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To: Members of the Executive Board

From: The Acting Secretary

Subject: **1998 Annual Meetings—Excerpts from Speeches by Governors**

Attached for the information of the Executive Directors is a set of excerpts on various policy issues from the speeches delivered by Governors at the 1998 Annual Meetings. This document aims to bring out the broad thrust of the message, topic-wise, emerging from their speeches and is not intended to provide a comprehensive statement of views expressed by them. A complete record of Governors' remarks will appear in the summary proceedings of the Annual Meetings to be issued later.

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Department Heads
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1998 Annual Meetings

Washington, D.C.

Excerpts from Speeches by Governors

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1. Policy Responses to Recent Crises

Armenia (Governor Darbinian)

We appreciate the IMF's efforts to work with the member governments on proposals to strengthen the architecture of the international financial system by identifying steps that can be taken to minimize the risks of crises in the future. We need to have a global system that is stable, sound, open, transparent, and fair.

...The affected countries and the other emerging market economies need to continue to undertake the hard work of disciplined macroeconomic policies, which involve sound public finance, a stability oriented monetary policy and a pragmatic and transparent approach to exchange rate management. In this regard great importance should be attached to the role of IMF and the World Bank in the following three directions: first, maintenance of stability in international financial markets; second, prevention of the expansion of financial crises and provisional support to affected countries; and, third, introduction of new consultations mechanisms on a regional level.

Australia (Governor Kemp)

Each of us must play our part in resolving the crisis. Japan has a crucial role to play. It is vital that the problems in the financial sector be resolved quickly and a healthy banking system re-established. The actions that the Japanese Government has already announced affecting the financial sector need to be pursued as a matter of urgency, while the announced fiscal stimulus should be brought into effect without delay. . . . Improvements in fiscal transparency of the type we have already introduced in Australia could yield even greater dividends in Japan....

There is also a good deal of agreement on the areas in which work is needed in strengthening the architecture of the international financial system. This has been reflected in our discussions this week, including at the meeting of Finance Ministers and Central Bank Governors in the so-called Willard Group. The reports of the three working parties provide a valuable road map for navigating the complex issues involved. Their conclusions should now be taken up in appropriate national and international agencies. The IMF and World Bank should also proceed with urgency in implementing the specific conclusions reached in the Interim and Development Committees over the last few days....

We also need to press ahead with efforts to strengthen financial systems, both nationally and internationally, to help avoid the development of crises, as well as efforts to improve the handling of crises when they occur.

Austria (Governor Ruttenstorfer, speaking on behalf of the Governors of the member states of the European Union)

The European Union fully backs the IMF-supported economic and structural reform programs undertaken by the countries affected [by the crisis in Asia]. Continued persistent implementation of these programs should restore confidence and lead to a resumption of capital inflows....

The European Union urges Japan to take the necessary structural reform measures - particularly in the banking sector - and to implement a sustainable fiscal policy in order to ensure a strong domestic-demand-led recovery....

The European Union calls on the government of Russia to take all necessary steps towards the re-establishment of credibility within and outside the country, towards solving its structural budget problem, which is the essential precondition for the control of inflation, and towards restructuring the financial and corporate sectors....

The European Union and its member states . . . actively contribute to resolve the current difficulties in Asia both through bilateral and multilateral channels. The recently-created ASEM Trust Fund, to which the Union and a number of Member States contribute, will provide Asian countries with technical assistance and advice on restructuring their financial sectors and on measures to deal with the social problems caused by the crisis....

The European Union also remains strongly committed to its strategic partnership with Russia. Resumption of financial aid, however, is contingent upon the presentation of a convincing market-oriented reform program by the Russian government and credible steps towards its implementation. If so requested, the European Union will restructure its technical aid towards Russia, in order to better assist in the process of institution building.

Barbados (Governor Arthur, speaking on behalf of the CARICOM Governors)

We are very supportive of the efforts which the international financial institutions and the industrial countries have taken to assist those countries which are facing systemic risks and major liquidity difficulties . We note the speed with which substantial sums have been mobilized to attend to financial crises in the affected economies....

...there are however a number of issues which we regard as critically important.

First, the overriding purpose of international action at this time must be to avoid a global recession.

There are sufficient parts of the World economy that are still strong enough that concerted action aimed at expansion and reflation will prevent a slide into a global recession with its dire

consequences for all of us, but especially those who trustingly followed the technical advice we have consistently been offered.

Secondly, the need to reform the architecture of the international monetary and financial system is accepted by us as being urgent and timely, but we submit that it must include representation and participation from all of us.

[The Bretton Woods] institutions should not now be transformed into institutions geared primarily at bailing out wealthy investor banks while expecting poor developing countries to live entirely at the vagaries of the market...

We in CARICOM are heavily dependent on sustained good economic performance in the rest of the world. Even before the start of the current world crisis, many of our own economies were already in crisis because of the changes to the rules of the trading game. Mr. Chairman, those economies are still in crisis, and are facing the prospect of being engulfed in the larger problem. More than ever now there is urgent need for those who regard themselves as leaders of the world economy to demonstrate that leadership.

Belgium (Governor Viseur)

We have been struck by the breadth, the contagion, and the effects of the current crisis. A concerted and cooperative strategy is therefore urgently needed. . . . Moreover, we have sound reasons for seeking to introduce a number of basic improvements into the functioning of the international monetary and financial system.

The pursuit of sound monetary, fiscal, and structural policies is no longer sufficient, in and of itself, for laying the foundations of sustainable growth. The current crisis has in fact confirmed the need for governments to be able to mobilize, at short notice, the financial resources needed to resist the contagion and withstand the pressures they may have to face in today's globalized economy.

In light of this changing environment, the international community, and the IMF in particular, must make every effort to find new instruments to provide effective assistance to countries that follow sound policies and are suddenly placed in a difficult situation because of the financial markets. The fire department needs a wide range of resources: fire engines suitable for large-scale fire fighting and all the equipment necessary to fight the blaze.

President Clinton recently pointed to one possible approach. Under this approach, the IMF would aim for greater efficiency in furnishing conditional financial assistance to countries that continue to implement sound policies as they cope with a difficult international financial situation. I welcome the Interim Committee's plans to study this proposal.

I also think it would be useful to take another look at the arguments in favor of having the IMF act as lender of last resort based on the SDR. This is an approach that would perhaps maximize the effectiveness of the mechanism proposed by President Clinton.

...globalization does not only require that IMF policies be adapted to reflect the changing international environment, it also gives us a much keener sense of the responsibilities of governments. This realization is essential if the advantages to be gained from globalization are to be maximized and the attendant risks reduced.

For it is my belief that Europe, whose characteristic emphasis on social democracy (the so-called "Rhine Model") was scoffed at for so long, ought now to play a more important role in strengthening the Bretton Woods institutions.

The "European model" that we are building, without arrogance or triumphalism, is predicated upon a common economic and social framework, cooperation among states, inclusion of the social partners in economic responsibilities, burden-sharing among all members of society, and multilateral surveillance. For a long time this had been viewed as a relic of economic history. Today, this market economy that couples freedom with a strengthened capacity to include the government as strategic planner and regulator, can serve as a model for the entire world and as a guide for the reforms that enhance the role and effectiveness of the Bretton Woods institutions. This will help us to overcome the current crisis and get firmly back on the path to world growth.

Bosnia and Herzegovina (Governor Kondic)

Solving [the current challenges] requires additional efforts and participation of more countries and financial institutions....

Economically sound states, the World Bank and the IMF can coordinate the action to prevent the spreading of the crises and allow for a more prosperous future with an aim to reduce poverty throughout the globe.

Bosnia and Herzegovina (Governor Kurtovic)

In this increasingly interconnected world, the global economy faces two overwhelming problems: the financial markets' crisis in East Asia and economic distress of Russia; re-establishment of economic systems in post-conflict countries and countries in transition....

...Resolving these problems requires additional efforts and determined involvement of a large number of countries and financial institutions....

...The end of this and the start of the next century will be marked by the struggle to anticipate and transcend crisis situations. Economically powerful countries, the World Bank and the IMF

can act in coordination to prevent crises from deepening and open perspectives of a more prosperous future, with the goal of reducing poverty worldwide.

Cambodia (Governor Keat)

I would like to take this opportunity to commend and congratulate the IMF and the World Bank in rushing with massive funds and technical assistance to the rescue of the countries in East Asia which were affected by the financial cataclysm beginning last year....

The regional crisis has given us a unique opportunity to re-examine the core, contours and contents of the established development paradigm. Already, important voices have been raised that the relevance of some of our assumptions and standard remedial measures for such crises need to re-examined and that new institutional mechanisms should be devised to better regulate capricious short-term capital flows which destabilize economies to the detriment of the people at large who are the target of all our developmental efforts. I would like to add my voice to these calls for radical rethinking of development priorities and mechanisms. . . . The globalized economy needs global thinking and responses. However in doing so we have to take into consideration the fact that we are living in the real world of diversity.

Canada (Temporary Alternate Governor Peterson)

...it is clear that the first line of defense against market turmoil has to be a strong macroeconomic and structural policy foundation.

...Canada has put forward a six-point program that addresses both the short-term problems raised by the current financial crisis, as well as the longer-term, underlying issues associated with open capital markets. The program includes:

1. The central banks of the developed world must pay close attention to the risk of a further slowdown in the global economy and be ready to act quickly to support continuing, sustainable growth, both at home and abroad;
2. A renewed commitment by the emerging market economies to implement the appropriate macroeconomic and structural policies;
3. Greater global attention to the needs of the very poorest countries;
4. Endorsement of measures to strengthen financial sector supervision through peer review;
5. Development of a practical guide or "roadmap" for safe capital liberalization; and,

6. Agreement to work urgently towards a better mechanism to involve private-sector investors in the resolution of financial crises, such as a standstill on debt repayment.

The first three points relate to what should be done to deal with the current financial crisis and lay the foundations for a return to sustained economic growth....

...the presumption should be that [G-7] central banks will reduce interest rates now if they can; if they cannot, they should be prepared to act quickly if the risks start to be realized and economic activity slows.

National authorities in emerging market economies must also ensure that they are taking appropriate action to restore stability and growth. Without good domestic policy on their part, no amount of effort by the international community is going to prevent periodic financial problems or promote sustainable growth....

China (Governor Dai)

We must take the opportunity of this meeting to call for concerted actions to stem the crisis from further enlarging or spreading, and to assist the affected countries in reviving their economies. It should be the top priority of this meeting to consider how to strengthen the architecture of the international monetary system to effectively prevent and solve financial crises....

The major industrial countries should take primary responsibility for maintaining the stability of the international financial system and the steady growth of the world economy. Under the current circumstances, the fiscal and monetary policy stance of the major industrial countries should be conducive to maintaining world economic growth. They should strengthen the coordination of interest rate and exchange rate policies to stabilize international financial markets. In addition, they should significantly increase their financial assistance to crisis-affected countries, expand their imports from those countries, and guard against trade protectionism....

The Fund and the Bank have made great efforts in preventing and solving financial crises in some regions and countries, maintaining the stability of the international monetary system, and assisting member countries to develop in a sustainable manner. We hope that the Fund and other international financial institutions can play a more effective role in resolving financial crises. By encouraging the deregulation and liberalization of domestic markets, they should be vigilant to the risks posed by international capital flows; and when designing and implementing assistance programs, they should pay more attention to the specific circumstances of the countries concerned. The Fund should formulate and establish a mechanism for monitoring short-term capital flows, and the movements of speculative capital.

Croatia (Governor Skegro)

What does globalization imply for small member countries of the Bretton Woods institutions like Croatia? We are fully aware that we are a part of the global family, and we accept that there is really no other viable alternative but for us to find our niche in the world marketplace. But, every country has its own specific features. Therefore, because of our size and location, it is unlikely that we can compete for private capital flows in unrealistically high amounts, so we would rely also on official capital flows from the international financial institutions. At the same time, the needs of other developing countries, particularly the transition economies (especially Central and Eastern European) are significantly larger than ours. I therefore fully share the concern that the expected financial requirements of members may impose severe strains on the future resources of the Fund and the Bank.

Cyprus (Governor Christodoulou)

What can be done by Governments, regional organizations, and international financial institutions to boost global economic growth and trade and to contain the financial pressures on the more fragile economies? Should the European Central Banks and Central Banks in other major industrial countries lower interest rates? Should developing countries partly re-introduce capital controls to insulate their economies from destabilizing capital flows? Should the IMF be provided with substantially increased financial resources so that it can play a more effective role in preventing and containing financial crises? As the discussions at the Interim and Development Committee meetings in recent days have illustrated, conflicting considerations make it difficult to give clear-cut answers to these questions. However, one thing is clear that there must not be competitive currency devaluations and a retreat towards protectionism, policies which proved to be self-defeating in the 1930s.

Estonia (Governor Opmann, speaking on behalf of the Bank Baltic Governors)

We believe that the World Bank and the IMF could play a significant role in supporting Russia to overcome instability and keep the country on the track of democratic reforms. We believe that the experience of the Central and Eastern European countries in transition could be utilized by the Bank in this process.

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

These current developments have sounded a wake-up call to the risks of rapid globalization of financial markets and the importance of concerted action by the international community to contain the crisis. For the immediate future, the countries directly affected as well as other emerging economies must continue the process of deep-rooted reforms, focusing on stabilizing the financial sector together with credible fiscal and monetary policies. At the same time, the advanced economies must focus on implementing policies that are supportive of global economic growth....

The international community must take decisive action to strengthen the architecture of the international monetary system. In this connection, we welcome the efforts being undertaken by the IMF and others to reduce the risk of disruptive shifts in market sentiment, as well as the risk of contagion.

Fiji (Governor Ah Koy)

Inevitably, the developed countries must lead the world out of this difficult period....

The continuing economic leadership of the industrial countries hinges critically on their keeping inflation in check. While the global efforts to keep inflation low are commendable, we collectively, of course, need to persevere with policies aimed at achieving fiscal and monetary stability. These policies must continue to be primarily aimed at reducing budget deficits to allow world interest rates to come down and help resuscitate economic growth in member countries around the world....

Under this unstable and unpredictable environment, it is crucial that the Fund and the Bank provide the strong leadership required at the multilateral level to restore confidence and stability. These modern-day problems require a new approach. We are, of course, encouraged by the momentum to find a new world financial architecture. However, in our search for the fit-outs of this new architecture, I urge the Fund and the Bank to give adequate consideration to pragmatism and sovereign ownership of reforms to help minimize, in an optimal fashion, the risks that are associated with their programs of integration and liberalization.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

Economic prospects for Asian countries at the center of the crisis will depend critically on the external environment; in particular, on Japan as the second largest advanced economy in the world....

The overwhelming priority for the Russian authorities now is to halt the destructive downward spiral. The first requirement is that the Russian government gain the political backing and credibility needed to enact legislation and to devise and implement programs. Close, continuous contact between the Fund and the Russian authorities is needed, but the key to stabilization lies with the Russian authorities. There is a role for the international community to consider financial support for Russia once the necessary steps for sustained stabilization and reform have been taken.

The Russian crisis, with its turbulence and spillover effects, will no doubt put pressure on the neighboring Baltic markets. The Baltic states, seeking integration into the European economic community, as well as a diversification of their economic relations, have weathered recent turbulence quite well. . . . They will continue to follow the solid and strict macroeconomic policies which now shield them against contagion....

The Fund is the forum where we can discuss issues in the global monetary system. It is the only organization with a truly global membership and a mandate for surveillance and policy advice. The IMF is needed as a catalyst for solutions in crisis situations. Above all, it is needed for the prevention of such situations. In the light of the experience which has accumulated, it appears appropriate that the emphasis of the Fund's contribution be shifted back towards stricter policy conditions, and away from financing.

France (Alternate Governor Trichet)

...we need to take a look at the international financial and monetary system as a whole, with a clear head and setting aside dogma. We must face the reality of a world economy that is more diverse, more open, and far more complex than it was fifty years ago when the Bretton Woods institutions were created. This crisis does not call into question the usefulness of these institutions—quite the contrary. It is the dialogue between the industrial and emerging countries that has shown signs of inadequacy. It is market infrastructures and their regulation that are visibly dysfunctional. The international community must assume more responsibility for organizing the system. In this, the Bretton Woods institutions are the tool of choice, and therefore their role should be expanded.

Georgia (Alternate Governor Papava)

...it would be appropriate for the IMF and the World Bank to elaborate the program of special emergency assistance to the countries that have been or still would be negatively affected by the Russian crisis.

