms needed to stimulate sustainable economic growth with the private sector as the driving force. To achieve this key objective, we have undertaken to create or revitalize the financial markets and to introduce appropriate regulatory and legal frameworks. Our ambition is not only to mobilize domestic private capital, but also to have access to international capital markets. It is quite worrisome that capital flows to African countries remain inadequate. The international community should therefore support our efforts in this endeavor so that the African countries that have improved their macroeconomic environment may have voluntary access to the capital markets. Thus our countries would become less dependent on external aid.

Germany (Alternate Governor Waigel)

Increasing interdependence of our economies, buoyant international trade and the integration of our capital markets are essential prerequisites for increasing global prosperity.

The spread of globalization has enabled many countries to gain access for the first time to international capital and product markets.

But intense global competition confronts our economies and our economic and fiscal policies with new challenges.

If economic and fiscal policies are out of line with economic fundamentals and if policies remain unadjusted, the markets will respond by reassessing credit risk and possibly by massively withdrawing financial resources.

India (Alternate Governor Rangarajan)

The accelerating pace of globalization and integration of markets requires strengthening of institutions, both at the national and international levels. At the international level, policy coordination is needed to strengthen economic linkages. Multilateral institutions must help promote an environment that is conducive to world-wide prosperity. These institutions, therefore, need to be strengthened, with decision making in these institutions being made more transparent and democratic.

Japan (Governor Mitsuzuka)

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

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

Korea (Governor Kang)

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

Malaysia (Governor Anwar bin Ibrahim)

...the Fund could promote international coordination in the supervision of financial markets through the establishment of a global trade information system for foreign exchange markets to allow authorities to monitor trading activities in the global market-place...

...the Fund could devise a framework to enable countries to adapt and cope more effectively with market excesses associated with destabilising capital flows. It is not sufficient that only member countries abide by Fund advice and observe "international rules." Similar rules should also be designed to encourage capital market participants to contribute toward the efficient functioning of the market mechanism. This framework could include rules and principles on ethical and professional standards, stronger disclosure requirements, and regular contacts between the managers of leveraged funds and banking supervisors. This framework should be facilitated by agreement on the provision of information on leveraged fund activities and arrangements for the home country supervisors to share information with the host country supervisors on the activities of these funds.

Nepal (Governor Sharma)

Global integration has been spurred by economic and financial liberalization. Worldwide access to markets for goods and financial services has increased. Private capital flows have become a major factor in the realization of the economic potential of developing countries. However, there is growing awareness of the greater susceptibility of economies to external shocks and the wider ramifications of domestic economic and financial imbalances, including the international response that those imbalances elicit.

New Zealand (Governor Peters)

...the real story is the people of Asia, and their efforts. These personal efforts, combined with the capital flows in a global economy, are the secret of success.

...the free flow of capital can facilitate growth, and that, like any other policy which helps growth, it can also carry risks.

One risk is the uncertainty that is created by periods of financial instability.

Pakistan (Governor Aziz)

Among the external forces to which developing countries are exposed in the globalized economy are large and unexpected changes in exchange rates among the major currencies, responding in part to equally unpredictable movements in international interest rates. To argue that there is little or nothing that can be done about them is to accept too quickly the rhetoric of free marketeers who find much private profit in undermining the defenses that have been built by developing countries to husband their own savings and to protect their still embryonic institutions from the onslaught of transnational financial conglomerates.

In this context, there is urgent need for timely information and transparency in capital movements. Perhaps institutions, like the Bank of International Settlements can play a more active role in informing central banks about large scale purchases and sales of their respective currencies. This will enable the countries concerned to take timely measures, if necessary to safeguard their position.

Philippines (Alternate Governor de Ocampo)

Many portfolio investors have judged, at least for now, that some emerging countries in Asia have failed the test. A few go so far as suggesting that the so-called Asian miracle is a mirage.

On the other hand, many of our peoples whose lives have been painfully affected by the severe shifts in market sentiments have judged markets as undependable, arbitrary, or worse, manipulated. Calls for the return of capital controls are increasingly being heard in the region.

Clearly, neither of these views is right nor will they bring us anywhere forward.

As the markets better differentiate among the emerging Asian countries, this turbulence and economic consolidation over the next one to two years are unlikely to detract from the long-term positive outlook for most of the region. Their governments are pragmatic, and despite what may seem like harsh anti-market pronouncements, governments still adhere to the fundamental principles that have served the region well in the past—such abiding principles as fiscal discipline, encouraging savings and investments, openness to trade, and a continuing emphasis on human capital development.

Volatile capital flows will continue to be a challenge, but the answers are not in a return to controls but in managing these flows better. The answers are not in restricting markets, but in making them work better.

Key to this is a higher level of disclosure and transparency so that players act based on timely and accurate information. If they act in partial darkness or subjected to "information avalanche" they naturally act like herds in panic.

On the other hand, market players themselves need to become more diligent in differentiating among the countries in a region. There are few winners to the kind of contagious and self-fulfilling prophesies of doom that starts from one country and spreads like a virus. There must be room for the multilateral institutions to play a more aggressive role in preventing such crisis from developing to begin with, or having started to bring in quick assistance to contain its spread—a "quarantine" function so to speak.

Much homework needs to be done in strengthening the resiliency of the recipient economy, especially in the financial sector. It has become abundantly clear that it is not enough to just do the three d's—denationalize, deregulate, and dispose—in order to address the inefficiencies of the public sector. Without an appropriate regulatory framework and knowledgeable and competent supervisors, market excesses and private inefficiencies will result. "Steering" requires less manpower than "rowing" but is an expertise that need to be honed with much effort and care. Nowhere is this more critical than in the financial sector where poor quality of supervision and prudential lapses can exact a heavy toll on the entire economy, especially the most vulnerable members of society. Upgrading the capabilities of regulators must keep apace with the speed of liberalization.

Let me conclude as I've started by pointing to Hong Kong as the antidote to those who would get "agoraphobia" from the developments in the regional currency and stock markets recently. There is no substitute to global opening and integration as the way—perhaps the only way—to jump start our economy out of poverty. Only this gives us technology, markets and capital. The day is long gone when we can look at financial market liberalization as a desirable "add-on" option in this effort. In a global economy, restrictions merely deflect resources elsewhere. There is, at the same time, no substitute for developing world-class regulatory and supervisory institutions in an ever globally competitive world.

Poland (Governor Gronkiewicz-Waltz)

Most recent experience shows us clearly that various measures thought to be prerequisites for sustainable growth, particularly deregulation of financial markets and liberalization of capital flows, may have multifaceted impact on the country's macroeconomic situation. They can be and usually are beneficial. However, to be successfully implemented they need to have a suitable environment with a healthy and strong financial sector being of utmost priority. Premature liberalization or neglecting rules of sound economic policy at a later stage may result in serious harm to the sustainable growth and the whole transformation process. I am glad to observe that some international institutions have put a lot of effort into research and policy advice regarding these issues. The attempts notwithstanding there is still a lot to be done to make this new approach widely accepted.

Portugal (Governor de Sousa Franco)

Last week, in Bangkok, on the occasion of the first Asia—Europe Finance Ministers Meeting, the objective of a new comprehensive Asia-Europe partnership for greater growth was emphasized and we had the opportunity of exchanging views on the macroeconomic situation and outlook and on the developments in the foreign exchange markets and the EMU. We also recognized then that the globalization of financial markets, while creating opportunities for a better functioning of the global economy, poses challenges for financial supervisors and reinforces the need for sound macroeconomic policies. I am confident that the initiatives we agreed in Bangkok, in particular at the level of financial supervision and regulation, customs cooperation and fighting money laundering, will contribute decisively to strengthen cooperation between these two important parts of the world and consequently will influence decisively the financial world. The global economy makes vain and counter productive the attempts of administrative intervention, but needs partners, cooperation and exchange of information between states and regional areas.

Remarkable opportunities for countries to enhance their development are clearly available and increasingly reachable as a result of the globalization and integration. But at the same time governments are confronting a broad range of policy challenges. Markets' growing sensitivity to domestic and external imbalances has added a new dimension to these challenges, while the discipline markets impose is a powerful incentive to implement sound macroeconomics policies and pursue structural changes.

Russian Federation (Governor Chubais)

Globalization of financial markets has raised the risk of financial and currency crises in developing countries and transition economies. Private capital inflows have substantially boosted these countries' economic potential, but at the same they have demonstrated the vulnerability of their banking systems and the shortcomings in domestic financial regulations. Increased openness of the economy has certainly played a role too. The true causes and the mechanism of the unfolding of currency crises still remain to be analyzed. Apparently, it was not so much the actions by international foreign exchange speculators, but rather actual mistakes in economic policies that have caused crises. Thus, practically all countries whose currencies came under speculative attacks, had been running a substantial current account deficit financed by short-term private capital inflows.

Turkey (Governor Taner)

High capital inflows to emerging market countries and the reduction in the yield difference also indicate the increasing involvement of developing countries in world capital markets. However, the latest experiences of Thailand and the Czech. Republic further reinforce the belief that, as well as sound macroeconomic policies, a healthy financial system is essential for sustainable development.

United States (Governor Rubin)

We have also seen enormous progress in many emerging economies in recent years, much of it fueled by closer international integration. Closer links to international markets has brought a dramatic increase in developing country trade. Increased financial market integration has also played a critical part in this increased prosperity, by providing increased investment and investment funds. And in Hong Kong the international community has reasserted its commitment to see that part of integration proceed further.

I don't think there is any question that there was an almost unified view at the many meetings I've had here in Hong Kong with developed and developing nations that we must not allow the turbulence which can occur in the wake of crises to divert us from the crucial goal of closer financial integration. Rather, we must implement national policies and work in our international institutions to let us realize the opportunities which global financial markets provide—and to manage the risks both through prevention and, when necessary, response. Let me also say, at this point, that we in the United States are deeply committed to the economic well-being and financial stability of the nations of Southeast Asia, and we look forward to working with these nations and the Fund to achieve those purposes.

...we have moved to give markets and supervisory authorities greater capacity to spot problems at an early stage and provide forewarning of crises. Financial markets, perhaps even more than any other kind, are critically dependent on the free flow of comprehensive, timely and accurate information. When investors are well-informed, their actions will reinforce good policies and encourage timely adjustment of policies as the need for such adjustments arises. Failing to disclose information in a timely manner does not lessen the chance of problems occurring. Sooner or later, adverse conditions will make themselves known anyway—deferring disclosure simply allows problems to build up and become more severe, as well as damaging credibility.

6. Capital Account Liberalization; and Amendment of the Articles

Armenia (Governor Darbinian)

...we strongly support the extension of the Fund's mandate to capital account liberalization, because we strongly believe that there is a straight link between the country's capital market on the one hand, and its macroeconomic stability and the solvency of its financial institutions on the other hand.

Austria (Governor Ruttenstorfer)

...restricting capital movements is the wrong response to the financial turmoil in some emerging market economies. In my view, the Declaration of the Interim Committee on the

Liberalization of Capital Movements Under an Amendment of the Articles of Agreement draws the right policy conclusions. While dealing with such problems of financial markets crises as contagion effects and herd behavior, we need to recognize the growing importance of private capital flows for financing investment and growth in the world economy. It is necessary to maximize its benefits through an orderly process of capital account liberalization as envisaged in the planned amendment of the Articles, combined with policies promoting the development of sound financial systems. These, of course, are necessary but not sufficient conditions.

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

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

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

Belgium (Governor Maystadt)

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

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

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

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

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

Canada (Alternate Governor Labelle)

An open and liberal system of capital movements improves the allocation of financial resources and can contribute significantly to global economic growth. As we are all aware, the Fund has been actively promoting the orderly liberalization of capital flows for some time now. Broadening the Fund's authority to formally establish this activity as part of its mandate is long overdue. For this reason, I support an amendment to the Articles, which would make the promotion of capital account liberalization a "specific purpose" of the Fund.

In the coming months, however, substantial work must still be done to determine the precise scope of the Fund's jurisdiction, as well as appropriate transitional provisions and approval policies. Close co-operation with other international institutions, such as the World Bank, the OECD and the WTO, is essential to ensure that the Fund's jurisdiction is consistent with the work of these institutions. In our view, such cooperation would appear to exclude Fund involvement in inward direct investment which is under discussion in these other institutions.

Chile (Governor Massad, speaking on behalf of the Latin American Governors of the Fund)

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

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

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

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

It has been proposed that the guiding principle for prudential regulations should be to exclude any relating to balance of payments or macroeconomic management reasons. However, prudential regulations applicable to the financial system are specifically designed to prevent financial problems that are initially limited or microeconomic in scope from acquiring macroeconomic proportions. Thus, the decision to exclude a regulation based on its macroeconomic character could be arbitrary and even inappropriate. Take, for example, the case of a rapidly growing economy with sound fundamental balances. The high rate of return on capital in a booming economy attracts large inflows of external resources. These inflows are further encouraged by the appreciation of the domestic currency, which is characteristic of economies experiencing rapid productivity growth. Capital inflows stimulate domestic demand

and could push up domestic interest rates if the monetary authorities safeguard domestic equilibrium. This, in turn, could provide a further incentive for capital inflows. The probable outcome will be continued appreciation of the real value of the local currency, the resulting risk of widening the current account deficit, and the greater danger that these capital flows will be reversed, should some negative external shock occur. After implementing all the so-called "first best" solutions, such as fiscal consolidation, incentives for capital outflows, and strengthening of bank supervision, the authorities may in addition have to take measures to discourage short-term foreign borrowing in order to minimize the impact, particularly on the financial system, of a possible reversal of capital flows. Wouldn't such measures be eminently prudential? Couldn't the same be said of a requirement that high levels of liquidity be maintained in the financial system of an economy that is sound but risks contagion from an unstable neighboring economy?

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

China (Governor Liu)

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

Colombia (Temporary Alternate Governor Ocampo Gaviria, speaking on behalf of the Bank Latin American Governors)

For several Latin American countries, price-based capital controls have proven to be an efficient mechanism to discourage short-term capital flows and to reduce the volatility of domestic credit and exchange rates. They provide, in turn, incentives long-term capital inflows and restore degree of autonomy that policy makers may have lost in the process of economic and financial liberalization. This is why we fully support a G-24 declaration which emphasized that "precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management."

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

Recent developments have caused the Fund to consider amending its Articles of Agreement to allow it to supervise efforts aimed at liberalizing worldwide capital movement, to ensure that it is done in an organized and effective manner.

Fiji (Governor Ah Koy)

...the recent exchange crisis in Southeast Asia has placed considerable attention on fixed exchange rate arrangement and capital account convertibility—issues which are very important to small countries like Fiji with narrow domestic markets and export base...we urge the Fund to carefully consider the susceptibility of small developing member countries in their discussion on capital account convertibility and grant transitional conditions to them.

France (Alternate Governor Trichet)

The objective of achieving free capital movements throughout the world is quite ambitious. As demonstrated by the recent financial crisis in Asia, such freedom creates new risks and imposes new forms of discipline.

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

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

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

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

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

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

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

Germany (Alternate Governor Waigel)

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

Experience in many industrial economies and in some emerging countries as well has shown that liberalization must go hand in hand with the establishment of stable financial market structures.

The Fund and the World Bank can—and in fact they must—assume a key role in these endeavors.

Against the background of globalization it is appropriate for the Fund to be given a new, extended mandate to include promoting the liberalization of capital transactions.

Extending and thus modernizing the Fund Articles is essential to ensure that the Fund is able to make an effective contribution in this area of central significance for the efficiency of the world economic and monetary system.

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

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

Iran, Islamic Republic of (Governor Namazi)

We support the position taken by the Ministers of the G-24 regarding capital account liberalization. We expect the Fund to complete its work on the orderly liberalization of capital movement as a prelude to any amendment of the Fund's Articles.

Ireland (Governor McCreevy)

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

Italy (Governor Ciampi)

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

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

Japan (Governor Mitsuzuka)

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

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

On the other hand, we mustn't overlook the fact that in the wake of capital liberalization, each country more than ever is faced with the risk of being exposed to abrupt as well as large-scale capital movements. For the Fund to maintain stability in the international monetary system under such circumstances, it is essential that it strengthen its activities. To this end, a strengthening of the financial resources of the Fund is the necessary first step.

Korea (Governor Kang)

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

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

Luxembourg (Governor Juncker, speaking on behalf of the Governors of the Member States of the European Union)

...we welcome the agreement to broaden the Fund's mandate to include the promotion of orderly and sustainable liberalization of capital movements. Movement toward increased capital account liberalization highlights the Fund's role in maintaining order in the international monetary system and the need for sustained, sound macroeconomic and structural policies.

Malaysia (Governor Anwar bin Ibrahim)

We are committed to the liberalization process because we have seen and we have enjoyed the results, but multilateral institutions such as the Fund must be prepared to view the predicament of emerging economies in their efforts to deal with the volatility of their markets caused by unscrupulous speculators. Therefore the speed and space of liberalization should be contingent upon the mechanisms being put in place.

Malta (Governor Brincat)

The proposal to amend the Fund's Articles of Agreement so as to make the promotion of capital account liberalization a specific goal of the Fund and to give it appropriate jurisdiction over capital movements can also be viewed as a step toward achieving more comprehensive surveillance. An open and liberal system of capital movements should ensure that financial resources are put to the most productive uses and is thus beneficial to the world economy. However, currency crises—such as the Mexican peso crisis last year and the recent crises in Southeast Asia—are usually triggered by large capital movements. Thus, it is important that capital movements should be carefully monitored, so as to enable the international community to foresee and prevent such crises. In this regard, while the Maltese Authorities have made the liberalization of capital movements a final goal in their program of liberalization of the Maltese economy, they are adopting a gradual and cautious approach to the matter, giving due attention to the correct sequencing of liberalization measures so as to avoid disruptive shocks to the Maltese financial system. Such a gradualist approach is especially important for small open economies given their disproportionately high vulnerability to abrupt speculation-led changes and capital flows.

The Netherlands (Governor Zalm)

The case of Thailand exemplifies the catalytic role of Fund financing. We want to preserve this principle in the amendment on capital liberalization: the Fund should not finance large, or sustained outflows. I would stress however, that preventing a crisis is better than the cure. The recent turmoil in Southeast Asia has illustrated once again the necessity of an appropriate sequencing in connection with economic and structural reforms. This highlights that capital account liberalization is a sign of strength, not weakness. Liberalization should therefore not imply increased use of Fund resources.