Germany (Governor Tietmeyer)

There is certainly no panacea for overcoming the present problems. We know today that the problems in the countries currently undergoing crises are different in some respects from those of the eighties. Therefore, the prescriptions must in some respects be different, too, being no longer solely an issue of macroeconomic stabilization following periods of lax fiscal and monetary policies, but also one of good governance, a reliable legal framework, stable financial markets, efficient banking supervision and the phenomenon of an excessive and ill-structured private debt....

IMF programs up to now, regrettably, have not always produced convincing results. Not in all cases did the Fund's conditionality address the underlying causes sufficiently. In particular, its financial support was not sufficiently effective whenever the country concerned did not clearly subscribe to radical corrective measures. Ultimately, it is the countries themselves, which are responsible for the success of their programs. Shortcomings in their own efforts cannot be offset by providing international liquidity....

I am concerned that the present difficulties might trigger pressure for protectionism, not only in crisis regions but also in other countries. To give in to these pressures would be highly detrimental to the prospects for a worldwide recovery. Therefore, it is crucial to keep markets open, even if competition intensifies.

Similarly, it is also crucial to avoid a renewed round of competitive depreciation. In the long run, nobody would benefit, but everyone would suffer. The exchange rate policy has to be credible and in line with the development of the fundamentals.

Greece (Governor Papantoniou)

The stability of the international monetary system is a public good and as such it cannot be established by market forces alone. Better coordination among governments, international financial institutions, and the private sector is essential.

Iceland (Governor Asgrimsson, speaking on behalf of Bank Nordic Governors)

The Asian crisis can not be solved through financial flows alone. We need to attack the crisis through an integrated approach, addressing both the structural problems and the severe social consequences. To establish conditions for renewed growth in the regions, investors' confidence must be restored through sound economic policies, firm bank and corporate restructuring, and strong commitment to address governance issues. We expect the international financial institutions to be a trusted partner in this endeavor, while the main responsibility will lie with the countries themselves....

To improve the situation in Russia, continued assistance is needed, but more importantly, vital structural changes must be implemented. The initiative is therefore on the Russian side and the Russian government should demonstrate its willingness and ability to take decisive reform action before additional financing from international financial institutions is provided.

The negative spillover effects of the financial crisis have clearly demonstrated how interlinked global capital markets have become. Under these circumstances international financial institutions must react swiftly and have sufficient capacity to deliver appropriate financial and technical assistance. The Nordic countries are concerned that efforts to stabilize the economic situation have yet to live up to expectations. We should strive for greater global coherence of policies in the fields of trade and finance and strengthen the collaborative work of international financial and development organizations. In this effort, the Bretton Woods institutions play a central role. We await the Bank-Fund cooperation to deepen and strengthen in the future.

India (Governor Sinha)

This Annual Meeting of the World Bank Group and the International Monetary Fund is of crucial significance....Both the Fund and the Bank have responded with commendable speed to the Asian crisis. However, although more than year has now been spent on the struggle to achieve a turn around in the crisis-ridden economies there is, thus far, little ground for optimism.

The brutal fact is that after five days of intense discussion and debate, we are still at a loss as to why contagion has continued to spread. Nor do we seem to have achieved clear, agreed and effective measures to contain the crisis, a crisis which has grown unrelentingly over 15 months. Mr. Chairman, I wonder if our apparent ineffectiveness in coping with this now global crisis could be due to the limitations of the Bretton Woods institutions in handling crises spawned by massive reversals of private capital flows in a highly integrated global capital market, where billions are transferred in an instant with a computer keystroke. The Bretton Woods institutions were created essentially for providing temporary balance of payments support by the Fund for current account imbalances, and long-term development financing by the Bank. Confronted by the new generation of crises impelled by massive volatility in the capital account, the systems and resources at the command of the Bretton Woods institutions have been found wanting.

While the Fund and the Bank have responded with speed, the quality and content of the response needs sober review. In particular, we must think creatively to ensure early and preemptive responses to emerging crises. We must also find ways to better reflect the political dimension of crisis management in the decision processes of the Bretton Woods institutions, especially since the enduring economic and social consequences of crisis pose severe challenges for political management.

On the other hand, the present crisis has also highlighted the need to maintain and, indeed strengthen, the capacities of the Fund and Bank to discharge their normal, traditional functions of temporary balance of payments support and long-term development financing.

Indonesia (Governor Subianto)

The emergence of financial crisis in Asia has again underscored the importance of close monitoring of the financial system. Improved collaboration through an early sharing of information and close cooperation between the Bank and the IMF remains of vital importance.

Iran, Islamic Republic of (Governor Namazi)

It is, therefore, imperative that the Bretton Woods institutions adopt a very coherent and comprehensive approach to prevent the further widening and deepening of the recent crises. It is encouraging that the Bretton Woods institutions are actively examining their policy

responses to recent crises, in particular the financial turmoil in Southeast Asia. . . . Indeed, a review of the doctrine that there is only one unique set of "good" policies that generate stability and growth, is in order. It seems more reasonable and empirically valid that countries--with different economic structures in different stages of development, with varying degrees of constraints on their infrastructure and institutions and with different capacities to respond to external shocks--may adopt different but effective paths to economic stability and growth. The efficiency and consistency of these paths should be assessed against the unique position of each country and the goals it has set for itself rather than forging one-size-fits-all policies.

Ireland (Governor McCreevy)

It is now recognised by all that the key to economic and financial stability, both domestically and internationally, is the pursuit of policies based on price stability and balanced budgets, in an open market economy which favours an efficient allocation of resources. Sound policies will recognise a number of core principles: the most vulnerable groups in society must be protected, to the extent possible, in times of economic turmoil and financial turbulence; the private sector must bear its fair share of the overall burden of adjustment in support of strong economic reforms for countries in economic difficulty; and transparency of information and in decision-making is a key element in efficient economic management.

Israel (Governor Frenkel)

Yet, because all countries belong to the "global economic system," good domestic policies do not always provide the guarantee that each and every economy is shielded from storms that originate by systemic difficulties and by foreign misconduct of policies. This interdependence has heightened in recent years by the high degree of integration of capital markets. Many difficulties are systemic and systemic problems require systemic solutions. The multilateral organizations provide the best and most appropriate framework for dealing with such global issues....

I would like to express our appreciation to the Managing Director of the Fund, to the President of the World Bank, and to their dedicated staff. I wish them success in addressing the present turmoil and I am confident that under their leadership the battle will be won for the benefit of the entire world economic and financial systems.

Italy (Governor Ciampi)

...our policy response must first aim at sustaining growth. This is a shared responsibility. We must use all the means at our disposal, exploiting fully the margins that still exist at the national and regional level to promote consumption and investments, through measures that can strengthen market confidence and minimize the impact of adverse wealth effects resulting from the negative performance in equity markets.

Against an overall background of falling output growth, weakening commodity prices, and historically low inflation, the available margins for interest rate reductions should be fully utilized. It is a response that should not be further delayed. The recent US decision concerning short-term rates, which follows that of Canada, and the fiscal and structural actions taken by Japan go in the right direction.

Adequate domestic policies, supported, when required, by international measures, must be promptly implemented in countries where exchange rate and financial instability are still a problem, or are becoming a serious concern. Domestic responses must be proportionate to the magnitude of the crisis. . . . When needed, external support from our Bretton Woods institutions and the regional banks has to be provided, adequate in size, and fairly priced.

Our international institutions have borne the brunt of crisis situations of unprecedented scale and complexity. They have shown flexibility in facing the consequences of the Asian crisis. The hard realities that we face show the need to strengthen their capacity to prevent and manage economic emergencies.

Japan (Governor Miyazawa)

Considering . . . the current state of the world economy, the government of Japan is fully aware that it is imperative to put its economy on the path of recovery and steady growth. Our government will continue to make appropriate policy responses, including the implementation of a range of new measures put forth by the new administration....

For a little more than a year . . . it has been at the top of our agenda to stabilize the markets in emerging economies that are exposed to dramatic capital movements on an international scale. As the core institutions for addressing such an issue, the International Monetary Fund and the World Bank Group have undoubtedly played a vital part in these global efforts.

However, with continued market turbulence in many parts of the world, the role and function of the two institutions which together have long served as one of the linchpins for the postwar world economy, need to be re-examined....

For the Fund to better adapt to the new environment and make its programs even more significant, further improvement must be made on several accounts.

First, on a macroeconomic policy level, there are cases where the Fund's traditional prescription that combines fiscal balance improvements with tightening of monetary policy is not appropriate. I say this because in many cases nowadays a currency crisis or international payments difficulties does not stem from current account deficits, which used to be the cause initially anticipated in the Bretton Woods system: it derives from a change in confidence and the resulting rapid deterioration in capital accounts. Asking a country with a fiscal surplus to tighten further, or asking a country to take a high interest rate policy for the sake of exchange

rate protection, could end up with more negatives than positives—inviting a downturn in the economy, and further eroding confidence.

The second point is related to exchange rate regimes. As we have witnessed in recent events, maintenance of fixed exchange rates, on the one hand, can be taken as a government guarantee against exchange rate risk, thus leading to excessive inflows of short-term capital. On the other hand, a hasty shift to floating exchange rate regimes following the eruption of a crisis may only invite a free fall of the exchange rates. With these lessons in mind, a further effort must be made to identify appropriate exchange policies to be incorporated in IMF-supported programs.

Third, capital account flows must not be liberalized too quickly without fully taking into account the circumstances of each country. Recognizing that there can be a case that requires some measure to protect a country when the country is faced with abrupt capital movements, the Fund should think together with the local authorities as to how they might avoid taking unilateral measures which will undermine investor confidence, how they might avoid putting an unnecessary burden on the national economy, and how they might incorporate such measures into the IMF-supported adjustment programs.

Fourth, the way in which structural reform is being dealt with in IMF programs deserves further consideration, even if the reform itself is necessary. Take banking reform. When, for example, a country is not equipped with preconditions for reform such as a deposit insurance system, the Fund should perhaps be more considerate of the timing of implementation and its social impact. Likewise, the Fund should recognize that the modality of the market economy can be diverse, reflecting the history and culture of each country as well as its stage of economic development.

In this context, the Fund should perhaps reflect on the design of the past IMF-supported programs. The IMF may have damaged its own credibility when it demanded rather hastily program conditionality on structural measures that were neither necessary nor appropriate in the program design.

For the Asian countries affected by the currency crisis, capital needs are enormous. They need capital for corporate debt restructuring in the private sector. They need capital to make their financial systems stable. They need capital for the socially vulnerable. They need capital for a stimulus package....

In response to such mid- and long-term capital needs, Japan will provide assistance to facilitate fund-raising by these Asian countries. At the same time, we will see to it that the Tokyo market is put to better use and that the reflux of our capital is promoted.

Specifically, the first thing we plan to do is to provide the Asian countries with assistance in the form of EXIM Bank loans and yen credit.

Guarantee functions must then be fully drawn upon in order to facilitate fund-raising by the Asian countries in international financial and capital markets. . . . It is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered.

Japan will also establish an Asian currency crisis support facility. By providing an interest subsidy, for example, the facility will allow borrowers to raise funds at a smaller cost.

In response to the capital needs, in particular, for corporate debt restructuring in the private sector and for stabilizing financial systems, I request that the World Bank and the Asian Development Bank provide the maximum possible assistance. In that event, Japan will join their effort by providing cofinancing.

Finally, on technical assistance. To help the Asian countries implement comprehensive measures for corporate debt restructuring in the private sector and for stabilizing financial institutions, I request that the World Bank and the Asian Development Bank provide the needed technical assistance by fully drawing upon the Japan Special Fund at each institution....

As has been often pointed out, overdependence on the US dollar was obviously one of the causes of the currency crisis that erupted in Asia last year, and this has led many countries in the region to look to the yen to play a greater role.

Recognizing this, the government of Japan is now considering from a broader perspective some specific measures to improve the environment for the yen to be used more actively by market participants in the region and beyond.

Korea (Governor Lee)

...immediate steps in macroeconomic policy coordination must be taken at the global level. In this regard, Korea highly welcomes the recent interest rate cut by the United States, as well as the emphasis that other leading countries are placing on sustainable growth policies. And, we hope that Japan's fiscal stimulus package will soon turn around its economy and promote recovery in the region.

Equally important is that we expand the options for afflicted countries in dealing with liquidity shortages. Given that the IMF has limited resources, we need to supplement its capacity for liquidity support. Specifically, we need new arrangements that enable crisis hit nations to quickly regain access to the capital market.

President Clinton's new proposal is a positive step forward in this regard. Also, the New Miyazawa Initiative will help countries in the Asian region by providing much needed capital....

...I must say that the IMF and the IBRD have been an integral part of Korea's progress to date. The case being such, I feel particularly justified in supporting proposals for strengthening the Bretton Woods institutions.

Libyan Arab Jamahiriya (Governor Bait Elmal)

The international financial institutions and their member countries, particularly the industrial states, must work together to contain this crisis and keep it from spreading to other countries, so as to prevent the collapse of the international financial and monetary systems. The countries suffering from financial and monetary crises must also shoulder their responsibilities and take the necessary actions to treat the causes of these crises.

Malaysia (Governor Mustapa)

While there is a general recognition of the risks in the global financial markets, the international consensus reached at these meetings for a rapid response to restore stability in the world financial system now needs to be translated into concrete outcomes. . . . this relates to the need for the reform of the architecture of the international monetary system to deal with the mounting destabilizing flows that are having a devastating effect on countries. These cautions are only receiving urgent attention after inflicting high costs to the global economy.

...there is yet no clear sign of stability being restored. Indeed, this is the third time that we have gathered since the crisis. Several proposals have now been made to strengthen the architecture of the international monetary and financial system but the world's financial leaders need to act decisively to bring these proposals to yield positive constructive results.

...The collapse of the mother of all hedge funds, the Long Term Capital Management Fund is a strong indication that no country is spared from the contagion effect of the present crisis. But for the fact that it could destroy the financial system of the very rich, the activities of the fund would have been overlooked. As it is, the possibilities of it causing havoc in the world's capital markets are finally receiving attention. ...

The experiences of the affected [Asian] countries thus far clearly demonstrate that the traditional policy prescription has not produced results. In the case of Malaysia, the combination of high interest rates and tight fiscal policies further distressed economic activities and led to a contraction of the domestic economy. Nations have been impoverished by this approach, setting back decades of development and progress....

Now after more than a year into the world's worst economic crisis, many prominent economists from the West have voiced concern on the approach that has been taken. There is a growing skepticism over the effectiveness and appropriateness of traditional ideas and orthodox policy prescriptions. There are also rising concerns on the destabilizing activities of hedge funds and other institutional investors and the lack of regulation over their activities. Of

course, the reasons for the shift in stance has not been so much concern over the plight of the impoverished millions in Asia as much as alarm over the increased risks of global contagion, deflation and loss of markets. Instead of reviving confidence, the IMF approach has inadvertently made a bad situation worse. The combination of sustained high interest rates and tight liquidity has led to a severe contraction in the real economy and a vast overhang of bad debt throughout Asia....

More recently, as the crisis continued to engulf more countries, awareness is increasing of the need for the reform of the world financial system. . . . A complete overhaul of the international monetary system is required and required soon....

We remain convinced that an international consensus on the reform of the international monetary system is the preferred option to address the present and future financial crisis. No country can do it alone. Efforts by countries such as Malaysia, Hong Kong, and Russia represent only short-term measures to cope with the immediate problem of volatile capital flows. A permanent, multilaterally agreed solution is required to strengthen the international financial system.

Marshall Islands (Governor Debrum)

Currently, everyone agrees that a “contagion” exists, yet no one seems to have answers. The remedies that historically worked for western nations are not working in an Asian environment.

This situation can only lead to provincial thinking and political and organizational blame. Fault-finding is greatest once a crisis has been identified. While the Marshall Islands is somewhat insulated from this crisis, we wait impatiently for some consensus (some form of leadership) to pull the world together....

Mongolia (Governor Batbayar)

We in general agree with the idea of overhauling the Bretton Woods institutions for the sake of an increased efficiency, effectiveness and a client-oriented approach. We believe that the IMF and the World Bank can play a vital leading role in addressing the pressing problems and burning issues associated with disastrous economic and financial crisis that evolves with rapid path touching upon many regions and countries.