New Zealand (Governor Peters)

New Zealand strongly agrees with the desirability of greater liberalization of international capital flows. A liberal regime is an important element of a sound policy mix. International capital flows help ensure that resources are channeled to their most productive uses and help investors and savers to diversify their portfolios, thereby increasing economic growth.

The Fund, as the overseer of the international monetary system, is well placed to advise members on the benefits of capital account liberalization, and to ensure that other policies are supportive of this liberalization. The proposed initiative to include restrictions on capital movements within the Fund's jurisdiction would take the Fund's role a step further. While we support the sentiment behind this initiative, our final decision will need to take into account: (1) the extent to which the proposed initiative duplicates work done by other international agencies; (2) the extent to which this initiative replaces lower priority Fund activities (rather than simply adding to the Fund's existing workload); and (3) the relative costs and benefits of the overall proposal.

Pakistan (Governor Aziz)

It is in this context that we must think carefully about how we should implement the Declaration on Capital Account Liberalization. Our Executive Directors in the Fund have worked hard over the past months to develop the legal and policy framework for giving the Fund a leading role in the orderly liberalization of the capital account, by building in appropriate safeguards and discretion for country authorities. The Fund's past record in assisting members to accept the obligations of Article VIII under its existing jurisdiction demonstrates flexibility and moderation and we would expect nothing less in the exercise of its new jurisdiction. We, however, hope that in developing the transitional provisions and the approval procedures, the Fund will rely to the greatest extent feasible on the judgment of members as to pace the sequencing of the liberalization process, and that it would eschew deadlines or conditions, particularly in the context of the use of Fund resources.

Samoa (Governor Malielegaoi, speaking on behalf of the Governors for Kiribati, Marshall Islands, the Federated States of Micronesia, Solomon Islands, and Vanuatu)

On capital account liberalization, we recognize that there may be global benefits to be gained from freer capital account movements, however we must, by the size and structure of our small economies, protect against the risks of large, adverse capital flows which might destabilise our external positions. We therefore support the call for longer transitional arrangements to allow developing countries to move toward full liberalization as well as technical assistance to implement these arrangements. Some members of our constituency are already moving toward liberalization of their domestic financial systems. This is being undertaken with great caution, mindful of our absorptive capacities to manage these radical changes to our small economies, while at the same time also ensuring sound macroeconomic policies are in place to support these changes.

Spain (Governor de Rato Figaredo)

...we must proceed with the orderly liberalization of capital movements to overcome the current profusion of restrictions and obstacles blocking the free movement of financial resources, and so enable the world economy to develop to its full potential.

...we welcome the Hong Kong Declaration as a major step toward the globalization of capital flows.

Sri Lanka (Governor Peiris)

While we support in principle the present efforts of the Fund to amend the Articles to bring capital account transactions too under its jurisdiction, we wish to voice some concerns in this regard. As we are aware, the financial systems in most of our developing member countries, particularly the banking systems, are not yet fully developed. These have to be further developed and strengthened before countries could open up their capital accounts. The amendment should therefore provide for a gradual process of liberalization, in tandem with a country's progress in its structural reforms. Moreover, even after liberalization of its capital account, a country should have the liberty to re-impose such controls in times of financial turmoil or in the interest of national or international security. Also, we believe that foreign direct investment is not an area that should come under the Fund's jurisdiction under the contemplated amendment.

Switzerland (Alternate Governor Villiger)

The recent years have been characterized by a huge increase of international capital movements. Many emerging economies have strongly benefited from large capital inflows. We should be careful not to condemn this phenomenon in the wake of the recent developments in Southeast Asia. These have only underscored how crucial a number of conditions are for a successful capital account liberalization. We fully support the Statement on the Liberalization of Capital Movements, which stresses this point. The Fund is well placed to assist in the establishment of an orderly liberalization and encourage the Executive Board to speed-up the conclusion of this important issue.

Thailand (Governor Bidaya)

On capital account convertibility, given the complexity and sensitivity of the issue, in particular in view of the recent currency turmoil in the Southeast Asia region, we would be more comfortable if the Fund would proceed in a more cautious and gradual manner. In addition, we believe that giving the Fund jurisdiction over the capital account should not be construed as an obligation for members to liberalize, but rather for the Fund to ensure the orderly and smooth operation of international flows. In this regard, we believe that a number of aspects of the recent currency turmoil belies the issue of externality—for example, investors' confidence in a country or a region is to a significant extent determined by factors beyond a country's control, namely, the contagion effect—and therefore calls for the Fund, as a multilateral institution to coordinate and perhaps internalize such externality.

Turkey (Governor Taner)

The recent discussion on capital account convertibility is also noticeable for the Fund's future role.

United States (Governor Rubin)

Substantial steps have been taken at the meeting in Hong Kong toward making capital market liberalization a basic purpose of the Fund and to extend the Fund's jurisdiction to include capital movements. As we all recognize, liberalization of the capital account must proceed carefully alongside our development of strong policies and financial system regulatory regimes—but proceed it must if the global economy is to realize its true potential for growth.

We believe the same end will be advanced by opening financial systems to foreign participation, and all the capital and expertise which that implies.

7. European Economic and Monetary Union

Austria (Governor Ruttenstorfer)

I am convinced that Austria will be in the first group of [EMU] countries. This conviction is shared by the financial markets. The latter suggest a relatively large number of participants in EMU, despite the fact that meeting the fiscal criteria for a number of countries might still depend on the resurgence of growth this fall. Earlier concerns about a trade-off of price-stability in the Euro-zone and the number of participants seem to have disappeared in light of the surprising convergence of inflation rates in Europe.

Belgium (Governor Maystadt)

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

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

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

- the introduction of the euro bids fair to become a watershed event in monetary history, the most important of its kind since the abolition of the Bretton Woods system of fixed parities;
- the advent of the euro will have an impact on the structure of international monetary relations, particularly with respect to the G-7 and the Fund itself;
- with its emergence as an international reserve currency, the euro will become a key focal point for a number of countries, and this, I am convinced, will ultimately promote further debate on the changes needed in the machinery of the international financial system.

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

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

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

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

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

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

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

France (Alternate Governor Trichet)

I now turn to the creation of the euro, an event which will be of the utmost importance both for European countries and the international monetary system.

I stress that France is firmly committed to the achievement of European Monetary Union.

A few days ago in Mondorf, during an informal meeting of the Economic and Financial Council of the European Union, the Ministers of Finance and Governors sent a clear signal of their determination. They announced that the list of countries and bilateral conversion rates, which will enter into force on the 1st of January 1999, will be made known on a single date next spring. This is an important decision that was well understood in Europe and throughout the world.

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

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

After 1999, the European Monetary Union should—and will—serve as an area of stability.

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

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

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

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

Germany (Alternate Governor Waigel)

...a word on the realization of European Economic and Monetary Union. Economic convergence has made further progress.

...As long as the EU member states do their homework thoroughly, EMU will start on time on January 1, 1999.

Europe wants to see a strong and stable euro, and has taken the decisive steps for this. A principal commitment of the future European central bank will be to maintain price stability. Its independence is guaranteed under international law.

The economic policy pursued by member states in the Economic and Monetary Union will remain the responsibility of the respective governments, but the coordination of these policies will be intensified to make sure that they are attuned to the stability objective of EMU.

Maintaining stability is also the objective of the stability and growth pact we Europeans concluded a few months ago in Amsterdam on the level of heads of state and government. The pact requires Member States to pursue stability-oriented fiscal policies and maintain a budget "close to balance or in surplus." In any case, budget deficits in excess of 3 percent of gross domestic product have to be avoided.

Europe's future currency, the euro, will be no less stable than other key currencies. A strong and stable euro is a further contribution by Europe to maintaining the stability of the international monetary system and to promoting prosperity throughout the world economy.

Greece (Governor Papantoniou)

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

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

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

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

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

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

Monetary Union entails it is important that a smooth transition to the new monetary regime will be effected.

Ireland (Governor McCreevy)

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

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

Italy (Governor Ciampi)

For many in Europe, moving forward means establishing the Economic and Monetary Union after the Single Market. For others, it means completing the process of transition to market economies.

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

The Italian government made its choice: early participation in EMU became the guiding light of our policies. The challenge was a bold one; according to some, even reckless. But today I can say that we are close to meeting it....

We believe that the Euro will be stronger the more countries will participate in it, provided they comply with the Maastricht criteria. We believe that the single currency will go a long way toward giving back to Europe the capacity to compete in the global economy, to grow, and to create jobs.

Luxembourg (Governor Juncker, speaking on behalf of the Governors of the Member States of the European Union)

The soundly based recovery supported by structural reforms and the positive international environment are assisting European economies in their transition to Stage 3, the final stage of the European economic and monetary union. The introduction of the single currency will constitute a historic event opening new avenues for growth and employment in Europe, and providing large opportunities for our trading partners.