Morocco (Governor Oualalou)

At this juncture, the world community faces several challenges. First, the need for concerted efforts to boost global demand and increase the growth rate of the global economy. This specifically means that high growth rates of the European and U.S. economies should be

maintained, and Japan's economy should be revived expeditiously. . . . The world community should also take the steps necessary to prevent a spillover of the crisis into other countries.

The second challenge lies in the need for developing and emerging-market countries, especially Asian countries going through the current crisis, to persist in implementing structural reforms of their economies, and adopt prudent financial policies in order to successfully put in place the sound fundamentals that will enable them to restore their capacity for growth and prosperity. It is appropriate in this respect to commend the several reforms undertaken by the Asian crisis countries amidst extremely difficult conditions. . . . The IMF should also be commended for its flexibility in introducing changes in the reform programs of the crisis countries that would allow the expansion of social safety nets, and provision of the resources necessary to alleviate the burden of economic reforms on low-income groups.

Myanmar (Governor Thein)

The course of events has shown how the Fund and the Bank have risen to the occasion by responding with prompt action to contain further deterioration of the situation, restore confidence and help to lay the ground work to resume the road back to stable sustained growth.

In the midst of the Asian financial crisis, it was found that the Fund has been striving to restore macroeconomic stability and market confidence through forceful structural reforms. In reviewing the Fund's activities for the past year, the Fund extending its interest to such new areas as good governance, a strategy to fight corruption, and need for greater equality of economic opportunity, has caught our attention. Since the promotion of these activities has a direct bearing on quality growth, it has our full-hearted support....

I am confident that the Bretton Woods institutions should exert to have the important tools to respond to their future challenges in the developing world with the most flexible initiatives in the area of cooperation among the developing and developed countries.

Nepal (Governor Mahat)

We firmly believe that the Bretton Woods Institutions and the world community, together, will come out with a reform package to help overcome the problems on an urgent basis. . . . In the process of tackling the problems faced by countries in turmoil situations, the interest of smaller developing countries with a high degree of poverty should not be overlooked.

Netherlands (Governor Zalm)

In this difficult situation the IMF's response has generally been adequate and continues to be supported by the Netherlands. . . . In a number of Asian countries recovery is now under way. However, in other cases, efforts to restore confidence have not yet brought about the desired

result. This warrants a careful evaluation of the policies of the countries concerned and of the response of the international community. In this respect, both sufficient availability of funding and appropriate burden sharing between public and private actors are essential.

In the meantime, it is possible to formulate a number of preliminary lessons to be learned from the crisis and the international response to it. A core lesson for IMF and Bank members is that sound macroeconomic monetary and budgetary policy are a necessary, but not a sufficient, condition for financial stability. A healthy financial sector safeguarded by adequate and effective supervision is similarly important....

The international financial institutions cannot continue to respond to international crises by supplying ever larger rescue packages. All actors, including the countries concerned and the private sector should strengthen their efforts to avoid further turmoil.

New Zealand (Governor Birch)

I welcome the focus now being developed by the G-7. The contribution of the large industrial economies to confidence is crucial. But smaller economies have a role to play too, if they run open stable policies that maintain investor confidence....

There are however clear risks to global growth in the period ahead. In this environment, the IMF has a key role....

[The Bretton Woods institutions] did not, in the run-up to the Asian crisis, warn adequately of the underlying risks to stability. True, others also missed the boat. But the IFIs have a special responsibility.

This annual meeting is pivotal, in particular because the juggernaut set in motion by the Asian crisis may have some distance yet to travel, before we can halt its destruction....

Confidence depends on being able to identify a reliable path through all these present difficulties, into a better global future.

Without leadership, the risk of a return to ad hoc protectionism based on myopic analysis and self-defeating policies is enlarged to seriously dangerous proportions.

Providing that leadership and confidence is, in my view, the key task of this meeting.

Philippines (Governor Espiritu)

The joint meeting this year . . . cannot but include on the agenda the question of how to prevent another global depression. Even with the continued robust performance being exhibited by the world's biggest economy, the United States, we cannot ignore this threat.

We wish to note at this point that both the Fund and the Bank have, by and large, responded quite well to the Asian crisis, showing significant flexibility and adaptability in the process. More important than the foreign exchange funds they provided to ease the immediate liquidity problems in the affected countries as a result of the drying up of capital flows, they helped these countries to pursue reforms that address their points of vulnerability. The solutions and approaches are still evolving, in many cases with important inputs from the assisted countries themselves. The Fund has often been criticized for allegedly failing to find effective ways to lick the crisis. But the question may be asked, what would have happened, what further devastation would have taken place, had the countries concerned not carried out IMF stabilization programs and complementary World Bank safety net and structural reform programs.

I say that instead of becoming irrelevant, these institutions have become all the more important in facing not only today's immediate financial turbulence but also the other potential problems that could emanate from major global trends. It is true that there may be a need for a rethinking of these institutions' roles, their internal structures and dynamics, as well as their approaches to the problems of their member countries, but the general direction should be towards strengthening rather than discarding them.

...if we keep our wits about us, we would realize that we are now better armed in facing this [crisis]. Among the advantages we now have compared to two or three generations ago is the fact that international organizations now exist that provide the vehicle for coordinated and cooperative action. The Bank and the Fund, which themselves are institutions born of earlier crises, are still around. They have many years of accumulated experience and knowledge, which although may still be in a state of flux in relation with the present crisis, are nevertheless useful weapons in going into battle against it. Let us strengthen and make full use of these institutions and organizations.

Papua New Guinea (Governor Lasoro)

We are likely to see a worsening situation and, therefore, we should seriously look at establishing some form of international relief while not ruling out an improvement to the outlook of the East Asian and the world economy. While the financial aspects of the crisis is being dealt with, we need to reinforce the international efforts to address the social dimensions of this unprecedented crisis, which has pushed millions of people below the poverty line in the affected countries. In this context, I propose to the Fund and to the Bank to consider the idea of Debt Relief for poor countries as currently extended under the Commonwealth umbrella.

Poland (Governor Balcerowicz)

I would . . . be totally wrong if the present crisis was to weaken the commitment to the basic virtues of openness, prudence, and arm-length relationships between politics and the financial and corporate sectors. These virtues have been vindicated by the recent developments. No

effort should be spared to prevent the reversal of the generally beneficial trend toward an open market economy and orderly liberalization of factor movements....

The required strategy includes steps which are also necessary to deal with the present problems. Large countries have large responsibilities not only for themselves but also for the world economy.

In thinking how to prevent the future financial crises I would mention two interacting mechanisms:

First: better early warning systems that should be put at the disposal of governments, financial institutions and the public at large; and

Second: measures to improve the quality of decisions made by the major players, e.g. national governments, private financial institutions and international financial organizations. The point here is how to ensure that sound policies are pursued and early warnings are not ignored....

While improving the early warning systems we should know whether the present crisis in the affected countries resulted from the absence of early warnings or from early warnings which were sent but disregarded. It appears to me that the truth is closer to the second alternative. Whatever the exact response, the basic question for the future remains how to strengthen the foundations of policies which lead to sustained development and not to economic crises. It is basically a political question as behind policies is politics, and financial crises have, in most cases, political roots. A major lesson from the present problems in the crisis stricken countries is that intimate links between politics, financial institutions and the corporate sector ultimately result in the mountains of bad debts and, as a result, in huge social costs. Also, one should think about constitutional arrangements which would limit fiscal deficits and the public debt.

Portugal (Governor de Sousa Franco)

An intense cooperative effort by all members of the world economy, both individually and at regional or universal levels, is needed to find again the path to economic growth and employment. It should start with sound economic policies and strong structural reform programs, especially in crisis-countries. Continued persistent implementation of reform programs should restore confidence, reverse the dramatic social and economic costs of the present situation and lead to a resumption of resources to finance growth.

Russian Federation (Governor Zadornov)

...the Bretton Woods institutions . . . are expected to provide answers to a number of fundamental questions. They are expected to take decisive and broad actions designed to cope with the crisis....

This question [of how to solve the crisis] is a long way from being resolved. Most diverse solutions are being proposed—from currency board arrangements to suspending the current and even the capital account convertibility of national currencies. There is also a wide range of recommendations regarding fiscal policy. Countries affected by the crisis are advised, on the one hand, drastically to tighten their fiscal policy and thereby ease the pressure on the credit and currency markets, and on the other—to relax their fiscal policy just as drastically, so as to stimulate the economy and expand social welfare programs. Should we be tough and let the insolvent financial institutions go bankrupt in order to demonstrate impartiality or, conversely, should we support them, based on their systemic role in financial intermediation?

Without doubt, the ultimate responsibility for decisions on these and other issues lies with national governments. They make their choices based on local political realities and public preferences. Nevertheless, a clear and consistent position taken by the international financial institutions has an extraordinary, and often decisive, importance. Failure to formulate such a position, or inconsistency in carrying it out, could have a devastating effect on the reputation of these institutions. And this is true not only in the case of small and medium-size nations but also the developed countries which play a leading role in the world economy....

In our view, the best prospects for improvement lie in strengthening the national financial and banking systems, increasing their transparency, applying international standards and upgrading the quality, timeliness and availability of financial information. We agree with the main thrust of the international financial organizations' work in this area....

[Russia is] making every effort to solve the domestic debt problem that erupted after August 17. At the very same time we must also act to restore the solvency of the banking system, normalize the national payments system and revitalize tax revenues. It will hardly be news to anyone if I say that international assistance—above all from the Bretton Woods institutions—is absolutely essential for a successful solution of these highly complex problems. We intend to maintain open and constructive relations with our partners, and we are counting on their understanding.

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

We have responded to the Asian crisis by strengthening our own macroeconomic management and several of us have embarked on ambitious reform programs to improve the efficiency and effectiveness of government, strengthen government transparency, and facilitate private sector development. . . . We can learn from the mistakes of others and build stronger, more resilient economies. But given our limited resources, we also need financial assistance from bilateral and multilateral sources. And we need a more favorable international environment to get the desired response from such reforms.

It is generally recognized that there is a deficiency in global demand, which needs to be revived. Otherwise, we will face the risk of a global recession. The issue of how to achieve an expansion in global demand is therefore very important.

While the industrial countries have the financial resources, we believe that the scope for pursuing expansionary fiscal and monetary policies in these countries is limited because their economies are already operating at a high level of capacity utilization. Further injection of demand in these countries is therefore not likely to be very productive.

On the other hand, there is a large deficiency in demand in the Asian economies which are operating at low levels of capacity utilization. These countries need an urgent injection of demand supported by external funding to revive economic activity. How to achieve this is one of the biggest challenges facing the Bretton Woods institutions and the international community at this time.

Since many of the governments and business enterprises in the Asian region are highly indebted, their capacity to contribute to demand is very limited. It will therefore, be important for multilateral institutions to assist the region in restructuring the debt so as to build some capacity for further expansion of credit in the short- to medium-term.

Spain (Governor de Rato Figaredo)

Europe has focused its efforts on achieving the necessary internal coordination for completing the project of establishing a single currency, but the international events now occurring require us to concentrate our attention on the process of international monetary cooperation.

It is therefore the earnest wish of Spain, and of so many other countries, that the Asian nations should make progress along the path to economic recovery, and we are convinced that Japan must reform its financial system, increase its transparency, and liberalize its markets, opening them up to competition. Japan is an essential element in the attempts to solve the international financial crisis....

...the contagion effect from the current financial crisis is reducing the availability of the financing necessary for the economies of Latin America. Spain believes that the international institutions must respond to this danger by providing the necessary liquidity for those countries that are implementing policies designed to achieve stability, economic liberalization, and financial transparency.

All of these efforts cannot – and must not – be swept away by the indiscriminate effects of the spreading international financial crisis. Spain regards coordinated joint support for the Latin American economies as a priority, and therefore the Spanish Government presented to the recent meeting in Vienna of the Council of Economic and Finance Ministers of the European Union an initiative reasserting the need to strengthen coordination among the countries of the

euro area so as to develop a joint response to the challenges presented by the international economy.

Spain supports the establishment of a new financial mechanism in the IMF that would provide additional support for these economies. We are making a firm political and financial commitment to this effort, and the Government of Spain has already decided what our own contribution to it will be.

Sri Lanka (Governor Peiris)

The process of globalization and recent financial crises in some parts of Asia, Russia, and previously in South America underscore the need to strengthen national and international financial systems. . . . A cooperative effort by all major players, i.e., governments, private sector, regional agencies and international institutions is necessary to address effectively such crises, as the impact may spill over from country to country and from market to market in a globalized economy, bringing about grave economic and social dislocation. Similarly, reforms should aim at achieving an appropriate balance between adjustment and financing and ensure that measures are in place to handle crises at their inception.

Switzerland (Alternate Governor Villiger)

We are here to discuss ways to resolve the crisis. I am afraid, however, that our deliberations have not contributed to calm the markets. In my view, many speakers tend to over-dramatize the situation. Around two thirds of the world economy are in good health. In addition to that, the downward correction of the stock markets can be viewed as a normalization of exaggerations from the past. We must not create a depressed psychological climate that in turn could negatively affect the sound parts of the global economy. We need the growth of these economies to stabilize the current situation.

It is true that the present crisis has brought to light a number of structural problems in international financial markets. The problems have been identified. They have now to be addressed thoroughly and rapidly. However, there are no simple solutions and no quick fixes. We will have to make strong efforts to solve the problems. I would like to propose a strategy comprising five elements: First, each country has to keep its own house in order and implement sound policies. Financial support should be given only to countries that in spite of sound policies have run into difficulties. Second, market participants must be in a position to assess the risk involved in their investments. Therefore we need to enhance transparency. Third, it is imperative to involve private creditors in the solution of financial crises. Fourth, all this has to be achieved within the framework of the existing institutions. While these institutions must undoubtedly adapt to new challenges, they need to refocus their activities on their original mission. Fifth, before looking for new resources and facilities, the quota increase and the NAB have to be implemented.

The recent crises have required massive liquidity support from the IMF, the World Bank and member countries. Even for the IMF such use of resources is difficult to reconcile with its mission. It should exercise primarily a catalytic role....

Finally, the Fund and the Bank should be commended for their good work and in particular the prompt response, the negotiation of programs in record times, and for mobilizing the necessary financial resources. The crisis is putting a considerable strain on the staffs of both institutions, and their efforts and achievements must be acknowledged.

Thailand (Governor Nimmanahaeminda)

It is time for decisive international policy coordination among both developing and developed countries, as well as by the multilateral financial institutions....

...in the current global environment, there is little doubt that external conditions will continue to be critical for the recovery of Thailand and other countries in crisis. In this context, I would like to invite all the stronger economies to undertake a global solution in supporting the world economy in at least four ways.

First, the demand management policies of the major countries should be well orchestrated to avert a world recession. More importantly, maintaining an open market for trade is fundamental to assist the debt trapped emerging countries.

Second, it is now extremely difficult for emerging economies to source funds from private international capital markets. The G-7 governments should therefore consider extending assistance to induce capital flows to those countries in crisis. I would like to praise Japan for the Miyazawa scheme in providing bilateral support to Asian countries for promoting reform and facilitating recovery.

Third, a system needs to be put in place for monitoring, if not regulating, cross border short-term capital flows which should help us understand their scope. This could enable us to mitigate the adverse effects from volatile capital movements. Recent events have highlighted not only the excessive leverage and exposure of highly speculative "hedge" funds and their threat to disrupt markets, but also the lack of adequate disclosure and regulatory standards.

Fourth, G-7 countries should support China in its role as an anchor of economic stability for Asia. The stability of the Chinese currency is a necessary condition for the stable economic environment in the region....

I would like to [commend] the two Bretton Woods institutions for their speedy, flexible, and decisive responses to the crisis. I wish to thank them for their roles in working with us in Thailand throughout the crisis in the past year. Their ability to marshal international support, including their policy advice and financial resources, has been extremely useful in helping us to

cope with the crisis. It also underlined the continuing importance and relevance of these institutions. They have fulfilled, and possibly exceeded, the role that was envisaged for them by their founders some fifty years ago. The current crisis provides them with an important opportunity to define further their role in the global arena. With decisive action on the part of the multilateral financial institutions, G-7, and the countries in crisis, I am confident that we can jointly overcome the difficult challenges facing us today.

Tonga (Governor Fakafanua)

We support the call by the Fund and the Bank for concerted efforts to respond to member countries in crisis. The effects of the Asian crisis, the recent turmoil in Russia, and their spillover to other markets have imposed substantial costs on individual countries and on the world economy as a whole. This underscores the need to address policy weaknesses at the national level at an early stage and the importance and urgency of the Fund's work on the proposed revised international architecture.