Since the last meeting of the Interim Committee, further significant progress has been made in economic convergence of Member States and the technical preparation of economic and monetary union. In the Spring of 1998, European Heads of State or government will decide which of the Member States of the Union will belong to the first group of countries with the euro as their single currency. This decision will be based on the achievement of a high degree of sustainable convergence as measured by the convergence criteria of the Treaty, referring to government financial positions, inflation, and interest and exchange rates. On the latter three, almost all Member States are performing well. As regards budgetary consolidation, considerable progress is being made. While all the Member States are making efforts to meet the agreed reference value, some differences of rhythms and results remain.

The strong commitment of European governments to reduce budget deficits and the stock of public debt in relation to GDP is based not only on EMU requirements but also on their common conviction that sound public finances are a precondition for sustainable economic growth. Moreover, they are convinced that European countries will have to prepare themselves for increasing demographic pressures which call for determined action to restructure and rationalize public expenditure.

European Heads of State or government, meeting last June in Amsterdam, have added further significant elements to the ongoing preparation of the technical, legal and institutional framework of European economic and monetary union. First, a Stability and Growth Pact was endorsed, which will help to maintain budgetary discipline in the EMU. Secondly, they decided on the principles and fundamentals of a new exchange rate mechanism which will link participating currencies of Member States outside the euro area to the euro. Thirdly, they agreed on the Resolution on Growth and Employment which focusses policymaking more intensively on creating favorable conditions for higher employment, and the Treaty of Amsterdam includes a new chapter in order to strengthen the coordination of Member States' policies on employment. The Heads of State or government have also reached complete agreement on the two Regulations which constitute the legal framework for the use of the euro.

In addition, Heads of State or government agreed to improve the process of economic coordination in Stage 3 of EMU so as to give better effect to the Treaty provision that Member States should regard their economic policies as matters of common concern. Regarding EMU's implications for the Fund, Member States of the European Union will contribute to the discussion in a constructive and pragmatic manner. On some of these issues, the European Union and the Fund have already started work.

The Amsterdam Summit also concluded an inter-governmental conference with the decision to adopt new amendments to the European Union Treaty. The process of modernization of the European Union is now clearly under way, although further work is needed in the institutional field. Nevertheless, the results achieved in Amsterdam allow the European Union to launch a process of enlargement. These negotiations will be opened as soon as possible after December 1997, and will be one of the main challenges the European Union will face over the coming years....

The European countries are already a major part of the international monetary system. A successful EMU, underpinned by sound macroeconomic and structural policies, is likely to become a major pole of that system and to contribute to its stability....

I would like to stress again the resolute commitment of the European Union to the stability and efficiency of the world economy. We are convinced that EMU will be a decisive contribution to that objective and are determined to do what is necessary, in full compliance with the Maastricht Treaty, to ensure that EMU starts on schedule on 1 January 1999.

Malta (Governor Brincat)

Another notable development last year was the progress made toward establishing economic and monetary union in Europe. Without doubt, the advent of the single European currency will be one of the most important developments in international monetary cooperation of the post-Bretton Woods era. The introduction of the euro will have wide implications for the international monetary system and for the world. For Malta, with its geographical proximity and close trade links with Europe, the implications will indeed be far-reaching.

The Netherlands (Governor Zalm)

...EMU will affect certain aspects of the Fund itself. For which we have to look for practical solutions. In doing so we must build on existing procedures and precedents on the basis of the guiding principle that the individual membership of countries in the Fund will be retained. No change will be needed in the current rights and obligations of the individual member states vis-à-vis the Fund.

Furthermore, the EMU will be a very important historic event for the international monetary system and could potentially lead to a better managed international financial system. This requires that the criteria on monetary and budgetary convergence are strictly applied at the start of EMU. This has to be followed up in stage three of EMU by sound fiscal policies as set out in the Stability and Growth Pact and a firm adherence to the treaty provisions regarding the independence of the ECB. Only in this way will the Euro-zone become a zone of price stability and the introduction of the euro will be beneficial for growth and employment in Europe, with positive effects for the world economy.

Portugal (Governor de Sousa Franco)

The main event in Europe is the third stage of Economic and Monetary Union, which is being carefully prepared and will start on January 1, 1999. At this moment, a large part of the European Union will have a single currency: the euro. The introduction of the euro, as a low inflation currency with large economic weight, will be a strong additional step in the process of consolidation of the global economy. Ever since the ratification of the Treaty on European Union by the Parliament in 1992, Portugal has been committed, at the highest political level, to adopt economic policies consistent with the creation of a single European currency. In this context, the sustainability of the process of debt and budgetary consolidation, disinflation and exchange rate stability is a prime objective for the Portuguese authorities, both as a result of the aim to be among the core of the EMU founder countries and because it is essential to the preservation of a stable macroeconomic environment which is the base for sound growth and job creation.

Russian Federation (Governor Chubais)

It is too early to discuss the exact place and role of the Euro in the international system, but in any case this event will certainly influence the development of the world economy a great deal. Russia's objective interest is to see a stable and dynamically growing Europe, so let me sincerely wish success to the European countries in their integration efforts. Probably, at the stage of introduction of the Euro the industrial countries will need to enhance coordination of their foreign exchange policies in order to avoid sharp volatility.

Spain (Governor de Rato Figaredo)

...European Monetary Union will be a stabilizing force in the world economy in two ways:

(a) First, it will establish a broad-based common currency that will promote equilibrium in the international monetary system.

(b) Second, its commitment to stability will ensure sound economic policies in the EU member countries, help create an environment of low interest rates, and so promote cheaper money policies conducive to economic growth.

For this reason, the countries of the European Union must redouble our efforts and pursue timely modernization of labor markets as well as the markets for the production of goods and services. The principles I mentioned earlier—namely, deregulation, privatization, liberalization, and competition—are likewise prerequisites for ensuring the success of the EMU and safeguarding its contribution to global equilibrium and stability.

Sri Lanka (Governor Peiris)

The proposed European Monetary Union (EMU) with the Euro becoming the single currency in the region with the dawn of 1999 would undoubtedly be a milestone and a turning point in the world economic and monetary relations. We hope that it would promote an economically stronger Europe and make a greater contribution to global prosperity. The implications of EMU and Euro on international exchange and financial markets need to be carefully watched.

United Kingdom (Governor Brown)

This government has begun a debate about EMU in the UK. And we are helping British businesses to prepare for the practical changes that will be necessary to accommodate a single currency whether or not the United Kingdom joins.

8. "Second-Generation" Reforms

Belgium (Governor Maystadt)

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

Canada (Alternate Governor Labelle)

...both institutions need to take greater account of excessive military spending, especially when this comes at the cost of spending on basic health and education.

Switzerland (Alternate Governor Villiger)

...I would like to mention a subject of constantly growing concern to our chair: the increasing disparity of income in the countries of Eastern Europe and Central Asia. We have all seen that there is no magic solution to the transformation process and that it is very painful for large segments of the population concerned. The ongoing deterioration of social indicators in this region, however, is particularly troublesome. There is a danger that some countries in this part of the world will evolve into a two-tier society leading to social turmoil and consequently endanger the modest economic progress achieved so far. Accelerating structural reforms in order to obtain sustainable economic recovery and putting in place in parallel targeted social safety nets is therefore crucial in those countries.

Tonga (Governor Fakafanua)

There are important factors in the growth equation such as the linkages between economic growth and social development, and economic growth within the context of economic vulnerability....

These are linkages we ignore at our peril and at the risk of political dislocation and social upheaval....

...growth alone is not sufficient—the pattern and quality of growth are also important considerations.

We look forward, in the course of our regular consultations with the staff of the Bank and the Fund to greater focus being given to addressing the issues of the underlying causes of economic and environmental vulnerability which hinder the achievement of our social and economic developmental aspirations.

Turkey (Governor Taner)

Macroeconomic stabilization, trade liberalization, and the introduction of free market economy practices can be regarded as preconditions for sustained growth. But in order to continue in a growth path, a second wave of reforms targeting social development should be initiated immediately after the results of the first series of reforms are obtained.

9. Governance

Austria (Governor Ruttenstorfer)

...the recent publication of the guidelines of the Bretton Woods institutions on governance—put in place to prevent misuse of public national and international funds and improve the management of public resources—breaks important new ground in development assistance.

The high priority given to corruption and governance is crucial for economic and social development and also important in the context of stronger private sector involvement, where both the World Bank Group and the Fund play a major role in developing appropriate responses.

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

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

The definition of governance is broad and includes transparency in government operations; promotion of an enabling environment for private sector activity which requires a proper and adequate judicial system; and easily accessible, current, and high quality economic information.

Canada (Alternate Governor Labelle)

Last year, Mr. Camdessus and Mr. Wolfensohn emphasized that good governance is central to the basic economic objectives of both Bretton Woods Institutions. This was recently underlined in the ground-breaking research in this year's World Development Report on "The State of a Changing World." The Bank and the Fund deserve to be commended for their efforts to move beyond rhetoric to provide practical guidance on these difficult issues.

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

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

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

First, both institutions can better integrate governance considerations into their operations. The Fund needs to do this in the context of its Article IV consultations and adjustment programs....

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

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

Finally, it is critical that information on best practices in such areas as efficient public sector management and effective tax systems be widely available. Developing countries that have the ability to retrieve such information have a marked advantage over those that do not. Indeed, the recent international conference, which Canada and the World Bank co-hosted on Knowledge for Development in the Information Age—Global Knowledge '97—concluded that knowledge is increasingly becoming the basis for the wealth of nations, and for individuals to move out of poverty and take full part in economic, social and cultural spheres.