Turkey (Governor Taner)

The right signals must be sent to the international capital markets, who must stand firm in the face of the present turbulence. Otherwise the outlook for world growth and prosperity will be gloomy and progress toward an open world trading system with free capital markets will be stalled.

Turkmenistan (Governor Gurbanmuradov)

...Turkmenistan wishes to emphasize that there is an urgent need to deal with the emerging contagion problems of the present crisis, particularly in CIS countries...

Just as it has sought to assist the orderly rescheduling of debt for western bankers involved in lending to Asian countries, so the Fund must require debtor countries within the CIS region to sit down with their creditors, such as Turkmenistan, and agree on firm repayment schedules. It should be a condition of these discussions that failure to adhere to such payments should incur sanctions in the form of programs suspension or some similarly severe punishment, such as penalty interest charges on Fund loans. If the Fund feels it necessary to overrule such sanctions, compensatory financing should be paid to the creditor country involved from the Fund's own resources.

It should also be recognized that these agreed repayments should receive priority over other debt payments, such as servicing of commercial loans from overseas banks. We have seen evidence that many of these commercial loans were based on speculative transactions rather than genuine trade or development financing....

Without such measures, we fear that there will be a collapse of the payments system within the CIS region and the problems seen in one country of the region will quickly spread to others leading the whole region to become immersed in economic crisis.

Ukraine (Governor Pustovoitenko)

...the need for a coordinated action plan in case of a crises spillover remains essential for all the economies in transition.

It is our belief that it would be impossible to design all the constituent parts of a new architecture without the most active involvement of the World Bank and the IMF, organizations with an almost universal membership. This architecture shall prevent financial destabilization from spreading out from one country to another through the lack of confidence of the separate groups of investors without taking the macroeconomic situation in these countries into account.

United Kingdom (Governor Brown)

Never in our economic history have so many depended so much on economic cooperation among the nations of the world. And the leadership of the world's economic powers has not been so important or potentially decisive since the post World-War period of international economic transformation--a time when the IMF and World Bank were born

...we must not weaken support for the IMF and World Bank when the need for surveillance and coordination is pressing, but strengthen them by building the operational rules and institutional architecture for the new global financial system....

The proposals for action that I will outline are rooted in an understanding of what has gone wrong and what we must now do together to get the world economy back on track.

The key challenge now is to devise procedures and institutions--nothing less than new international rules of the game--that help deliver greater stability, and prosperity for all our citizens in industrialized and industrializing economies alike....

...as last weekend's G-7 statement has made clear, the G-7 countries--North America, Europe and Japan--as well as the IMF and the World Bank, stand ready to support all emerging market countries which are prepared to embark on strong sound policies which will involve structural reform.

But when the balance of risks in the world economy has shifted from inflation to slower growth, the G-7 countries must now assume greater responsibility.

The necessary improvement in trade balances in affected countries could either come from domestic stagnation or export-led growth. It is in our shared interests to achieve this export led growth, but this will only be possible if, by sustaining world demand, the industrialized world is the driving force for that growth.

As I said in Japan recently, all industrialized countries must now bear their fair share of the burden of adjustment. No one country can either escape its responsibility or be required to bear the whole burden with all the risks of protectionist sentiment that this would entail. Burden-sharing rather than burden-shifting is the way forward.

And I was reassured that, in the recent G-7 statement, members from each respective continent have resolved to play our rightful role and take action to ensure that our economies can both sustain growth and remain open to trade: the recent action of the US Federal Reserve in cutting interest rates was designed to sustain domestic demand growth. I was pleased to hear President Clinton say this morning that maintaining free trade, free from protectionism, is an important element of the US response. I know also that the administration is working very hard to ensure ratification of the NAB and the IMF quota increase. We should support and encourage them to step up their efforts in these areas;

I know too from my recent visit to Japan that my Japanese colleagues are focussed on their efforts to stimulate domestic demand through fiscal and monetary policy. And, to help restore market and consumer confidence, the Japanese government must make available public funds and lay out a clear timetable for action to restore health to the banks and the financial sector.

And in Europe too, including the UK, we will be working to ensure that the euro promotes stability and growth. And the European contribution will include a commitment to employment creation within a policy of structural reform.

The responsibility of all of us who lead in the era of globalization is to meet the authentic problems of our times with a vision, an intelligence, and an energy which will make the world economy stronger, more stable, and more prosperous. A world more open, not just to the free flow of goods, but to the rising tide of peoples aspirations everywhere. Globalization has happened--we must now make it work in hard times as well as in good.

Uzbekistan (Governor Khamidov)

The consequences of the crisis in a number of countries have demonstrated to the world community the way in which destabilization in a single country may create a wave that spreads crises among diverse regions of the world. This shows that economies cannot exist separately from one another today. At the same time, countries are largely left to their own devices when it comes to resolving their crises....

The crisis in Southeast Asia and especially in Russia demonstrates that a mechanical duplication of familiar models for market reforms which does not take into account the historical, national, and economic realities of the country will not always produce the expected results; on the contrary, at times it will lead to deep economic crisis and the impoverishment of the people.

I have no doubt that the International Monetary Fund is carrying out an in-depth analysis of the crises that have occurred and is pondering how correct and justified its recommendations in those countries turned out to be.

In our opinion, when Fund recommendations are developed and its programs for market reforms are carried out, the specific features of the country and its social mentality, living standard, and initial capacity should be taken into account. The government should be aware of all its risk and responsibility for the consequences of the reform to be carried out. For this, there must be a strong administration and effective government authorities which will be able to preserve political and economic stability and prevent a fall in the public's confidence in the reforms, as has happened in a number of countries.

Vietnam (Governor Nguyen)

Over the last year, despite the tremendous efforts of the governments of the countries facing crisis and the strong support of the World Bank and the International Monetary Fund, there are no clear signs of improvement in major economic indicators of those countries. This situation makes the role of the Bank and the Fund larger and their responsibilities heavier....

Given the trend of regionalization and globalization of the economy, the effort of each country is the decisive factor but they are not sufficient to prevent or limit the negative impact of the external crisis, especially for countries at low levels of development. There must be in place a coordination of global efforts to restructure and make the international financial system safer and more effective, decrease the risk of speculative attacks on currencies, establish an early-crisis-warning system and fast and effective crisis resolution mechanism.

One lesson of the current crisis is that the liberalization of trade and investment must be consistent with the level of socioeconomic development of each country and its capability to manage its financial system.

2. Strengthening Financial Systems and Orderly Liberalization of Capital Movements

Austria (Governor Ruttensstorfer, speaking on behalf of the Governors of the member states of the European Union)

The attention of the IMF has also turned towards the capital account, as the growing level of international capital flows opens up new opportunities while at the same time imposing a new set of administrative and institutional challenges on many countries. We support the IMF in its endeavor to incorporate capital movements into its jurisdiction. Our goal should be to foster an orderly and well-sequenced liberalization of the capital account. Sound financial sectors, effective prudential and supervisory systems and appropriate macroeconomic and exchange rate policies are preconditions for a successful capital account liberalization.

Bangladesh (Governor Kibria)

The volatility of currency and capital markets—especially speculation or predatory raids on the economies with vulnerability—has generated scepticism about the benefit of liberalization. The Bank and the Fund will have to take adequate measures to stem the tide of growing skepticism and any likelihood of reversal towards more insular policies.

Barbados (Governor Arthur, speaking on behalf of the CARICOM Governors)

In our statement last year my colleague from The Bahamas pointed to the need for safeguards against the destabilizing effects of capital movements, and cited a special need for safeguards on capital account liberalization, particularly as regards policy and institutional sequencing, and for technical assistance to accommodate and manage capital flows in line with our broad development objectives.

I will use this occasion to reiterate the Caribbean's conviction that the liberalization of capital movements must be well planned and supported by a strong banking system and supervisory framework.

Belgium (Governor Viseur)

The Asian crisis underscores the importance of orderly and well sequenced liberalization of movements of capital, and particularly short-term capital. Today, decision makers are increasingly realizing the need to act cautiously and sensibly. No country should be forced into immediate liberalization or made to abolish controls that are warranted. That is not a retrograde step but an acknowledgment of the need to take account of the economic, human, political, and cultural characteristics of each of the countries involved.

It is also my opinion that the IMF ought not to rule out, in principle, any future possibility of proposing certain forms of capital control, such as accompanying measures for its programs.

The purpose of these controls should not be to replace stabilization measures and reforms but to enhance their effectiveness by safeguarding the financial stability necessary for the success of IMF programs. They should also help to conserve the Fund's financial resources....

The task of promoting economic and financial stability worldwide calls for an increase in the IMF's financial resources, a strengthening of its surveillance role, and the extension of its jurisdiction to include capital movements.

Canada (Temporary Alternate Governor Peterson)

The financial crises in Asia and Russia have also exposed some of the risks associated with open capital regimes. Our understanding of how best to manage the process of capital account liberalization is inadequate. Last May in Kananaskis, APEC Finance Ministers agreed to ask the IMF and the World Bank to study the experiences of countries that have undertaken capital market liberalization. Events since Kananaskis have only reinforced the urgency of such work. As a result, I believe the Fund and the Bank should assign a high priority to this project and report back to us in April 1999. The objective will be to codify best practice and provide policy makers in developing countries with a road map that will take them to the ultimate destination of liberalized capital account transactions—without suffering a deadly financial accident on the way.

China (Governor Dai)

As the developed countries push forward the liberalization of trade and capital flows, they aim at achieving a superior position in the world capital markets for themselves, thus failing to consider the impact of premature liberalization on the economic security and social stability of the countries concerned.

Capital account convertibility should be carried out in an orderly and well sequenced manner. The member countries are entitled to determine measures to manage capital flows in consideration of their specific circumstances and stages of economic development. China's experience with foreign exchange management system reform has shown that if a country lacks the conditions for full convertibility while still in need of capital inflows, it can keep foreign debts at a reasonable size with well-structured maturities through appropriate foreign exchange management. This practice not only can sustain economic development but also protect foreign investors' interests by reducing financial risks.

Croatia (Governor Skegro)

We are also carefully following other IMF initiatives as for example its work on liberalization of capital movements. In this respect, we welcome the IMF approach to orderly liberalization.

Cyprus (Governor Christodoulou)

...the unfavorable experiences of a number of countries in liberalizing their external capital accounts and financial markets too quickly have made the Cyprus authorities cautious in freeing up our markets to harmonize our policies with those of European Union countries. In this connection, we have welcomed the advice of the IMF staff and Executive Directors at the recent consultation discussions, that have urged a carefully-sequenced approach in liberalizing our external capital account. Successful liberalization of interest rates and the domestic and external financial markets requires also that the macroeconomic balances are in place.

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

Meanwhile, efforts to promote international capital flows should proceed cautiously, taking into account the specific circumstances of each country, and ensuring that weaknesses in specific areas of an economy are not exacerbated when capital controls are removed.

Fiji (Governor Ah Koy)

The issue of capital account liberalization plays a central focus in the discussions on the new financial architecture. Mr Chairman, it is important that we clearly rededicate our political will towards capital account liberalization. However, in so doing, we must also keep in mind our recent experiences. While long term capital flows bring major benefits to member countries, volatile short term speculative capital flows, particularly those that are driven by the "herd" mentality, will continue to present a challenge to emerging markets. Critical questions must be resolved about the proper sequencing of reforms, the need for strong supporting institutional and regulatory policies and the relative efficiency of financial market processes. In many small developing economies, financial markets are underdeveloped and the regulatory and prudential systems are still being built. In these instances, these systems would be ill equipped to handle large and volatile capital flows.

The solution to maintaining stability is not to avoid reforms but rather to better synchronize them to the absorptive capacity of individual member countries. In my view, the best way to minimize the associated risks of capital flows in developing countries is to foster an orderly liberalization of capital movements in line with the strength and reforms of domestic financial markets. For many developing countries like Fiji, exchange controls have served us well, although this protection has not been without costs. For us, it is a question of balance –

weighing the costs of financial stability against the possibility of lower investment and growth. Under conditions that are currently prevailing in the world market place, it appears prudent that these existing controls are cautiously reviewed as the domestic financial markets grow in depth and sophistication.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

The topic of capital account liberalization is on our agenda. The current world economic situation has brought to the surface arguments for temporary controls on short-term capital movements as a remedy in times of crisis. It has been argued that controls provide breathing space.

We would consider the imposition of currency controls a risky strategy – usually not effective even in the short-term, and certainly ineffective and detrimental in the long-term. Any country that decides to integrate itself into the world economy through increased foreign trade and by recourse to foreign savings in the financing of its development effort will face open markets for goods and capital, and, indeed, will need open markets. We believe in an orderly and well-sequenced liberalization of capital accounts. Obviously, capital account liberalization should take place in the context of a strong domestic stabilization policy, and whenever needed, reforms that strengthen the macroeconomic framework. Moreover, efficient financial supervision should be in place. The Fund can best promote capital account liberalization through advocacy and jurisdiction, supporting the former with the strength of the latter.

France (Alternate Governor Trichet)

The process of liberalizing capital should be orderly and gradual and should follow—not precede—the establishment of sound financial infrastructures.

Germany (Governor Tietmeyer)

The free movement of capital is a key element in the efficient allocation of resources and therefore a precondition for increasing prosperity worldwide. For this reason, it continues to be appropriate to give the IMF a mandate for the liberalization of capital movements.

Experience in many industrial countries and emerging markets clearly shows, however, that liberalization must be accompanied by the establishment of stable financial markets and efficient prudential structures. The World Bank and the IMF can and must play a major role in that respect. Capital controls, however, are normally not an effective instrument of monetary policy.

India (Governor Sinha)

...the sequencing of capital account liberalization must be carefully predicated on the strengthening of national fiscal and financial systems. Restraints on short term capital flows should be viewed as prudential norms.

Iran, Islamic Republic of (Governor Namazi)

It is particularly critical that an efficient and patient transitional arrangement, along with the provision of adequate financing, be designed to provide strong support for the IMF's encouragement of an orderly process of capital account liberalization. The IMF's experience with liberalization of current accounts, particularly over the last five years, should prove highly valuable in assessing the level of financial and technical assistance, the length of the transition period, and the approval process needed to permit countries to minimize the risk of disruptive shocks as they open their capital accounts. To this end, the Executive Board of the IMF must carry on very careful deliberations in designing an effective and protective framework within which members can undertake capital account liberalization at their own pace and with full confidence that strong safety nets are in place should their economies be subjected to shocks in the process.

Iraq (Governor Al-Azzawi)

Despite these many difficulties, the IMF has continued to work on amending its Articles of Agreement to allow for capital account convertibility, in keeping with the trend toward globalization and integration of the world's financial markets, which the Bretton Woods institutions are working to help achieve.

Regardless of our agreement or disagreement concerning the methods for dealing with and resolving these problems, we must surely agree that sanctions against any country are in conflict with the principles adopted by the international community and its institutions, particularly the Bretton Woods institutions.

Israel (Governor Frenkel)

In the global world, capital markets are intolerant of policy mistakes and are generous to good policies. Therefore, the incentive to policymakers to pursue the right policies increases when the economy is open to capital flows. . . . The issue is not whether one is big or small, but whether one is fast or slow, and this gives incentives to adopt structural policies that enhance the flexibility of the economic system, and provides opportunities to small countries like my own, Israel, to successfully participate in the world capital market. The new openness also requires a new approach to the supervision of banks and other financial intermediaries

(including hedge funds), as well as renewed attention to the operational meaning of the social safety nets.

Italy (Governor Ciampi)

...the Fund should be given the mandate to promote an orderly liberalization of cross-border capital transactions within a rule-based framework that maintains in place appropriate national safeguards, and the strengthening of domestic financial systems, particularly in emerging countries. This will allow members to benefit fully from efficient international allocation of capital and lower costs for it. In order to achieve this objective, an amendment to the Fund's Articles of Agreement can be considered.

Japan (Governor Miyazawa)

...the Fund must face up to the reality that there are cases where the benefits of short-term capital movements can be surpassed by their risk and cost. I believe the Fund should then make further efforts in four areas.

First, as has often been pointed out lately, capital account liberalization must be implemented with appropriate sequencing. Liberalization of direct investment and long-term capital flows, for example, must precede liberalization of short-term capital flows. What must also come first as a precondition is to have a sound and developed financial sector, responsible fiscal and monetary policies, and adequate depth of the national economy.