China (Governor Liu)

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

Colombia (Temporary Alternate Governor Ocampo Gaviria)

We fully support international efforts to combat transnational bribery, asset laundering, and other forms of economic crime. My own country, Colombia, has been deeply involved in encouraging international treaties and domestic legislation to combat corruption and asset laundering...

Ethiopia (Governor Ahmed, speaking on behalf of the African Governors)

... knowing that the sustainable growth of our economies and the improvement of the living standards of our populations are dependent on more efficient management of our resources, we are giving the highest priority to the issues of good governance, efficiency and transparency in the management of public resources. However, all these efforts have not yet received the desired response from the international community.

Finland (Governor Niinisto, speaking on behalf of the Bank Nordic Governors)

Good governance is central for economic efficiency, growth, and sustainable development. We warmly welcome recent initiatives by the Bank and the Fund to support good governance and guard against corruption. The fight against corruption to undercut its adverse effects should be intensified. Corruption must be taken into account in lending decisions. Credibility, transparency and accountability are important underpinnings of all-out development efforts.

Iran, Islamic Republic of (Governor Namazi)

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

However, certain points are noteworthy in this context:

First, the principles of accountability, participation, and transparency that the international financial institutions are applying to borrowing governments have not as yet been rigorously applied to the institutions' own governance. While pressure for good governance has been magnified by the policymaking role of the Bretton Woods twins, neither institution has adequately reformed core aspects of their own accountability and participation.

The World Bank and the Fund fall short of these requirements of good governance in a number of ways, despite their efforts to respond to calls for more transparent, accountable, and participatory governance. In both institutions there are certain rules which work against the standards of governance that they are requiring from member governments.

Second, as we stated at the last Annual Meeting, despite all the constructive intentions that might have been behind the idea of requiring good governance, there is a major concern regarding its abuse—that it may serve as a tool to impinge on national sovereignty. This should be carefully dealt with by both institutions.

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

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

Ireland (Governor McCreevy)

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

Italy (Governor Ciampi)

Governance in all countries is critical. The Bank Group and the Fund can play a useful, if limited, role in fostering effective governance, which by its nature begins at home.

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

Malaysia (Governor Anwar bin Ibrahim)

On combatting corruption and improving governance, we attach great significance to this exercise as unchecked they could undermine macroeconomic stability and sustainable development. In this regard, we support the relevant strategies and guidelines recently issued by the Bank and the Fund. However, the final responsibility rests with the member countries to strengthen their own policies and institutions. It is also crucial that those guidelines should not be prescribed on the assumption that corruption and financial mismanagement occur only in developing countries.

Malta (Governor Brincat)

The Central Bank of Malta has...accentuated its efforts to combat money laundering, through the issue of guidance notes to local credit and financial institutions and the strengthening of cross-border collaboration.

The Netherlands (Governor Zalm)

...the Netherlands supports the increased emphasis the Fund and the World Bank Group put—within their respective mandates—on the promotion of Good Governance and the combat of corruption. We welcome the recently adopted guidelines.

New Zealand (Governor Peters)

Microeconomic reforms have an important influence on macroeconomic outcomes. We welcome the Fund's further reinforcement of this notion through the formal policy it has adopted on governance issues. This policy aims to ensure that the Fund takes a more systematic, structured approach to examining governance issues, resulting in a more focused effort, and greater consistency of treatment across the organisation. An important element in the policy is strengthened coordination with the World Bank. Many governance issues fall within the Bank's domain, and the Fund must make sure that it does not duplicate the Bank's efforts.

Pakistan (Governor Aziz)

There is a tendency for surveillance to be intensified over the weaker, and not the stronger, members of the international community and to be applied by way of new conditionalities over areas that go under the broad rubric of "good governance." There can be no argument that good governance is an essential ingredient of a sustainable development process. But the legitimacy of the actions in this area must also be preserved and preserving it requires that there should be uniformity in the treatment of members, that they do not appear to be operating in ways that detract from their strictly nonpolitical mandates, and that they do not over-stretch their technical capacities by moving into domains far beyond their traditional core competence.

Poland (Governor Gronkiewicz-Waltz)

I would...like to emphasize the significance of another, less obvious factor that is equally essential to the transition process. This vital element is public confidence. To achieve far-reaching change, and to ride out the storms of setbacks, the government needs legitimacy. A legitimate government is the one which is confident of endorsement of the people in whose name it acts. And to gain this confidence government needs to behave in accordance with proper ethical standards, transparently and irreproachably to win public trust and support. If the society believes in the transition process and trusts in the government to introduce and develop it, the people will lend their support in spite of any difficulties, even when unpopular measures are implemented to restore balance.

For this reason, apart from macroeconomic stabilization and basic structural reforms, ethical standards in implementing economic policies and consequently similar principles in conducting business are essential to achieving sustainable growth in the long run. Sound business standards are integral to growth. This is not just true of the countries undergoing transition, but also of the ones which have enjoyed economic soundness for many years. Popular trust in a government, based on the existence and maintenance of proper business practice, transparency and fairness, is of global importance.

In this context we welcome the OECD decision of May this year to draft an international treaty stamping out business corruption as well as discussion on the same topic by the Development Committee during this meeting. We strongly endorse that work on internationally accepting business ethical standards belongs to the basic task of the international financial organizations.

Portugal (Governor de Sousa Franco)

To maintain private sector confidence and attract private sector investment require the appropriate environment including *inter alia* an efficient and accountable public sector, a transparent and stable legal, fiscal, and policy framework, more coordination of tax rules and policies, and a healthy and sound financial sector. Much remains to be done to relieve the constraints that are limiting private sector participation in crucial sectors of the economy, such as that of infrastructures....

The issue of corruption and good governance also deserves great attention; a market economy based on private sector involvement can optimally allocate resources only if decisions on how to allocate resources are undertaken without interference. We welcome the Bank and Fund strategies and guidelines to assist member countries to address poor governance and corruption issues. The International Financial Institutions bear great responsibility in promoting a transparent, accountable and anti-bribery business environment, starting with measures to protect their own portfolio.... Portugal for its part is ready to implement the Convention on International Bribery currently being negotiated at the OECD, when ratified.

Russian Federation (Governor Chubais)

We agree that the Bretton Woods institutions should pay more attention to the issues of good governance and corruption. Sustained growth and social progress are impossible in the absence of an efficient and honest state which sets simple, stable and equal rules for all market participants and maintains law and order. Having made this issue one of their priorities, the Fund and the Bank must take into consideration all its aspects, ranging from promotion of economic liberalization and sound macro policies to combatting incidents of corruption and abuse of public funds. These are very delicate matters, and I hope that they will be addressed in a balanced and responsible way by treating all members equally on the basis of trust and respect for their sovereignty. The Fund and the Bank should by no means become instruments of political pressure or even competition for individual countries' markets, and it might seem that such a danger cannot be completely ruled out.

Samoa (Governor Malielegaoi, speaking on behalf of the Governors for Kiribati, Marshall Islands, the Federated States of Micronesia, Samoa, Solomon Islands, and Vanuatu)

We welcome the Fund and the Bank's recent adoption of guidelines covering their scope and role in addressing issues of good governance. There can be no doubt that they have major contributions to offer in the field of promoting good governance, to improve the management of public sector resources which support the development and maintenance of a transparent and stable economic and regulatory environment, that is conducive to private sector growth and sustainable development. However, the issue of sovereignty, especially where there is likelihood of the institutions being seen to be micromanaging economic processes, remain a sensitive one which will require constructive consultation and dialogue between all parties.

Spain (Governor de Rato Figaredo)

These [basic economic policy] measures should be pursued in accordance with the basic principles of transparency, accountability, and good governance featured in last year's Declaration on Partnership for Sustainable Global Growth. Only these principles can truly foster the kind of trust and credibility needed to ensure the optimal functioning of government institutions and the success of their economic policies.

Sri Lanka (Governor Peiris)

With regard to the issue of governance, we are aware that the World Bank and several other international financial institutions are also presently deliberating on this issue. While we support, in principle, the Bretton Woods institutions placing increasing emphasis on governance issues in their relations with member countries, we would caution that their attention should be confined to such aspects of governance as would have a bearing on the economic performance of a country; they should also steadfastly adhere to the principle of even-handedness of treatment in dealing with such sensitive issues.

Swaziland (Governor Masuku)

The government of Swaziland welcomes the recent announcement, by the Executive Board, of guidelines covering the role of the Fund in issues of governance. It is hoped that the advice and technical assistance that the Fund have been offering will be extended and further enhanced by this move.

Switzerland (Alternate Governor Villiger)

By enhancing the focus of bilateral and multilateral surveillance and by paying increased attention to crucial areas such as the soundness of the financial sector and good governance, the Fund's role has been strengthened. Important steps have been taken to achieve the goals we have set in the Declaration on Partnership for Sustainable Global Growth. In this context, we should remind ourselves that sustainable growth also means taking into account the effects of policy measures on a country's natural resource base. I would like the Fund to include this aspect in its surveillance activities.

Turkey (Governor Taner)

The policy accepted by the Board regarding the governance issue is welcomed, but the rights of the member countries shouldn't be impinged upon in any way.