Second, monitoring of international movements of capital must be strengthened at both ends—creditors' and debtors'. Particularly with large-scale, international institutional investors, such as hedge funds, we should perhaps consider requiring them, based on international coordination, to provide information on their investment behavior.

Third, in capital recipient countries, it is essential that the authorities fully recognize that their corporate as well as financial sectors are faced with risks that accompany foreign capital inflows, such as foreign exchange risk and the risk associated with maturity mismatch. To this end, the government in each recipient country must also enforce a prudential rule when and where it is needed.

Finally, we need to consider some effective measures to protect the emerging economies, which are faced with excessive inflows of short-term capital and capital flight, from the turmoil resulting from such abrupt capital movements.

Among the so-called capital controls, there are some that might lead to hampering useful capital inflows, such as direct investment, by eroding investor confidence. Some are either so

discretionary or arbitrary that they might undermine the efficiency of the national economy. So, while taking all this into account, I request that the Fund make further study what sort of measures should be taken.

...capital account flows must not be liberalized too quickly without fully taking into account the circumstances of each country. Recognizing that there can be a case that requires some measure to protect a country when the country is faced with abrupt capital movements, the Fund should think together with the local authorities as to how they might avoid taking unilateral measures which will undermine investor confidence, how they might avoid putting an unnecessary burden on the national economy, and how they might incorporate such measures into the IMF-supported adjustment programs.

Malaysia (Governor Mustapa)

The belief that globalization and liberalization of markets and the unfettered workings of the market, especially the financial market, can only bring benefits is flawed. In the haste to liberalize, the downside risks have been downplayed. The Asian financial crisis has negated this claim as the speed of financial liberalization and the huge amounts of capital flows have been proven as destabilizing and disastrous. Unbridled capital flows, including speculative capital, have wrought havoc on economies that have relatively underdeveloped and thin capital markets. More rather than less, Government intervention may in fact be needed to ensure that there is effective financial regulation and corporate governance....

Currently, there is no regulatory authority to oversee the orderly functioning of the international capital markets, especially currency trading. The rationale for such an institution would be similar to that for a national regulatory authority that supervises the activities of domestic stock exchanges, commodity, and futures trading. The regulation of cross-border financial market transactions is not new. Work is already underway to address shortcomings in the international financial system so vividly highlighted by the Asian crisis. These include banking supervision which is being undertaken by the Basle Committee; the establishment of universal principles for securities regulation by the International Organization of Securities Commissions (IOSCO); and the development of strong global prudential standards in the insurance industry by the International Association of Insurance Supervisors (IAIS). A Joint Forum on Financial Conglomerates has also been set up by the Basle Committee, IOSCO, and the IAIS to develop a set of principles for supervising internationally active financial groups....

...it is time we set up an international lender of last resort. In addition to the need to establish a global regulator of world capital markets, it is also important to provide temporary liquidity support to economies in crisis facing problems of massive capital flight and a liquidity crunch. There is a need for a lender of last resort for countries that are fundamentally sound and

financially solvent, but which require temporary liquidity support to weather a run on their economies....

...We should also consider the establishment of a global system for the exchange of information among the IFIs, international regulatory bodies, and home-authorities. Such a system of global information sharing would provide important early warning signals of impending crisis and enable the affected countries and the international community to undertake appropriate policy responses....

In an effort to ensure prospects for stability, Malaysia has introduced selective administrative controls to allow for orderly capital flows and insulate the domestic economy from such external risks. It is emphasized that the new controls are not a substitute for sound macroeconomic and financial policies. The measures will provide some breathing space to ensure that the ongoing structural adjustment measures could continue uninhibited by external developments....

These measures are by no means radical. The measures are not even unique. Indeed, a large number of both developed and developing countries have imposed capital controls. It was only by mid-1995 that all industrial countries removed exchange controls on both inflows and outflows of capital....

I would like to assure the international financial community that the imposition of these exchange control measures will not affect the business operations of traders and investors or the normal conduct of economic activity. ...

Morocco (Governor Oualalou)

These lessons drawn from the recent crisis should prompt us to stress the importance of the deliberations by the Fund's Board on liberalizing capital accounts of member states and the conclusion reached during those deliberations that developing countries should be cautious when they liberalize the movement of capital flows and that the soundness of the financial sector and rigorous supervision thereof should be ensured before capital accounts are liberalized. The deliberations also emphasized the advisability of giving priority to the promotion of direct investments and long-term capital flows before the door is opened for the movement of short-term capital....

The crisis has also shown the utmost importance of supervision of the banking and financial sector to ensure its soundness and stability in the face of the problems created by the sudden decline in banking system cash liquidity. The unexpected decline in capital flows to the Asian crisis countries, and the accompanying sharp drop in exchange rates and sharp rise in interest rates, revealed the weakness and fragility of many banking systems there and the lack of

adequate supervision of such systems. This had accelerated the deterioration of their financial conditions and the spillover of the adverse effects of the crisis into various sectors of the economy. This calls upon us to support intensified efforts by the IMF to enhance the performance of the financial and banking sector in developing countries. This will enable those countries to take better advantage of the current globalization of the world economy and limit its risks.

Netherlands (Governor Zalm)

A number of emerging markets have responded to the financial instability by unilaterally introducing controls on capital outflows. Indeed, the destructive forces of large scale inflows followed by massive outflows has given rise to a debate about the desirability of international capital mobility. It also delayed progress on a proposed amendment of the Fund's Articles of Agreement to extend the Fund's mandate to overseeing the orderly liberalization of international capital flows. However, we should not lose sight of the fact that the free flow of international capital has made a significant contribution to economic development over the past decades. The recent crisis has made clear once more that in liberalizing capital flows, appropriate sequencing is crucial. Liberalization should start by opening up an emerging market for foreign direct investment; more volatile flows of capital can be liberalized only after a stable financial sector, with adequate supervision, has been established. As a transitory measure market-oriented controls on short term inflows, as successfully implemented in some emerging economies, can be helpful in securing that foreign capital is used for productive investment and genuine trade financing. The final objective should not be to abandon international capital mobility, but rather to create a stable and transparent framework for international capital flows, both in terms of sound macro-economic fundamentals and of sound financial sector supervision. We expect the Fund to continue to take the lead in the current debate.

It is important to note that restrictions on short-term capital flows cannot be a long term substitute for sound macro-economic and regulatory policies. In those extreme cases where temporary restrictions could help to create breathing space to implement the necessary adjustments they should be applied in the context of an IMF-supported adjustment program.

New Zealand (Governor Birch)

There will always be cause for concern about the volatility of capital flows where countries have not yet set in place the fundamentals of a sound economic framework where financial sector reform has not been addressed, bad loans abound, and where governance and bankruptcy arrangements are inadequate.

But where capital is desperately needed to lift the living standards of a people, it is no answer to shut out that capital, or impose constraints that boost its price.

The message of this conference has to be that the best protection against volatility is always to establish, at domestic and international levels, a sound economic and fiscal framework.

Pakistan (Governor Pasha)

We in Pakistan have often pointed out the dangers inherent in too rapidly liberalizing capital movements in economies in which the macroeconomic framework and the financial sector are weak. Liberalization must be phased in accordance not only with the external situation but also with regard to the country's internal situation, the depth and breath of its markets and institutions. Without prior financial sector reforms there may be distortions in the regulatory structures, that might accelerate capital movements unrelated to the underlying economic situation. Based on these considerations, we have always argued for an appropriately sequenced adjustment strategy. Much of our discussions with the Fund have centered on the sequencing and ownership of reforms which are the cardinal guiding principles.

Poland (Governor Balcerowicz)

Lacking or insufficient controls on capital movements were not the primary reason for the present crisis in the affected countries. A simple comparison of these countries with those which have been resilient to the crisis reveals that the main reason for the differing performance is the quality of their macroeconomic, structural and institutional frameworks for decision making. Not increased controls but improvements of these frameworks through genuine reforms constitute therefore an appropriate response....

No effort should be spared to prevent the reversal of the generally beneficial trend toward open market economies and orderly liberalization of factor movements....

...Finally, strong prudential regulations and strong supervision in the financial sector are of utmost importance. This is the main response to the complexity of modern financial market

Portugal (Governor de Sousa Franco)

Attention has to be given to fostering an orderly and well-sequenced liberalization of capital movements. Sound financial sectors, strong supervision systems and appropriate macroeconomic policies are preconditions for successful capital account liberalization. The IMF and the World Bank need to give these issues high priority, working more closely together and with the others to assist members to manage more effectively the risks of global integration.

Russian Federation (Governor Zadornov)

In our view, the best prospects for improvement lie in strengthening the national financial and banking systems, increasing their transparency, applying international standards and upgrading the quality, timeliness and availability of financial information. We agree with the main thrust of the international financial organizations' work in this area....

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

As small island nations, we appreciate and indeed support the principle of capital account liberalization. As a practical matter, however, we need a long transition period to achieve this. Our economies are very distinct from others. Our financial and other institutional structures are still underdeveloped and weak and our foreign exchange reserves are very low. Hence, we seek your understanding that capital controls may for some time remain an essential part of our economic management tool, at least in the current uncertain and volatile financial times.

Spain (Governor de Rato Figaredo)

We hope that international capital movements will be liberalized in an orderly manner, and that the process will provide for at least elementary prudential standards. We are concerned to see that certain countries have unilaterally imposed restrictions on capital movements, and we trust that the Fund will soon be given effective jurisdiction to deal with this issue, so as to ensure that any interruption in the normal flow of financing will be the result of multilateral agreements that include clear provisions and precise schedules.

We all agree on the urgent need to strengthen the banking systems in many countries, through the adoption of clear regulations and sound financial practices. We trust that the Fund, the Bank, and the other multilateral financial institutions will find ways to combine their efforts and coordinate their activities in order to address this most important issue.

Turkey (Governor Taner)

The trend toward openness and liberalized capital movements has been good for the world economy. Once a country decides to liberalize, the temptation to reimpose restrictions that may backfire in the longer run should be resisted. Stop-and-go liberalization is to be avoided by taking care to carry out the liberalization process at the right pace and in the proper sequence, and reinforce it with a further strengthening of the macroeconomic policy framework. Premature liberalization can require a very costly reversal of the process.

We see a significant role for the IMF and World Bank in assisting countries to liberalize capital movements, and believe that the future well being of global financial markets could be enhanced by an international commitment to promote orderly capital account liberalization in the long term.

United Kingdom (Governor Brown)

We must never forget that the path of open trade and open capital markets that we have traveled in the last 30 or 40 years has brought unprecedented growth, greater opportunity, and the prospect of better lives for millions across the world....

3. Strengthening Fund Surveillance and the Functioning of Markets: Transparency; International Standards; and Data Availability, Dissemination, and Provision to the Fund

Armenia (Governor Darbinian)

...it is our understanding that we would gain more if the IMF starts its Article IV consultations on a regional level in addition to the state level. With regard to economic policy development many of the countries that are closely cooperating with international financial institutions are . . . very passive on regional levels. Consultations on a regional level would provide us with a possibility to substantially decrease the threat of the expansion of financial crises and will highly contribute to economic growth.

Australia (Governor Kemp)

...Australia gives high priority to the need to promote greater transparency in both the public and private sectors to provide a better information base for economic decision-making, including in the financial sector. Inadequate or unreliable information is a potent source of market uncertainty. Redressing existing deficiencies and making further improvements can do a lot to reduce potential sources of instability.

In this context, Australia welcomes the progress that has been made in the development and implementation of data dissemination standards. As set out in the relevant working party reports, more needs to be done to improve them further and to encourage adherence to them. Greater impetus also needs to be given to the development of improved international accounting standards and prudential standards.

Private sector participants in foreign currency markets also need to provide greater transparency in their activities. At present, they are subject to much less reporting requirements than most other financial markets. In view of their importance for global stability, this imbalance needs to be redressed.

Austria (Governor Ruttensdorfer, speaking on behalf of the Governors of the member states of the European Union)

[The] present instability shows us the need for improved surveillance, data and transparency. This should apply not only to banks but to other financial institutions as well, such as insurance companies, pension funds and hedge funds. Besides, all financial centers should comply with rules governing transparency, international co-operation and supervision.

Barbados (Governor Arthur, speaking on behalf of the CARICOM Governors)

Above all, we share the views of those who suggest that IMF and Bank programmes in the past have consistently ignored the impact of structural adjustment on the poor. The Caribbean as whole wishes me to say that the reform of the financial architecture of the international financial institutions must treat this as one of the major deficiencies which have to be remedied....

...we welcome the initiatives by the Fund in the areas of improved surveillance, improving transparency and developing international standards in the areas of monetary and fiscal policy. As far as possible we will attempt to adhere to these standards, and consider the guidelines useful as we develop institutional capacity in these important areas....

We look also for a new special spirit of innovation and sensitivity in the management of the affairs of the Bank and the Fund.

Belgium (Governor Viseur)

The strengthening of national financial systems is of vital importance. Contrary to what some people thought a few months ago, this applies both to the emerging economies and to the industrial countries, which must adopt stronger standards for the supervision of banks and nonbank financial institutions. The problem of offshore funds resides primarily with the industrial countries. Governments must seek appropriate means to promote these standards and, if necessary, to enforce them.

The international community must also cooperate in developing standards in other areas, such as accounting, advertising, asset valuation, bankruptcy, and corporate governance. . . . They will also have to encourage the adoption of standards aimed at undergirding sustainable economic activity.

It is now recognized that financial markets have become a force in their own right and go their own way in reacting to economic data and, all too often, to a country's noneconomic data. Appropriate surveillance is therefore in order.

I do not believe that we need to contemplate establishing a new institution. On the contrary, it seems to me that what we have to do is to strengthen cooperation among international financial surveillance entities, with a view to modernizing the systems established for regulating and supervising financial institutions and markets, and adapting them to market conditions. Therefore, I propose that we take a quick look at the merits of instituting a permanent standing committee for global financial regulation, within which the IMF, the World Bank, the Basle Committee, and other international regulatory authorities could focus on stability, supervision, and systemic risks. This excellent proposal, put forward by Gordon Brown, U.K. Chancellor of the Exchequer, deserves our support.

Canada (Temporary Alternate Governor Peterson)

...Canada proposed a peer review process to help encourage the promotion and implementation of appropriate oversight and financial sector development. Over the summer, we have been discussing this issue at the G-7, G-22 and APEC fora and we are happy to note that the Fund and the Bank have found these proposals useful. IMF and World Bank officials have put forward specific proposals to incorporate a peer based surveillance mechanism in their work. This initiative will not prevent all chance of future crisis. However, greater information, increased transparency and a more sophisticated exchange of expertise will mean that financial crises in the future should happen less often, and be better contained....

We have to "walk the talk" of transparency and good governance in our own institutions.

China (Governor Dai)

We support the strengthening of the Fund's early warning system on the basis of enhanced information disclosure and transparency.

Croatia (Governor Skegro)

. . . let me emphasize that Croatia, although being a small country, has been determined to become a productive participant/player in the global economy. It's not just about its support to the XI Increase of Quota as to ensure resources for proper functioning of the IMF or acceptance of the Amendment of the IMF Articles of Agreement regarding SDR allocation as to achieve greater equity, or regular provision of the data to the Fund.

It is also, among other things, about Croatia's effort to enhance effective financial surveillance, as well as the accountability and credibility of its macroeconomics policies. In this regard, I must stress how greatly Croatia has benefited from the IMF's technical assistance and close dialogue with Fund staff also in this year.

Let me just mention close collaboration on improving the quality of a database in view of our commitment to SDDS (Special Data Dissemination Standard). Recognizing the key importance of transparency, Croatian authorities also have consented to publishing the Press Information Notice for Croatia this year.

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

Africa is aware that its economic strategy must be underpinned by a stable socio-political environment. The efforts African countries are making to improve transparency in government operations and to encourage political pluralism owe much to this awareness.

Fiji (Governor Ah Koy)

I fully support the policy of transparency and accountability to help market participants make sound economic judgement rather than psychological decisions. I therefore welcome initiatives that the Bank and the Fund have taken in this regard, including the data dissemination standards and the release of Public Information Notices. But our experience has shown that, irrespective of the volume of information that are made available to the markets, we cannot avoid the "herd" mentality. Unfortunately, this is the reality of the situation but I do not think it should make us any less transparent about the need to open up our policy processes for public scrutiny.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

If there is an early lesson from the crises, it is the need for preventive safeguards in the global financial system. There is a need for improved surveillance techniques, with the focus

broadened on capital flows and the health of the financial systems in member countries. In a strategy for fostering stronger financial systems, international principles and good practices for sound banking are necessary.