Ukraine (Governor Tigipko)

This experience is a global legacy and we think that the greater transparency and openness is needed not only for the international financial system and the system of governance of the member countries, but also for the Bretton Woods institutions themselves. We witness a significant move in this direction in the area of expansion of the presence and the depth of the dialogue in the field, greater flexibility and responsiveness to the needs of the borrowers, and adaptation of the lending instruments in accordance with the current developmental demands.

United Kingdom (Governor Brown)

More openness and transparency in decision-making will create a flow of information and a consistency in rules and procedures that can help avoid the kind of market turbulence we have seen. It adds to public understanding of difficult economic decisions and deters undue interference by sectional interests—and, at its most extreme, corruption.

That is why I am pleased that the Fund will now consider a code of good practice which can promote not just a more effective flow of financial and economic information, but also agreed rules and procedures that promote openness and consistency in economic decision-making and reporting.

United States (Governor Rubin)

...I would like to recognize and applaud the efforts of Jim Wolfensohn and Michel Camdessus to act on their commitment to making good governance—and the fight against corruption—a central priority of the World Bank and the Fund. Their candor and initiative have generated a long overdue debate about these issues—and with it a recognition that the costs of corruption often fall disproportionately on the poorest and most vulnerable.

Both institutions are working to make reduced corruption just as integral to their assessment of countries as more traditional concerns such as tariff reform, investment liberalization and the like. But responsibility here does not just lie with developing countries. Developed countries also have an obligation to combat the supply side of the equation. I welcome the important steps toward tackling corruption which the OECD has been taking—and strongly urge all of the member countries to make good on their recent commitments in the months ahead.

Let me stress one point: putting the fight against corruption right at the heart of our efforts to promote development is not only a moral necessity. It is an economic one. Corruption results in distorted allocation of resources. And new laws and supervisory systems to safeguard stability must be accompanied by credible—and honest—authority to enforce them. But there is also a broader point. This year's World Development Report provided an important reminder that the new global emphasis on freeing markets has not lessened the need for a strong and effective state. Quite the reverse. Each country's capacity to take on the major challenges I have mentioned today will rely critically on the credibility of its policy makers and public institutions. And corruption undermines that credibility.

In the end, good governance, including the rule of law, will be absolutely essential for realizing the benefits of this new global economy, and managing the risks.

10. Eleventh General Review of Quotas

Armenia (Governor Darbinian)

...we welcome the agreement on the quota increase...Of course, some clarifications are needed in quota calculation principles and we will work in this issue with the Fund staff.

Austria (Governor Ruttenstorfer)

We welcome the recent agreement on the basic features of the Eleventh Quota Review. This quota increase will permit both to strengthen the Fund's resources and to correct the underrepresentation of some countries in terms of their quotas. Thereby, it will enable the Fund to continue to fulfill its mandate in the international monetary system. Like a number of other countries, Austria will receive a special quota increase which will help to narrow the imbalance between its relative position in the world economy and its capital share in the Fund. This is a step in the right direction but further adjustment will need to be made in the future.

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

On Quotas..., my fellow Governors from CARICOM welcome the agreement and hope that the formula for its distribution will not reduce the voting power of small states.

Belgium (Governor Maystadt)

...the agreement on raising the Fund's quotas should increase the Fund's available capital by approximately $90 billion (Belgian francs 3400 billion approximately); that is a truly substantial sum which, while reflecting the growing power of markets, was also necessary if the Fund was to carry on performing its special role well into the next century....

Canada (Alternate Governor Labelle)

I am pleased with the recent agreement on a Fund quota increase.

Chile (Governor Massad, speaking on behalf of the Latin American Governors of the Fund)

The Fund's Executive Board has also reached a consensus, to be ratified by the Board of Governors, on the Eleventh General Review of Quotas, requesting an overall increase of 45 percent. This consensus was not easy to attain, mainly because of the difficulties to reach an agreement on criteria to distribute shares on a proper method for power-sharing among members. An in-depth and informed discussion on the calculation of quotas would be very desirable. In any event, we regret that, under the current review, the developing countries, which have for some time now been recording substantially higher growth rates than the other countries, stand to lose some of their relative weight. We hope that, as a result of reviewing the formulas, this situation will be corrected in future. Meanwhile, we trust that the commitment reached to maintain the current representation will be honored.

China (Governor Liu)

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

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

Colombia (Temporary Alternate Governor Ocampo Gaviria, speaking on behalf of the Bank Latin American Governors)

...financial liberalization must be accompanied by stronger multilateral institutions, capable of effective compensating the instability of private capital flows. In this regard, as well as that of MIGA and the HIPC Initiative, there has been a wide gap between the increase responsibilities given to multilateral agencies and the willingness of some shareholders to effectively provide them with an adequate capital or quota base.

Cyprus (Governor Christodoulou)

We welcome the approval of the increase in quotas by 45 percent, a measure which will enhance the ability of the Fund to deal more adequately with balance of payments and currency crises of its members.

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

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

Germany (Alternate Governor Waigel)

...I welcome the consensus we reached here in Hong Kong on increasing the Fund's resources. I am grateful for the spirit of cooperation that has prevailed among the Fund members. I should also like to thank Michel Camdessus.

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

We must at all times ensure that the Fund has the capacity necessary to carry out the functions specified in its mandate. Thus, I welcome the agreement by the Executive Board on the quota increase.

India (Alternate Governor Rangarajan)

The conclusion of the Eleventh General Review of Quotas has given the Fund extra strength, although regrettably the voting share of developing countries has declined in the process.

There is a clear need to review the formulae for quota calculations before the next Quota Review so that the fast growing developing economies get their due share.

Iran, Islamic Republic of (Governor Namazi)

We...welcome the agreement reached on...the quota increase. We believe that, in order to increase the role of developing countries in the decision-making process of the Bretton Woods institutions there is a need to modify the formula for determining quotas, and we are pleased with the assurances given in this respect.

Ireland (Governor McCreevy)

We warmly welcome the agreement to strengthen the financial base of the Fund to meet future challenges through the 11th review of quotas. A positive aspect of the agreement is that it will bring quotas more into line with relative positions in the world economy.

Italy (Governor Ciampi)

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

Japan (Governor Mitsuzuka)

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

Korea (Governor Kang)

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

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

In this context, I welcome the recent consensus that was reached among member countries regarding the 11th Quota Increase Review. However, I believe the increase does not go far enough to correct quota positions vis-à-vis member countries' economic position in the world economy. The quota distribution continues to unnecessarily limit the level of contribution of some member countries in the Fund capital increase.

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

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

In the context of increasing the Fund's resources and enabling it to strengthen its role, we hope that the eleventh general quota increase will be allocated equally among member countries.

Luxembourg (Governor Juncker, speaking on behalf of the Governors of the Member States of the European Union)

The size of the Fund and its liquidity position need to take into account the deep changes in the world economy as well as the mandate of the institution. We therefore welcome the recent decision on the basic features of the eleventh quota review.

Malta (Governor Brincat)

With regard to the Fund's liquidity position, the Fund's usable resources have been decreasing over the last few years on account of the heavy demands being made on them by a number of large countries that are restructuring their economies. As the strong demand on the Fund's financial resources is expected to continue over the next few years, Malta notes with satisfaction the agreement reached on quota increases in the Fund's Executive Board. We hope that procedures will be stepped up to allow the quotas to become effective at an early date.

Myanmar (Governor Win Tin)

...the Eleventh General Review of Quotas also requires an early conclusion to further expand international liquidity.

The Netherlands (Governor Zalm)

We welcome the agreement on the Fund quota increase, which provides the Fund with the necessary own resources to finance the future demand for Fund credit.

Russian Federation (Governor Chubais)

Should the Fund play a substantial role, it will need additional resources. In this context I welcome the compromise reached on the Eleventh General Review of Quotas. However, I consider the formulae used in quota calculations to be highly unfair and not reflective of the relative country positions in the world economy. Therefore, I would strongly urge the Fund members to revise these formulae as soon as possible and certainly before the next quota review.

Samoa (Governor Malielegaoi, speaking on behalf of the Governors for Kiribati, Marshall Islands, Federated States of Micronesia, Solomon Islands, and Vanuatu)

We welcome the agreement reached on the Eleventh Review of Quotas....These developments should provide the Fund with the flexibility to carry out its mandates effectively, as well as respond to major crises. I note with satisfaction that issues and anomalies in the distribution of quotas, as well as the treatment of new members since the last general review in 1990, have been addressed in the current revision.

Spain (Governor de Rato Figaredo)

We...support the allocation of fresh resources pursuant to the Eleventh Review of Quotas; however, we favor changing the current formula in order to correct anomalies in calculated quotas and present quotas.

Sri Lanka (Governor Peiris)

We...commend the Fund for reaching an agreement on a quota allocation under the Eleventh General Review. We are, however, somewhat disappointed that under the proposed formula for allocation of quotas, the voting power of the developing countries would decline. We would, therefore, urge strongly that any future allocation of quotas should adequately reflect the increasing weight of the developing countries in the global economy. To this end, we would encourage the Fund to evolve a more rational formula for calculation of quotas before the next General Review.