The Fund has already adopted important new policies on increased transparency and openness. We should develop further ways of sharing information with actors in the market as regards data, economic policy formulation and actual performance.

Transparency on the part of the Fund should involve greater openness on its own policy advice to members.

France (Alternate Governor Trichet)

I am pleased with the work in progress on transparency of public authorities and international institutions. But I wish to emphasize that private sector transparency is also crucially important for smooth functioning of the markets. This is particularly true of the financial sector, which must learn to better evaluate the risks it is taking by making more prudent use of the existing data, and which must also learn to apply the principle of transparency to its own activities, particularly vis-a-vis the supervisory and monetary authorities. The G-7, G-10, and the Interim Committee in the last few days have adopted new guidelines in this area. This is a very important step, and we must now proceed to quickly assess the modalities for implementing these guidelines in the forums concerned.

Greece (Governor Papantoniou)

The rules concerning the prudential supervision of financial institutions, including mutual and hedge funds, and the transparency of their operations proved to be insufficient in either predicting or preventing the coming financial turmoil....

Coping with the instability of the global economy requires credible and consistent policies. In this context, greater transparency is a prerequisite, especially for all financial institutions....

...we must carefully reflect on ways to strengthen and reform the prudential supervision of the international financial system, including the imposition of new international legislation if deemed necessary.

India (Governor Sinha)

We must also find ways to better reflect the political dimension of crisis management in the decision processes of the Bretton Woods institutions, especially since the enduring economic and social consequences of crisis pose severe challenges for political management.

...while greater transparency and disclosure of financial information could clearly be helpful, the responsibility for transparency must be symmetric. Large private financial institutions (including hedge funds) must also follow higher standards of disclosure.

...the search for international Codes of Conduct or Practice in fiscal, financial and monetary dimensions should eschew one-size-fits all norms, which do not allow for differences among countries in institutional development, legislative framework and stages of development.

Iraq (Governor Al-Azzawi)

Your institutions announced an unequivocal position on government corruption at a time when discussions on the subject were a cause of concern on many fronts. Today, I ask you to accept the challenge and announce a clearly defined position on the imposition of economic sanctions. The Bretton Woods institutions have never lacked the requisite boldness, as demonstrated by their continued willingness to meet the great challenges facing the world economy, while at the same time increasing the international community's confidence in them by refusing to yield to the dominance of certain countries.

Ireland (Governor McCreevy)

Successful implementation of programmes will also be facilitated through greater transparency in the workings of the Bretton Woods Institutions.

Israel (Governor Frenkel)

Policy makers have a continuing dialogue with the market and not an adversarial relations based on manipulative surprises. It follows that good policies must to be credible, transparent, and accountable and have a clear and well defined known objective.

Italy (Governor Ciampi)

Much has been done in areas such as data dissemination, data standards, and codes of good fiscal practices, but much more still needs to be done....

...surveillance and supervision must be improved. Freedom of capital movements does not mean absence of rules and of monitoring. Early warning systems must be put in place. Disclosure requirements regarding both public authorities and private sector market participants must be strengthened and widened. Short term capital flows—especially debt-creating flows—must be monitored more extensively and in a more timely manner than in the past. Large institutional investors must be properly supervised and off-shore financial centers made to conform to appropriate behavioral norms.

Japan (Governor Miyazawa)

Ever since December 1994, when the Mexican crisis began, we have been keenly aware of the risks associated with the modern market economy, where instant, large-scale capital movement can take place. That is why the Fund has initiated its effort to improve transparency to help markets make rational judgments, and has strengthened surveillance with the aim of helping prevent crises.

While such an effort is of course needed, it is far from sufficient. No matter how transparency is improved, and no matter how surveillance is strengthened, crises can still occur.

Korea (Governor Lee)

In the medium term, the international financial architecture must be updated for greater global stability and soundness. Enhanced surveillance, improved standards in transparency, and an effective early warning system will all go far toward warding off risks of contagion....

Libyan Arab Jamahiriya (Governor Bait Elmal)

...the principal causes of the financial crises affecting certain countries can be attributed to insufficient surveillance by the financial institutions and their inability to foresee these crises. It is incumbent upon the IMF to monitor economic developments throughout the world and to intervene at the appropriate time to prevent the occurrence of similar crises.

Malaysia (Governor Mustapa)

...the establishment of a mechanism for making rating agencies accountable for their actions is needed, particularly when their ratings have a significant adverse impact on a country, more than warranted by economic fundamentals. In recent times, it has been shown that rating agencies have failed to make objective assessments, despite being provided with comprehensive information. None of the rating agencies predicted the outbreak of the regional financial crisis. Indeed, they were bullish on Asia's prospects. Subsequently, when the contagion effects of the crisis became more apparent, the rating agencies exacerbated the situation by continually downgrading the credit standing of the affected Asian economies. The downgrading was often based on inaccurate assessments of the country's economic and financial situation. This further undermined investor confidence, precipitating panic selling by investors.

Morocco (Governor Oualalou)

We support the Fund's steps to enhance transparency of economic statements, both those made available by official agencies to member states and those pertaining to the private sector, in order to help investors in financial markets assess the risk and alleviate the herd instinct that characterizes capital movements, especially when a crisis develops. We also welcome the Fund's growing interest in developing and disseminating internationally acceptable economic rules and standards in collaboration with other international financial institutions, while stressing the need to take into account differences in the conditions of member states and their effect on their ability to adopt such rules and standards. In this respect, I would like to point out the importance of strengthening the Fund's capacity to act as advisor in this area, by providing necessary technical assistance to help member states disseminate and apply the standards that fall within its field of specialization...

We also stress the need for authorities in capital-exporting countries to strengthen supervision of international operations of their financial institutions and to urge those institutions to publish adequate financial statements pertaining to such operations.

Netherlands (Governor Zalm)

A healthy financial sector safeguarded by adequate and effective supervision is . . . important. We welcome the initiatives that have been taken in response to the Asian financial crisis by the Bretton Woods institutions and by other international organizations to enhance and monitor standards in financial sector supervision. Further technical assistance by the international community to help emerging markets in establishing sound financial sectors is urgently

needed. For this, we do not need to create a new international organization. That would only divert attention from the urgent real issues. We have already assigned to the IMF the task of monitoring the implementation and observance of the Basle Core Principles. This monitoring should preferably form a regular element in Article IV consultations. In our view, Fund resources should be redirected to this end. In addition, the World Bank should further increase its capacity to assist countries, also pro-actively, in strengthening their financial sectors. I do think that these efforts need to be further stepped-up and coordinated where necessary....

In recent weeks, we have seen the near collapse of a hedge fund. The lessons to be drawn from this event are twofold. Firstly, transparency of hedge funds should be improved, so that all parties associated with hedge funds are aware of the risks they run. Secondly, the sheer size of banks' exposure to these funds is worrying. In our view, the Basle Committee should take the lead in examining these issues further.

New Zealand (Governor Birch)

The IMF has to be more than a financial bank. It should also be a Knowledge Bank—a provider of surveillance, expert advice and even more important, an assurance of transparency.

Transparency is central to responsible management. It is not, as somebody here described it, "motherhood and apple-pie." For the banking sector, in particular, it is the critical discipline.

Like central banks at national levels, the IFIs have, at the international level, a responsibility to warn where imprudent activity is creating risks for financial or economic stability.

Philippines (Governor Espiritu)

Essentially, I believe government's crucial role is to provide a clear, transparent and evenly applied regulatory framework. Government should not compete with the private sector nor arbitrarily intervene in its economic decisions, but it should likewise ensure that the institutions and mechanisms required to effectively oversee economic activities, particularly those of the financial and corporate sectors, are present....

While recognizing the central role of the IMF in keeping global financial and economic stability, we believe that a specifically region-based and quick responding surveillance and cooperative action mechanism would help the Fund a lot in achieving this objective. We are happy to report at this point that there has been substantial progress towards establishing such a mechanism.

Poland (Governor Balcerowicz)

...I fully support efforts to enhance surveillance, increase transparency, improve data collection, elaborate and disseminate various standards and make broader use of precautionary arrangements. I am glad to observe that basically all of this is already the work in progress in the IMF.

Portugal (Governor de Sousa Franco)

The IMF should remain as the centerpiece of the global financial system and should, in a short term, be provided and create accrued means to meet its responsibilities. However, although urgent and necessary, this is not enough from a long-term perspective. The global economy needs efficient and new global rules and institutions, and it is our duty to provide them.

We need a sound and transparent international financial system supported by better prudential supervision and efficiently regulated institutions, improved and expanded surveillance and disclosure of transparent, accurate, and timely data.

A new Bretton Woods for the XXI century should be prepared, in order to generate new forms of political legitimacy, reinforce the governance of the IMF and the World Bank, restructure financial markets and institutions and involve the states and the private sector in the resolution of the crisis.

Russian Federation (Governor Zadornov)

...we need internationally recognized procedures for considering issues of restructuring, defaults and bankruptcies. In particular, in this context more headway could be made in solving the highly important problem of ensuring private sector participation in dealing with crises....

Spain (Governor de Rato Figaredo)

In order to prevent future crises, it will be necessary to devise alarm signals for identifying risk factors, so that the necessary measures can be adopted in a timely manner. To this end, it will be necessary to further develop the specialized mechanisms that are already available to the Fund and the Bank, and those that have recently been established, such as the units for short-term surveillance and the monitoring of financial-sector operations....

We acknowledge the progress that has been achieved in disseminating economic data and increasing transparency in the activities of the Fund and the Bank. Nevertheless, we recognize that there is still much to be done, and we urge both institutions to redouble their efforts. In order for international financial markets to operate properly, they need a continuous flow of specific and relevant information.

Sri Lanka (Governor Peiris)

We appreciate the initiatives taken by the Fund and the Bank to combat corruption and improve transparency and governance in all contexts including their own activities. The preparation of the draft manual on fiscal transparency, publication of information on the Fund's liquidity position and activities and encouragement of publishing more country specific information are steps in the right direction.

Switzerland (Alternate Governor Villiger)

The ongoing efforts to increase transparency in all its dimensions must be stepped up. This is crucial to enhance the surveillance capability of the market. This in turn will help avoid abrupt changes in risk perceptions. Furthermore, transparency increases the accountability of the government and reduces the possibility for corruption. Through the development of appropriate codes and standards the IMF can play an important role in the promotion of policy and data transparency. At the same time, further steps should be taken to improve the transparency of the decision processes and policy recommendations of the IMF itself.

Tonga (Governor Fakafanua)

...We welcome the move to strengthen the Fund's surveillance activities.

Turkey (Governor Taner)

Ever since the Mexico crisis the Fund has been scrutinizing the adequacy of its surveillance, and has taken steps and launched initiatives to strengthen data quality and dissemination, providing a more solid basis for decision making and increases its transparency and accountability.

Changing circumstances now call for the IMF's role to be strengthened and redefined. Effective surveillance over financial sector issues will be helpful.

Ukraine (Governor Pustovoitenko)

...we actively support every initiative to enhance transparency and openness of information in the budget area as well as in the financial sector.

United Kingdom (Governor Brown)

As British Prime Minister Tony Blair said in New York two weeks ago, we must create a new global framework which will have to mirror, at a global level, national regimes for transparency, supervision, crisis management and stability....

The key challenge is to devise new international rules of the game that, by boosting credibility and investor confidence, help deliver stability and prosperity. Our task is not to weaken support for the IMF and World Bank at a time when the need for surveillance and coordination across the world is more pressing, but to strengthen them by building the operational rules and architecture for the new global financial system.

So what are the new “rules of the game” and what are the institutional changes we need?

We need to promote greater openness and transparency in national policy-making. In this new world, national governments must set clear, long-term policy objectives that build confidence and commit to openness in policy making that keeps markets properly informed and ensure that objectives and institutions are seen to be credible. The way for them to do this is to agree to abide by well-understood, and internationally-endorsed, codes of conduct: for fiscal policy, monetary and financial policy, corporate standards and social policy. The IMF has already drawn up a code of good conduct for fiscal policy and is now drawing up a code for monetary and financial policy. The OECD is drawing up the corporate code, and the World Bank is considering a social code.

Together, these codes will help produce an environment in which financial markets can operate better. They should reduce the risk of future failures, and mean that when failures do occur the financial system is robust enough to withstand them. By improving public understanding of why and how decisions are made, and making sure the right long-term policies are in place, they will help build public understanding and support for the policies that deliver economic growth and prosperity.

Proper implementation of the codes of conduct should be a condition of IMF and World Bank support. Immediate action to promote transparency in policy making, financial sector reform

and corporate governance should be key components in any reform programme which the IMF and World Bank agree in coming months.

Of course, in this new role the IMF must be more publicly accountable. We need a systematic approach to internal and external evaluation of the Fund's own activities, including a new full-time evaluation unit inside the IMF, but reporting directly to the Fund's shareholders, and in public, on its performance....

The four codes of good conduct for policy-making, codes agreed by the international institutions, but accepted by national governments and the radical institutional changes--a merged World Bank/IMF financial regulation department--are key building blocks in the new financial architecture.

The Basle Committee has published a comprehensive set of core principles for banking supervision and set-up a liaison group and consultation group to monitor their implementation. I also welcome the Basle Committee's work on improving transparency and risk assessment.

But we now need a new coordinating mechanism to ensure proper standards and provide regular and timely international surveillance of all countries' financial systems and of international capital flows, not just to point out weaknesses, but to ensure these weaknesses are addressed and to identify systemic risks to the global financial structure.

That is why we must examine the scope for a new permanent Standing Committee for Global Financial Regulation, bringing together not only the Fund and Bank, but also the Basle Committee and other regulatory groupings on a regular--perhaps monthly--basis. This global regulator would be charged with developing and implementing a mechanism to ensure that the necessary international standards for financial regulation and supervision are put in place and properly coordinated.

This Standing Committee could also play an important role in strengthening the incentives to the private sector to improve its risk assessment. Recent events have shown that it is particularly important that we have greater transparency of hedge funds which, wherever they are formally registered, can have an impact on global financial markets. We also need to consider strengthening prudential regulation in both emerging and industrialized countries and particularly for cross-border activities.

Third, the Standing Committee could also help to find better ways to identify systemic risk. In the UK, we published last year a Memorandum of Understanding, setting clear divisions of

responsibilities and establishing a regular system of meetings and surveillance to ensure cooperation between our national financial institutions to identify and address systemic risk at an early stage. . . . What we need is an international memorandum of understanding which would establish the proper division of responsibility at the international level, to reduce the chance of crises occurring.

4. Involvement of the Private Sector in Forestalling and Resolving Financial Crises

Australia (Governor Kemp)

Private sector participants in foreign currency markets also need to provide greater transparency in their activities. At present, they are subject to much less reporting requirements than most other financial markets. In view of their importance for global stability, this imbalance needs to be redressed.

Austria (Governor Ruttenstorfer, speaking on behalf of the Governors of the member states of the European Union)

We also welcome the private sector involvement, including European banks, in resolving the financial difficulties of Asian countries....

It is also fundamental that the private sector is involved and contributes adequately to the solution of crises, both through informal co-ordination with international institutions and through a financial contribution towards solving the crises.

Canada (Temporary Alternate Governor Peterson)

... the international community, including the private sector, must be prepared to respond quickly and effectively when crisis resolution is required. The response should involve equitable burden sharing and limit moral hazard. In this regard, it may be necessary to consider appropriate standstill mechanisms. Ideally, a standstill would be engineered in a way that would not involve a default. What is needed is a contract-friendly cooling off period. One possibility would be for IMF members to agree to legislate an "Emergency Standstill Clause" in all cross-border financial contracts. Such a clause would be invoked only in extreme circumstances, where the withdrawal of short-term finance was severely hampering the restoration of financial stability. Given the complicated nature of this issue, the Fund could help our understanding by organizing a seminar with the private sector to try to forge a consensus on a range of measures that might be adopted.

China (Governor Dai)

The involvement of the private sector in preventing and resolving financial crises is necessary. International financial institutions and developed countries should encourage and support the private sector debt restructuring until debt relief is attained.

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

We also support the emerging consensus that private financial institutions must play a more active role in helping to ensure the stability of the international financial system, through orderly debt work-outs based on the principle of equitable burden sharing.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

Another priority is finding ways to involve the private sector in official efforts to prevent and resolve financial crises. There is a legitimate public concern about the moral hazard created by the Fund and other public bodies engaging in so-called "bail-outs". We must devise procedures to bind creditors in, rather than bail them out. Orderly mechanisms for settling and restructuring debts are needed.

France (Alternate Governor Trichet)

Crisis management should involve the private sector, which should participate financially, in a spirit of partnership. Therefore, it would be desirable to ensure greater solidarity of bond creditors at the outset, through provisions governing international securities or, better still, appropriate legislation in the principal international financial centers. The concept of creditor committees, involving the IMF, the national authorities and, if appropriate, the Paris Club, is an interesting starting point for fostering cooperation in crisis resolution.

Germany (Governor Tietmeyer)

Especially at this juncture, we need a strong IMF, both in crisis prevention and in crisis management. Regrettably some responses to the crises in recent years and months may have contributed to the distortion of the incentive structures for financial market players, and lulled investors into a false sense of security. Excessively large financial assistance by the IMF can undermine the proper working of the markets. Consequently, market players may easily underestimate the risks, trusting in government guarantees or a bail-out by the international community. This moral-hazard problem has to be taken seriously. In future, therefore, the private sector must be integrated better and earlier into crisis management and bear full responsibility for its actions.

India (Governor Sinha)

...the imperative for strengthening domestic supervision and prudential norms must be extended to private lenders in international financial centers.

Ireland (Governor McCreevy)

...the private sector must bear its fair share of the overall burden of adjustment in support of strong economic reforms for countries in economic difficulty...

Israel (Governor Frenkel)

In a risky world, agents in the market are operating according to incentives. If the government provides the message, implicit or explicit, that it stands ready to bail out, then of course the private sector will tend to assume risk to a degree that is excessive from the society's perspective. It is true in every area, including the foreign exchange markets.

Italy (Governor Ciampi)

...In dealing with potential future payment crises, we should agree on a set of changes that, on the one hand, could ensure a more active participation of the private sector in their resolution and, on the other, could determine the circumstances and the procedures under which lender of last resort functions will be exercised at the international level.

Japan (Governor Miyazawa)

...as we have witnessed in a recent series of crises in Asia in particular, the private sector now plays a central role on both the creditors' and the debtors' side. Hence, we must make even more sure that support from the public sector, such as the IMF, will not be used to bailout the private sector.

From the viewpoint of preventing such a moral hazard, the Fund should consider the involvement of the private creditors in formulating an IMF-supported program, for example, by maintaining their exposure to that program country.

Morocco (Governor Oualalou)

We also welcome the attempt to find appropriate ways to involve the private sector in reducing the possibility of future financial crises and in sharing the burden of resolving them when they occur. In this respect, we would like to stress in particular the importance of

creating a mechanism to reschedule the external debt of the private sector in an orderly manner in intractable cases that cannot be solved by market forces.

Netherlands (Governor Zalm)

In a number of Asian countries recovery is now under way. However, in other cases, efforts to restore confidence have not yet brought about the desired result. This warrants a careful evaluation of the policies of the countries concerned and of the response of the international community. In this respect, both sufficient availability of funding and appropriate burden sharing between public and private actors are essential.

Another core lesson to be learned is that the sums involved in IMF-led rescue programs are nearing a level that is undesirable in view of the moral hazard implications for the private sector. In a global economy with huge and ever increasing private capital flows, public money simply cannot provide full rescue whenever private creditors panic en masse. Large scale efforts may seem an energetic response to crises and hence carry some public appeal, but they raise unwarranted expectations. It is of paramount importance that private investors are involved in rescue operations at an earlier stage. The importance of private sector involvement is reinforced by the difficulty of activating second lines of defense in bringing about financial support.

In my opinion, the Fund should play a more active intermediary role in bringing about a contribution by private creditors and Fund support should be made conditional on their contributions. Efforts should be made to establish more structural contact with creditor groups, such as the Institute of International Finance.

Poland (Governor Balcerowicz)

I also agree with those who see a potential problem in the behavior of private financial institutions on the lending side. Responsible decision making requires an adequate evaluation of potential risks, which, in turn, is inseparable from the penalties for the past mistakes.

Russian Federation (Governor Zadornov)

...we need internationally recognized procedures for considering issues of restructuring, defaults and bankruptcies. In particular, in this context more headway could be made in solving the highly important problem of ensuring private sector participation in dealing with crises....

Sri Lanka (Governor Peiris)

...we support Fund initiatives in respect of private sector involvement, especially with regard to forestalling and resolving financial crises, as burden sharing is improved.

Switzerland (Alternate Governor Villiger)

We must work hard to find solutions to involve the private sector in resolving financial crises. In searching for a solution, we should try to include all actors, including the private sector. This is necessary not only for equity reasons or on grounds of the social and political acceptability of the actions of the Bretton Woods institutions. It is also important because of the lack of public resources to deal with liquidity crises in globalized financial markets. However, the scope for a voluntary involvement of the private sector is limited. Unilateral debt moratoriums may therefore be unavoidable. A backing by the Fund could help to minimize the damage of such measures and ensure that the debt restructuring process is as orderly as possible.

Tonga (Governor Fakafanua)

We would . . . like to endorse the call for involving the private sector in resolving and forestalling crises.

Ukraine (Governor Pustovoitenko)

We would like to propose to speed up the preparation of the standards for the international community schemes of private sector involvement into crises prevention and resolution in the context of the well-thought capital account liberalization on a non-discriminatory basis.

United Kingdom (Governor Brown)

We need to have clearly defined procedures for deciding when and how to provide liquidity support, without offering a guarantee to private investors which would compound moral hazard. I would like to see the IMF indicate that in the event of a crisis, and where a country adopts good policies, it may be prepared to sanction temporary debt standstill, by lending into arrears, in order to enable countries to reach agreements with creditors on debt rescheduling. By making this clear in advance, private lenders would know that in future crises, they would be expected to contribute to the solution as part of an IMF-led rescue. There also needs to be a better mechanism for the international authorities to liaise with private sector creditors and national authorities to discuss the handling of debt problems at times of potential crisis.

5. Fund Liquidity, Quotas, NAB, and SDR Amendment

Australia (Governor Kemp)

Australia wishes to add its voice in supporting speedy implementation of the general quota increase and adherence to the New Arrangements to Borrow.

Austria (Governor Ruttenstorfer, speaking on behalf of the Governors of the member states of the European Union)

Urgent approval of the IMF quota increase and the NAB is critical and imperative for the smooth functioning of the international monetary system....

It is regrettable that financing of the international financial institutions - and related activities like the HIPC and the concessional funds of MDBs - is increasingly being imposed on only part of the international donor community. Recognition of the importance of a coordinated, common approach to various crises should lead us to a fair burden sharing among those involved. We urge all countries to make a strong effort to meet their responsibilities in this respect according to their weight and importance in global affairs. We welcome that countries that have not been traditional contributors intend to participate in the NAB and also have contributed to the solution of the financing of the response to the Asian crisis. This should, however, not lead other traditional contributors not to accept their fair burden.

Barbados (Governor Arthur, speaking on behalf of the CARICOM Governors)

...our region is concerned about the lack of progress towards agreement on an increase in IMF quotas, and joins others in urging the United States and other members to agree to the increased quota so that the IMF's ability to respond to renewed crisis is not jeopardized by its own precariously low liquidity position....

It is...my region's view that preoccupation with this crisis must not divert the international financial institutions from dealing with their core functions, nor of so extending their resources as to severely impair their own solvency and viability.

Belgium (Governor Viseur)

...let me begin by underscoring the urgent need to strengthen the IMF's financial resources immediately....

Only forceful intervention by the IMF can restore the confidence needed to overcome the crisis.

Our absolute priority today, therefore, is to ask member countries to ratify the New Arrangements to Borrow and the IMF's quota increase as quickly as possible. This is essential if the Fund is to fulfill its mandate in a world economy that is increasingly complex. The IMF's decision to finance part of the increase in its assistance to Russia last July with a loan from the G-10 countries under the General Arrangements to Borrow clearly illustrates the current inadequacy of the IMF's resources. By depriving the IMF of a sufficiently large increase in its own funds, the international community would be taking risks, some of which are incalculable. To paraphrase the President of the United States, when there's a fire you don't discuss the color of the fire engine or the shape of fireman's helmet; you give the fire department enough water to put out the fire.

China (Governor Dai)

We hope that the Eleventh General Quota increase and the NAB can take effect as soon as possible. We think that, if necessary, the GAB should be reactivated.

Croatia (Governor Skegro)

...let me emphasize that Croatia, although being a small country, has been determined to become a productive participant/player in the global economy. It's not just about its support to the XI Increase of Quota as to ensure resources for proper functioning of the IMF or acceptance of the Amendment of the IMF Articles of Agreement regarding SDR allocation as to achieve greater equity....

Cyprus (Governor Christodoulou)

The ability with which the IMF and the World Bank can respond adequately and quickly to financial crises and their economic and social repercussions needs to be enhanced. Unfortunately, the prospects that the 45% increase in IMF capital under the Eleventh Quota Review will be agreed by early 1999 are still uncertain at a time when the IMF's financial resources are seriously depleted. In these circumstances, consideration must be given to making alternative arrangements to enhance IMF resources.

Fiji (Governor Ah Koy)

...we must provide the Fund and the Bank with adequate resources to enable them to effectively undertake their responsibilities under the new architecture. The need for these financial resources is urgent and immediate. Indeed, the confidence of the market place on the ability of the Fund and the Bank to adequately deal with financial crisis hinges on the availability of these resources. We, therefore, support the increase in the Fund's quota....

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

Nevertheless, the IMF cannot perform a central role in the prevention and management of crises unless it has adequate resources. It is a matter of grave concern that the IMF's usable funds have dropped to a level that leaves little room to respond to systemic risks in the world economy. It is critical that the increased level of Fund quotas agreed under the Eleventh Review becomes effective as soon as possible. Completion of the adherence process for the NAB would be a complement.

Germany (Governor Tietmeyer)

For the IMF to play its key role in the international monetary system, the increase in quotas agreed in Hong Kong must be speedily implemented. This must have absolute priority. Germany has already notified the IMF of its consent to the quota increase. We hope that others will follow without further delay so that the IMF will again have sufficient quota resources as soon as possible. The IMF's key role in overcoming the crises should encourage all members to fulfill their obligations speedily. The New Arrangements to Borrow (NAB) should also come into force as soon as possible. This "reserve tank", however, can only be a supplement to raising the quotas, and by no means a substitute. Germany is prepared to notify its consent to the NAB. Similarly, we are prepared to ratify the special one-time allocation of SDRs.

Greece (Governor Papantoniou)

In the short term, it is the task of the international monetary system to alleviate the effects and the spread of the crisis. To that end, more resources for the IMF are essential. This is a matter of utmost urgency.

India (Governor Sinha)

...the resources of multilateral institutions must be augmented quickly so that they can play a more effective role in coping with the new kinds of crisis posed by high levels of mobile private capital.

Iran, Islamic Republic of (Governor Namazi)

We . . . urge rapid approval by the members of the quota increase and the special allocation of Special Drawing Rights. It must be noted, however, that even these additional resources may not prove adequate for the needs of the global economy. The large shareholders should explore all possible ways and means of strengthening the financial resource bases of these institutions to allow them to carry out their mandates. It was, after all, the intent and the purpose behind the creation of these institutions that they would be in a position to prevent

and/or resolve crises before they gather enough momentum to pose serious risks to the stability of the international economic and financial systems.

Ireland (Governor McCreevy)

Ireland will work closely with the IMF and World Bank, and our international partners, to ensure that these institutions have the appropriate resources and develop the necessary strategies to address the challenges facing the global economy in the 21st century. It is clear that the IMF must continue to play a critical role at the centre of the international monetary system. Its role in crisis prevention should however be strengthened. The early implementation of the IMF quota increase as well as the establishment of the New Arrangement to Borrow now assume even greater importance. I am glad to report that Ireland has already consented to the increase in its quota under the 11th Review....

Israel (Governor Frenkel)

In the era of globalization, we see that information flows fast, capital flows may change directions rapidly and markets react instantly to news world-wide. In this framework there must be a renewed commitment to strengthening the multilateral institutions by reinforcing their financial base, and increasing cooperation in the form of timely, accurate and transparent information, unified regulation and the promotion of sustainable policies....

Italy (Governor Ciampi)

...[the Fund and the Bank] should be provided with the necessary resources. I believe that our first priority is to complete the quota increase of the Fund and put the NAB into effect before the end of the year. It is essential for the Fund to be endowed with sufficient resources to support member countries that follow sound economic policies. This is a feasible goal and, most important, it is in the interest of all of us.

Japan (Governor Miyazawa)

I would also like to take this opportunity to emphasize that a strengthened financial footing of the Fund is indispensable for it to continue to provide countries in difficulties with appropriate financial assistance and to be able to perform its role as the core institution of the international financial system.

Thus, I would like to urge those countries that have yet to notify their consent to the ratification of the New Arrangements to Borrow (NAB) as well as the quota increase under the Eleventh General Review, to act promptly on these issues.

Morocco (Governor Oualalou)

Amidst growing disturbances in the global economy and the increasing role of the IMF in dealing with and limiting the adverse effects of recurrent crises, we cannot but stress the need to provide the Fund with necessary resources to carry out its mission. Therefore, we caution against the substantial reduction in the Fund's liquidity last year and call for acceleration of measures to adopt the agreed increase in members' quotas.

Nepal (Governor Mahat)

...The increase in quotas of member countries also enables easy access to these funds during a time of need. We strongly urge all member countries to make appropriate arrangements so that the requirements for making the new quota system effective are met soon.

Netherlands (Governor Zalm)

The Fund and the Bank should be provided with the necessary means to continue to play their role. In this context, I am glad to be able to announce today that the IMF quota increase has been approved by Dutch parliament.

Pakistan (Governor Pasha)

... we in Pakistan . . . support the further replenishment of IMF quotas.

Philippines (Governor Espiritu)

We...view with a bit of concern what seems to be a lingering hesitation on the part of the Fund's biggest member countries to give it their full support by way of enhancing the Fund's capital base. We were, however, heartened to hear the statements made by President Clinton in his address at the opening of the joint meeting that the United States intends to keep its commitments to the Fund...

Poland (Governor Balcerowicz)

A week ago, on September 29, 1998 the Polish Government adopted the resolution approving the proposed increase of Poland's quota in the IMF. This decision can be seen as a proof that my country is prepared to fully discharge its obligations resulting from the IMF membership and that we share the assessment that an early replenishment of the Fund's financial resources has become a matter of operational necessity. Pending any possible modifications of its future role and functions, the Fund cannot be left without resources allowing this institution to fulfill its current mandate and to provide assistance to countries in need. I call on all member countries to proceed swiftly with the agreed quota increase and I urge the participating

countries to speed up the adherence to the New Arrangements to Borrow. . . . We have already initiated the internal legal procedures leading to the approval of the proposed Fourth Amendment of the IMF's Articles of Agreement and I expect this process to be completed before year-end.

Russian Federation (Governor Zadornov)

We face an immediate challenge to ensure that the role and status of the international financial institutions are fully supported by the financial sources at their disposal.

We are alarmed by the fact that the Fund's liquidity has dropped to a critically low level. I believe it is essential, as quickly as possible, to complete the 11th Quota Review, to approve the New Arrangement to Borrow and to adopt the amendments to the Articles of Agreement on an additional SDR allocation.

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

We seek an early ratification of the Eleventh General Review of Quotas. We believe this will assist in improving the liquidity of the Fund which in turn will benefit member countries in their endeavors to reform their economies. We also need to ratify the planned special allocation of SDRs to address the need to supplement international reserves, especially to avert the risks for a global recession.

Spain (Governor de Rato Figaredo)

Both institutions – and particularly the IMF – need to be strengthened and provided with sufficient resources to enable them to carry out their functions in a globalized financial system. Moreover, we must ensure that participation in the governing bodies of these institutions is commensurate with the financial support provided by each member country.

Sri Lanka (Governor Peiris)

We commend the Fund for the steps taken to enhance its resource availability and its liquidity position through quota increases, SDR allocation and augmenting the new arrangements to borrow. I am acutely aware of the complex legislative initiatives required in member countries on these matters; I urge my colleagues here to complete these processes as rapidly as possible, as the Fund liquidity position has declined to an unprecedentedly low level, while the demand for Fund resources remains high. Quotas, which are at the heart of the operation of the Fund, should be increased as and when necessary to enable the Fund to play its role in the international economy. An early resumption of new SDR allocation giving due consideration

to the rising shares of developing countries in the world economy is also essential in this regard.