Switzerland (Alternate Governor Villiger)

I welcome the recent decision to increase quotas. In order for the Fund to be able to fulfill its mandate, resources should broadly keep pace with the world economy. As the recent developments have shown, demand for Fund resources can increase unexpectedly.

Thailand (Governor Bidaya)

We welcome the agreement achieved in the Eleventh Quota Review and as a recent beneficiary of Fund resources, would strongly urge for its expeditious ratification.

11. ESAF and HIPC Implementation (Including Sale of Fund Gold)

Austria (Governor Ruttenstorfer)

With regard to the Highly Indebted Poor Countries, I should say that I am gratified that the first six cases of debt relief under the HIPC initiative have come to the Boards of the Bretton Woods institutions, thereby testing the practicality of the HIPC approach. This success...breaks important new ground in development assistance.

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

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

We are pleased with the progress made on the HIPC Debt Initiative and fully endorse the proposals by the UK as spelt out in the Mauritius Mandate. Since March this year the Executive Boards of the Bank and the Fund have reviewed the eligibility of seven countries for relief and decisions have been made in three cases. The Boards have also discussed preliminary HIPC documents for three other countries and we are especially pleased to note that Guyana was included. We fully anticipate a favorable decision on our sister CARICOM State when this matter is formally considered.

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

Belgium (Governor Maystadt)

I would now like to discuss the HIPC Initiative.

Encouraging progress has been achieved since the HIPC Initiative was adopted one year ago. Firm decisions have already been taken with respect to Bolivia, Burkina Faso, and Uganda, and three other countries are expected to follow suit, namely, Côte d'Ivoire, Guyana, and Mozambique. I share Chancellor Brown's view that all eligible countries should be able to join the Initiative by the year 2000 because, of course, the Initiative is open to all heavily indebted poor countries that are prepared to adopt or implement a reform and adjustment program supported by the Fund and World Bank. This means that all creditors that have committed themselves to contributing to the funding for the Initiative should reaffirm their commitment by providing the necessary resources in a timely fashion.

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

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

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

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

Canada (Alternate Governor Labelle)

I would...underline the importance that we attach to recent progress to broaden the eligibility criteria and significantly increase the size of the debt initiative for the heavily-indebted poor countries. These changes will allow an even greater number of countries to benefit from this exceptional assistance. The next challenge is to ensure that this initiative is adequately funded. For our part, I am pleased to announce that Canada will convert its share of the SCA-2 refund into an unconditional grant of about SDR 12 million to support this initiative. For its part, the Fund needs an early discussion of the need to better "optimize" the use of its resources. It is also important that we encourage the Bank and the Fund to continue their efforts to press ahead in aggressively implementing this initiative.

China (Governor Liu)

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

...the Chinese government supports the Fund to assist the economic reforms and adjustments of developing countries through ESAF arrangements. It is our view that the major industrial countries should take the lead in making concrete financial commitments. Conditional on this, China is willing to consider contributions comparable to its fiscal ability.

Colombia (Temporary Alternate Governor Ocampo Gaviria, speaking on behalf of the Bank Latin American Governors)

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

Cyprus (Governor Christodoulou)

Cyprus would support efforts being made to speed up the implementation of debt initiatives by the Fund and the World Bank to assist the poorest highly indebted countries.

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

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

Ethiopia (Governor Ahmed, speaking on behalf of the African Governors)

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

We appreciate the recent efforts of the international community and the Bretton Woods institutions to reduce the debt burden of some African countries under the HIPC Initiative. We also welcome the broadening of the eligibility criteria. However, we are still concerned by the three additional years required between the eligibility decision point and the completion point, during which a country is expected to demonstrate its commitment to its reform program, thus establishing a track record of reform. In our view, a rigid interpretation of what constitutes a good track record might defeat the very purpose of the Initiative, which is to achieve a viable environment conducive to growth and development. We therefore ask for a reduction of the three-year period and greater flexibility in the implementation of this new initiative, so that it may indeed reduce significantly the external debt overhang of a large number of eligible countries. The Denver Declaration is, in this regard, very well appreciated and we look forward to concrete actions by all creditors. Furthermore, for those countries that are ineligible for the HIPC Initiative and whose debt service continues to absorb too great a share of their resources, and here we refer especially to some middle-income countries, we urge the international community to consider the implementation of a debt relief mechanism that is adapted to their needs.

Finland (Governor Niinisto, speaking on behalf of the Governors for the Bank Nordic countries)

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

France (Alternate Governor Trichet)

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

In this regard, France is concerned by the temptation to offer verbal support without any financial participation, which continues to exist here and there, and by the persistent silence of certain countries concerning their contribution to the financing of the self-sustained ESAF and the Fund contribution to the HIPC Initiative. We should therefore refrain from making new promises before securing the financing of our commitments.

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

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

I would...like to welcome the launch of the initiative for heavily indebted poor countries. It is essential that this one-time effort be further secured through adequate financing based on the principles of fair burden sharing.

India (Alternate Governor Rangarajan)

On the HIPC and ESAF initiatives, my government has already agreed to contribute its entire balances in SCA-2 as a noninterest bearing deposit toward funding these arrangements. These initiatives of multilateral institutions need to be supplemented by further measures to ensure that the transfer of resources to developing countries is maintained at an appropriate level.

Indonesia (Governor Muhammad)

We welcome the initiative taken by the World Bank and the Fund in addressing the foreign debt burden of the most severely indebted poor countries. As part of our commitment to the HIPC Initiative, the government of Indonesia has decided to contribute $10 million to the HIPC Trust Fund. Considering that around 1.3 billion persons still live in poverty, we urge the Bank to put poverty eradication program as its highest priority.

Iran, Islamic Republic of Iran (Governor Namazi)

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

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

Ireland (Governor McCreevy)

Turning to the development agenda, the Bank and the Fund are to be congratulated on the progress that has been made on the implementation of the HIPC Initiative. We very much welcome that decisions have been made on Uganda, Bolivia and Burkina Faso and that preliminary consideration of a group of other countries is well under way. This is no mean achievement, given the complexity of the problems affecting the indebted countries and the number and diversity of the players who are party to each decision.

We note the flexibility with which the initiative is being implemented. It is important that this flexibility be used to ensure that the maximum number of eligible countries benefit from the initiative, and as early as possible.

In any event, the initiative must offer a real exit from excessive debt to the countries concerned and allow them to regenerate their capacity for economic and social development.

In this context, Ireland welcomes the recent Internal Review of the ESAF, and looks forward to the completion of the ongoing external evaluation. Understanding the impact of structural adjustment, on social sector programmes in particular, is critical to implementing the ESAF in an optimal way.

Luxembourg (Governor Juncker, speaking on behalf of the Governors of the Member States of the European Union)

...we are firmly committed to support to the Heavily Indebted Poor Countries. The Member States, notably in the framework of the Paris Club, and the Community institutions have indicated that they will participate in the initiative on debt relief launched by the international community after the Lyon Summit; they will provide an appropriate contribution to this international commitment in favor of the poorest countries of the world. This participation of the European Union, together with its Member States, confirms our continuing will to help developing countries toward fast and balanced progress.

Malaysia (Governor Anwar bin Ibrahim)

The benefits of strong economic growth continue to be denied to the poorest nations largely because of their large and unsustainable debts. We are concerned that progress on the implementation of the HIPC-ESAF Initiative to help poorer members exit from the debt trap has been slow. We support the call for greater flexibility in implementing this Initiative so that more countries will benefit. To achieve this, it is essential that we all make firm financial commitments. Malaysia is prepared to commit our SCA-2 (Special Contingency Account) balances as well as bilateral contributions, based on an equitable burden sharing formula.

Malta (Governor Brincat)

The last year also saw the successful start, by the Fund, of the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative through special Enhanced Structural Adjustment Facility (ESAF) operations, and notably with the decision by the Fund's Executive Board to provide assistance to Uganda under the Initiative and to consider the cases of three other countries. The HIPC Initiative is critical to help ensure the full participation of the poorer countries in the expansion of global trade and investment. Moreover, this initiative fills a gap in the area of economic aid, as its deals with heavily indebted poor countries which are following sound economic policies, and for which other traditional debt-relief programmes are inadequate to ensure a sustainable debt position over the medium term. I am glad to say that Malta, though its resources are limited, is contributing to the HIPC initiative through the funds it has accumulated in the Special Contingent Account (SCA-2).

Myanmar (Governor Win Tin)

Speaking of the debt burden of developing countries, the Fund and the Bank are commendable in creating the HIPC debt initiative, which eventually will profit the majority of the least developed countries. Nevertheless, restricting the HIPC debt initiative with too many conditions for eligible countries can be counterproductive to its purposes, even though a strong track record for HIPCs is essential.

Nepal (Governor Sharma)

I am happy to note the satisfactory results obtained in the implementation of debt reduction strategy in heavily indebted poor countries by both the Bank and the Fund. I feel that this program needs to be continued.

The Netherlands (Governor Zalm)

The underfinancing of the debt initiative might endanger its successful implementation, which would be particularly unjust for countries with a strong adjustment track record. While Management and the staff of both institutions stood the test, it is now for members and shareholders to act with the same vigilance on the provision of minimal necessary financial donor resources. The Netherlands already contributed its fair share.

New Zealand (Governor Peters)

I welcome the progress that has been made on the HIPC debt initiative and commend the coordinated efforts of the creditor parties involved. It is initiatives of this nature that draw on the strengths of the international financial organizations and the combined membership of those organizations. We are also encouraged by recent moves toward distributing the costs between the multilateral development banks and bilateral donors on a fully proportional basis, and urge continued efforts to resolve the African Development Bank's expected shortfall.

We endorse the pragmatic and flexible case by case approach being adopted, but are concerned at the escalation of estimated costs. It is therefore imperative that the pursuit of sound medium term economic policies and a proven track record remain key for eligibility in order to limit the risks of moral hazard and establish the framework for success.

Pakistan (Governor Aziz)

We note with satisfaction the progress made in extending ESAF beyond the year 2000 establishment of the Trust for Highly Indebted Poor Countries (HIPCs). The donors should now come forward with liberal assistance to ensure the successful implementation of these initiatives.

Papua New Guinea (Governor Yaki)

...I wish to commend the Bank and the Fund on their determination to bring the Highly Indebted Poor Countries Initiative to fruition. While Papua New Guinea is classified as a moderately indebted middle-income country we nevertheless can empathize with fellow Governors here whose huge debt burden stifles their ability to pursue their development agendas.

Portugal (Governor de Sousa Franco)

...let me comment on one major achievement: the implementation of the Debt Initiative. As envisaged from the outset the Initiative requires the continuing close collaboration among creditors to effectively deliver the debt relief that eligible countries need to face the demanding agenda for economic and social development. We support those who stand for the expeditious implementation of this process, essential to justice and growth all over the world, praising all the efforts the World Bank, the Fund and Member States are doing with this purpose.

I am pleased to announce here today, that, Portugal, as a partner in this process, and a main creditor of eligible and potentially beneficiary countries, will contribute to the Initiative Trust Fund. We expect others to do so.

Russian Federation (Governor Chubais)

It gives me pleasure to note the progress achieved under the Fund and World Bank's Initiative to reduce the external debt burden of poorest countries. The first few beneficiaries to receive unprecedented international support have been identified. While welcoming a certain degree of flexibility with regard to the specific conditions of countries, I would still consider it important to maintain the basic principles and to prevent an excessive watering down of the criteria for participation in the Initiative. We presume that the costs of implementation should be shared proportionally by all groups of creditors. We are slightly concerned by the ongoing upward revision of the cost estimates and by the lack of clarity about the sources of funding.

Russia is prepared to contribute constructively to the success of the Initiative, and even to admit that in a number of cases our share in the reduction of the external debt burden will be substantially greater than the relative contribution by other creditors.

Allow me also to inform you of the Russian government's decision to participate in the financing of the ESAF/HIPC Trust bilaterally. We agree to transfer the resources from the SCA-2 account as a grant and to make further contributions the size of which will be proportional to Russia's quota in the Fund and to the participation of other donors.

Spain (Governor de Rato Figaredo)

...evidence of this global support for the Fund is to be found in Spain's participation in...the ESAF. With its contributions in these areas, Spain is demonstrating its commitment to international cooperation and partnership for the benefit of the citizens of the world.

Sri Lanka (Governor Peiris)

We are...very encouraged by the progress the two institutions have been able to achieve, in collaboration with other multilateral and bilateral creditors, in implementing the HIPC Initiative. However, despite the great enthusiasm and the hard work that has been put into this Initiative by the Fund and the Bank, and the excellent cooperation they have got from other creditors, there is the risk that delivery of relief might not materialize as envsiaged ultimately if adequate funds are not mobilized in time for this Initiative. Furthermore, we are deeply concerned that paucity of resources might derail not only the HIPC Initiative but also the interim ESAF. I would therefore urge my colleagues here to make a firm commitment of their assistance to the Initiative as early as possible, so that the momentum created for delivery of relief under this most innovative Initiative would not be dissipated.

Switzerland (Alternate Governor Villiger)

I warmly welcome the rapid progress in the implementation of the HIPC Initiative. Six countries have embarked on the process. This underscores that the HIPC Initiative is now really under way. However, I am worried both about the rising cost and the fact that financing assurances for the ESAF-HIPC Trust have not been as forthcoming as expected. I urge all members to contribute in order to ensure a fair burden-sharing.

I would also like to reiterate that the Initiative represents an exceptional effort by the international community for countries who are ready to deepen their adjustment efforts. Debt relief under the Initiative should mark the completion of comprehensive structural reforms, which should enable the country concerned to eliminate growth-impeding debt overhang. In this respect, it is important to carefully and objectively assess and to provide the necessary debt relief to accomplish this goal.

United Kingdom (Governor Brown)

Poverty and unsustainable debts in poor countries affront us all and demand action from the richest countries to take account of the needs of the poorest. I believe it is time to give added impetus to the HIPC initiative so that all eligible countries which meet the tough conditions will have embarked on the process of debt relief by the new millennium. This proposal is now firmly on the international agenda. I am pleased that we are all committed to seeking further progress in the HIPC initiative.

As this program of debt relief is implemented, and barriers to trade and capital flows continue to be dismantled, more and more countries will find themselves able to benefit from the growth and jobs that inflows of new investment bring. But as they do so, they will find that it is more important then ever to pursue sound policies that promote stability and growth.

12. SDR Allocation, and Amendment of the Articles for a One-Time Equity Allocation

Armenia (Governor Darbinian)

...we welcome...the Fund Board decision on special SDR allocation, which effectively would raise our ability to borrow for development purposes.

Austria (Governor Ruttenstorfer)

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

The Bahamas (Governor Allen, speaking on behalf of the CARICOM Governors)

We...welcome the agreement reached to provide all members with an equitable share of cumulative SDR allocations through a one-time special allocation of SDR 21.4 billion.

Belgium (Governor Maystadt)

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

Canada (Alternate Governor Labelle)

I...welcome the agreement on a special one-time SDR allocation. This agreement will ensure that all members receive equitable treatment under all previous SDR allocations.

Chile (Governor Massad, on behalf of the Latin American Governors of the Fund)

...we welcome the agreement reached on the allocation of special drawing rights, an issue that was subject to lengthy discussions.

China (Governor Liu)

We welcome the newly reached agreements on SDR allocation ...

Cyprus (Governor Christodoulou)

Cyprus welcomes...the recent decision of the Fund to proceed with a new SDR allocation.

Egypt, Arab Republic of (Governor Ebeid, speaking on behalf of the Arab Governors)

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

Iceland (Governor Gunnarsson, speaking on behalf of the Fund Nordic and Baltic Governors)

I...welcome yesterday's unanimous decision on the special one-time SDR allocation.

India (Alternate Governor Rangarajan)

The one-time special allocation of SDRs is a reflection of international goodwill, since it will help those members which could not participate in previous allocations while at the same time ensuring some allocation to every country.

Ireland (Governor McCreevy)

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

Japan (Governor Mitsuzuka)

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

Libyan Arab Jamahiriya (Governor Bait Elmal)

While we welcome the agreement on a one-time allocation of Special Drawing Rights (SDRs) under the amendment to the Fund's Articles of Agreement, in light of our desire to achieve general consensus, we emphasize that this should not be at the expense of the general allocation of SDRs under the Fund's existing Agreement.

Malta (Governor Brincat)

With regards to an SDR allocation, Malta is also pleased to see that the resolution presented to members takes into consideration the issue of equity for member countries that have not participated in previous allocations.

Myanmar (Governor Win Tin)

In reviewing the operations of the Fund and the Bank, a new SDR allocation is primarily beneficial for developing and transition economies, for which I am pleased to learn that a compromise solution has recently been reached.

The Netherlands (Governor Zalm)

We...welcome the conclusion of the SDR discussion.

Russian Federation (Governor Chubais)

I congratulate my colleagues for the decision on the special one-time allocation of the SDRs. Several dozens of countries will now be able to join the SDR system. I hope that the decision taken will come into effect before too long, and members will start enjoying their new rights in the foreseeable future.

Samoa (Governor Malielegaoi, speaking on behalf of the Governors for Kiribati, Marshall Islands, the Federated States of Micronesia, Samoa, Solomon Islands, and Vanuatu)

We welcome the agreement reached on...the amendment of the Articles for a special allocation of SDRs. These developments should provide the Fund with the flexibility to carry out its mandates effectively, as well as respond to major crises.

Spain (Governor de Rato Figaredo)

We...support an amendment allowing a special allocation of Special Drawing Rights....

Sri Lanka (Governor Peiris)

...we commend the Fund Board for reaching a consensus on the issue of a special one-time allocation of SDRs. We are pleased that a resolution to amend the Articles to give effect to this one-time allocation for a more equitable distribution of SDRs among the participants has been already adopted in this Assembly. We wish to reiterate, however, that this amendment should in no way diminish the existing power of the Fund to make general allocations in future when the need arises.

Switzerland (Alternate Governor Villiger)

I note with satisfaction that the Executive Board has reached, after years of intense discussions, an agreement on a special one time allocation of SDRs, which will put all member countries on the same footing. I hope for a swift amendment of the Fund's Articles.

Thailand (Governor Bidaya)

We...welcome the agreement obtained on the issue of SDR allocations. This will ensure that members can enjoy the fruits of an equitable share of international liquidity.

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