Switzerland (Alternate Governor Villiger)

The IMF and the World Bank can take a lead in the prevention and resolution of crisis situations only if they have sufficient resources. The lending in the past year has led to a serious deterioration of the resource bases of the IMF and the IBRD. The 11th quota increase must become effective as soon as possible. The current global situation also makes an enhancement of the IMF financial safety net essential. Therefore, the New Arrangements to Borrow should rapidly become operational.

Thailand (Governor Nimmanahaeminda)

...I welcome the establishment of the Supplemental Reserve Facility to address large short-term financing needs. In addition, in view of the low liquidity levels, I urge all members to consent quickly to the Eleventh General Review of Quotas. We should also quickly accept the Fourth Amendment on the Special One-time Allocation of SDRs. These all should help enhance the effectiveness of the Fund to cope with the new challenge ahead.

Tonga (Governor Fakafanua)

On the IMF quota increase, we endorse the need to increase the Fund's resources in order to cope with the difficult tasks ahead.

Turkey (Governor Taner)

We also favor 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.

It is important to provide the IMF with adequate resources to fund future drawings of member countries as the volume and scope of private capital movements increase.

Ukraine (Governor Pustovoitenko)

We cannot but be alarmed by the problem of the lack of funds in the international financial organizations. . . . We also hope for the expedient adoption of the current quota increase of the Fund. The sooner we accomplish it, the sooner we will be able to come back to the appropriate financial standing of the institutions.

Vietnam (Governor Nguyen)

...we need to urgently complete the 11th quota review and the IDA fund contributions, as well as allocate additional SDR to the Fund. I appeal to industrialized countries to continue their strong support for the increase in the financial resources of the Bank and the Fund....

6. ESAF and HIPC Initiative—Implementation, Financing, and Lessons from Evaluation and Review; and Post-Conflict Assistance

Australia (Governor Kemp)

Finally, Australia supports efforts being made to provide assistance to those who are most adversely affected by the crisis through poverty alleviation and social support programs. It is also important that we maintain our efforts to relieve the burden of unsustainable debt in the poorest countries through the HIPC/ESAF initiative.

Austria (Governor Rutenstorfer, speaking on behalf of the Governors of the member states of the European Union)

We are glad to see the HIPC Initiative is well under way. We urge all members to move quickly to complete the financing of these initiatives as soon as possible. We look forward to a further strengthening of the financial base of the HIPC initiative and the ESAF. We encourage eligible countries to pursue and where necessary strengthen adjustment efforts to qualify for this assistance.

Barbados (Governor Arthur, speaking on behalf of the CARICOM Governors)

...while we welcome the HIPC initiative and note that one of our countries, Guyana, will soon be a beneficiary, we have no doubt that the overloading of this necessary initiative with excessive and unattainable conditionalities is a serious drawback that has slowed and will continue to slow implementation and this needs to be addressed.

Bosnia and Herzegovina (Governor Kurtovic)

...we strongly support the new initiative on creation of a Post-Conflict Fund, which will provide a crucial facility to violence-torn countries in their hard transition to peace.

China (Governor Dai)

We continue to support the implementation of ESAF programs and the HIPC Initiative.

Croatia (Governor Skegro)

The special needs of member countries like those in transition and the heavily indebted call for bold and innovative approaches. I am therefore pleased to support the continuation of the Enhanced Structural Adjustment Facility (ESAF) as a permanent feature of the Fund's facilities.

I have already welcomed the World Bank role in the joint initiative to alleviate the debt problems of the heavily indebted poor countries. However, I should like to emphasize the paramount importance of preserving the financial integrity and preferred creditor status of multilateral creditors. The present debt initiative must therefore be a one-time initiative, with clear boundaries.

Cyprus (Governor Christodoulou)

...I note that there has been further progress in implementing the HIPC debt initiative since the 1997 meetings of the Commonwealth Finance Ministers and IMF and World Bank Governors. However, there is a need for additional actions to improve the speed, breadth and eventual effective impact of the initiative and for adequate funding so that eligible countries can achieve debt sustainability as envisaged by the HIPC initiative.

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

We must express our profound disappointment that, as of now, financing for the Interim ESAF and the HIPC Initiative has not been secured. We urge the International Community and the Executive Board of the Fund to consider all options to bring this matter to a successful conclusion, including the sale of a portion of the Fund's gold....

...For a large number of African countries, there is an urgency for significant debt relief. A heavy external debt overhang is a major obstacle to growth and development. This is why we attach considerable importance to the implementation of the HIPC Initiative and are encouraged that, since our last meeting, some of our countries have been put on the track towards receiving debt relief under this Initiative. We urge the international community to quicken the pace of qualifying other eligible countries, because the timing of debt relief can be the critical difference as to whether a country can sustain economic reform while taking steps to address in a meaningful way the all-important question of widespread poverty. In addition, we would like to see greater consideration given to human development indicators, to the fiscal burden of debt, and debt sustainability factors other than the standard ratios currently being applied. Also there should be much greater acknowledgment of the need to advance the completion point.

While there are good reasons to require a solid track record of reform in order to qualify for debt relief under the HIPC Initiative, it is important to approach the matter with pragmatism, bearing in mind the differing circumstances that influence both a country's adjustment strategy as well as the speed of adjustment and reform. We urge the Bretton Woods institutions to continue their efforts to persuade other creditors to meet their equitable burden sharing responsibilities in terms of the HIPC Initiative. In addition, the international community should continue to make efforts to address the debt problem facing all African countries.

It is also important to emphasize the need for commencement of viable development and reconstruction programs in countries that are now emerging from situations of conflict. We should explore innovative ways of reducing the debt burden of these countries, including those with substantial arrears to multilateral institutions, as part of the early process of helping these countries rebuild their economies.

Fiji (Governor Ah Koy)

I . . . support the sentiments expressed in support of the continuation of ESAF and urge the speedy implementation of the HIPC initiative.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

High on our agenda is also the integration of the poorest countries in the global economy. Considerable progress has been made in implementing the HIPC Initiative during the past two years. However, further progress is needed. At the same time, evaluation should continue, so that the resources released by debt relief are used wisely, since debt relief without true adjustment and reform would be wasted. Now there is a need to re-focus on the efforts to secure adequate financing for the Fund's ESAF and the HIPC Initiative. Financing should be based on the principle of fair burden sharing, with a special responsibility for major economies.

France (Alternate Governor Trichet)

It is our responsibility to continue to support the developing countries steadfastly and purposefully. Above all, this support should translate into backing for the International Monetary Fund by financing the Enhanced Structural Adjustment Facility. . . . Steadfastness in the continued implementation of the debt initiative for the heavily indebted poor countries is also crucial....

I hope that all the poor countries, whose debt is deemed to be unsustainable and who have implemented the necessary adjustment measures, may be able to benefit from it.

The international financial institutions must increase their rate of production of debt sustainability analyses of the poorest countries and exercise, as the Paris Club has done, all the necessary flexibility in implementing the initiative, considering the specific characteristics of each country on a case-by-case basis....

France welcomes the initial steps taken to enhance our capacity to respond to the problems of the post-conflict countries, which should enable us to take better account of their individual situations on a case-by-case basis.

To those who have been excluded from the international community by war, we must now propose innovative solutions to enable them to reenter that community as they make their own efforts to do so.

We must continue the task of determining the conditions for special treatment to be adapted to each particular case, but which can be guided by some general principles. The international effort should be very closely coordinated among all the international financial institutions, particularly in order to ensure that net transfers are positive. It seems to me that two principles are fundamental: those who have just reached an arrangement with the Fund should not be penalized, and those who deliberately set themselves apart from the international community should not be rewarded later on.

Iceland (Governor Asgrimsson, speaking on behalf of Bank Nordic Governors)

...let me reiterate our strong support to the HIPC Initiative. Currently, Nordic countries have contributed more than 40 percent of the funds to the HIPC Trust Fund and we emphasize the need for equitable burden sharing. The Nordic countries welcome the extension of the HIPC entry deadline which can enable more countries to seek to join the Initiative. There is, however, an urgent need to accelerate the pace of the HIPC Initiative. The Nordic countries encourage the Bank, as well as donor countries, to identify means to increase the efficiency of the Initiative.

We welcome the work aimed at enhancing assistance to post-conflict countries.

India (Governor Sinha)

We support the HIPC initiative and have noted its progress with satisfaction. We welcome its extension and widening of coverage.

We also support the initiative to assist the Post-Conflict countries and the proposal to establish the Trust Fund for this purpose. The increasing cost, however, remains a concern.

To ensure optimal use of the facility, tighter eligibility criteria linked to investment in human resources and effective monitoring of the assistance that is provided may be required. We advocate the need for greater role of the bilateral creditors in its funding. The trade-off between the resources devoted to this purpose, and the assistance available to other peace loving countries for their development needs has to be kept in mind....

...it is important that principles of burden sharing be deployed for financing such initiatives as the HIPC and Post-Conflict Assistance. We hope that when the decisions regarding funding reached in July on the basis of voting are revisited in a year's time, a consensus based on equitable burden sharing would be reached. This may entail using incremental costs, including those for new programmes for determining the voting strength of contributing member countries.

Indonesia (Governor Subianto)

I commend the Bank and the Fund for the progress in the implementation of the HIPC (Heavily Indebted Poor Countries) Initiative and in the initiative to provide debt assistance to post-conflict countries. It is our hope that the debt assistance provided will enable the benefiting countries to provide more social services for their citizens.

Iran, Islamic Republic of (Governor Namazi)

We commend the IMF and the World Bank for the progress made thus far with the initiative to assist highly indebted poor countries (HIPC) and post-conflict societies. It is hoped that these initiatives will be further strengthened and broadened to provide a reasonable chance for these countries to benefit from the globalized economy. We continue to emphasize our strong support for the Enhanced Structural Adjustment Facility (ESAF) and urge immediate action to ensure adequate funding for this highly worthwhile program.

Ireland (Governor McCreevy)

I welcome the emphasis which the Fund and the Bank are continuing to give to the problem of Third World debt. The Irish Government fully supports the efforts to bring the deepest possible level of debt relief to the poorest countries. My Government has recently adopted a set of principles which will govern Ireland's policy towards Third World debt. In brief, the principles seek to ensure that debt relief measures take full account of the social dimension, embrace widespread consultation in the countries in question, and encourage sustainable economic development.

Debt relief strategies must become an integral part of overall development policy. They must reinforce the existing emphasis on the fundamental goal of poverty alleviation, as well as

environmental sustainability and gender equality. Ireland is a strong supporter of the HIPC Debt Initiative and welcomes the openness and flexibility which all partners have brought to the process. Progress under the Debt Initiative has been significant but there is a strong case for further flexibility in its implementation. Speedier implementation, and application to as wide a range of the heavily indebted poor countries as possible must be key goals. Definitions of debt sustainability should be broadened to take human, as well as economic, development into account. The two recent evaluations of the ESAF Facility emphasize the need for the IMF to take full account of the social impact of policies in the design and implementation phases of macroeconomic and structural adjustment programmes. The most vulnerable sections of the community must be afforded special consideration, with safeguards against the most severe consequences of structural adjustment policies.

In calling for deeper debt relief and wider and speedier application of the debt initiative my Government has decided to provide £11 million to the World Bank's HIPC Trust, and also to provide £4 million to the IMF's ESAF/HIPC Trust....

...Ireland will make its proposed contribution of £7 million to ESAF. The need for reform of certain aspects of ESAF programmes is clear, and I am encouraged by the positive response of the IMF to the external evaluation of the Facility. We must ensure that the lessons of the external review increasingly influence the planning, design and implementation of ESAF programmes.

I encourage the international community, including bilateral creditors to take an even more generous and flexible approach to the heavily indebted poor countries. Deeper debt relief is a prerequisite to integrating the poorest countries into the global economy....

Japan (Governor Miyazawa)

Even when we ourselves are in the midst of a crisis, we must not forget our support for countries in great distress, such as the heavily indebted poor countries and the post-conflict countries. For its part, Japan will continue to support such efforts of the World Bank and other international financial institutions.

Libyan Arab Jamahiriya (Governor Bait Elmal)

Despite the efforts of the Bretton Woods institutions to correct trade imbalances, promote development, and reduce debt burdens through the HIPC initiative, especially in the least developed countries, today we find that the gap between rich and poor countries is wider than ever.

Morocco (Governor Oualalou)

While we should focus in this Annual Meeting on the current problems threatening the stability of the global financial system, we should not also fail to note the urgent need to strengthen the support of the world initiative to reduce the debt of low-income countries. On this occasion, we express our support of this noble initiative in view of its importance in improving the conditions of those countries, and stress the need to provide the remaining funds required, either through bilateral contributions or through the sale and investment of a limited portion of the IMF's gold reserve.

Nepal (Governor Mahat)

We thank the Bank for the progress made so far in Heavily Indebted Poor Countries (HIPC) Initiatives. We are confident that with the extension of the eligibility period of the Initiative for two more years, more countries will benefit from this Initiative.

We also support the Assistance to Post-Conflict Countries and urge other creditors and donors to complement the Bank in this endeavor.

Netherlands (Governor Zalm)

We would therefore urge shareholders to live up to their responsibilities and contribute adequately to the HIPC [Initiative]...

Poland (Governor Balcerowicz)

Poland is also ready to support the HIPC initiative by depositing, on very beneficial terms, our share in the SCA-2 refund.

Portugal (Governor de Sousa Franco)

I would not like to end without a reference to the HIPC Initiative and to the needs of post-conflict countries. Portugal is glad to see that the Initiative is well under way. I would urge members of the international community to ensure quick financing of the initiative. On the other hand I would encourage eligible countries to pursue the adjustment programs to qualify for this assistance.

Post-conflict countries face tremendous needs and the international community has to be creative in responding to the challenge in a fairly shared and coordinated response.

Russian Federation (Governor Zadornov)

The results that have been achieved up to this point confirm the viability of the [HIPC] Initiative, its effectiveness and considerable role in alleviating the hardships caused by the excessive burden of foreign debt. Since joining the Paris Club, Russia has taken part in measures implemented under the Initiative to the greatest extent possible.

Nevertheless, we are troubled by the continuing rise in estimates of the costs associated with carrying out the Initiative. The success of the Initiative to a decisive degree hinges on it being fully backed by financial resources.

Sri Lanka (Governor Peiris)

My country deeply appreciates the progress made with regard to the ESAF and HIPC Initiatives and continuing assistance to post-conflict countries. We strongly support the continuation of these programmes and encourage the Fund and the Bank to mobilize more substantial resources to fill the existing gap between financial requirements and available resources at present under the aegis of these programmes. Country ownership as well as due recognition of country specific situations are indispensable for ESAF programmes to be more effective.

Switzerland (Alternate Governor Villiger)

Securing the financing of the continuation of the Enhanced Structural Adjustment Facility, IDA lending, and the joint HIPC Initiative must remain at the top of our agenda.

Tonga (Governor Fakafanua)

On the ESAF and the HIPC Initiatives, it is important that we continue to respond to the needs of our poorest members who are adversely affected by the downturn in global economic conditions.

Turkey (Governor Taner)

I also wish to commend the IMF and the World Bank for their cooperative efforts to launch the initiative for reducing the debt of the heavily indebted poor countries. The main challenge now will be for the eligible countries to implement their programs and for financial institutions, public and private, to mobilize financial support.

United Kingdom (Governor Brown)

I am pleased that we have agreed this week new procedures for advancing debt reduction to post conflict countries. And to meet our Mauritius Mandate targets, we need to aim for 22 countries to reach the decision point in the HIPC process by the end of 1999. All countries should insist export credits are used only for productive expenditure. And all countries must stand ready to provide the resources to make progress by 2000.

7. Bank-Fund Collaboration

Australia (Governor Kemp)

Important improvements have been made to Fund/Bank collaboration and at some point it may be desirable to revisit the division of responsibilities. But for now the Fund and the Bank should work harder toward a pragmatic and businesslike delineation of their responsibilities, recognizing that the focus of reform in crisis economies is now clearly on structural issues.

Austria (Governor Ruttenstorfer, speaking on behalf of the Governors of the member states of the European Union)

...the cooperation and division of labor between all international financial institutions (IFIs) become increasingly important. Their collective efforts to contribute towards the development of sound financial and corporate sectors are particularly welcome. Effective communication and collaboration between the IMF and the World Bank will be an important element in this respect. The World Bank and the regional development banks will have to step up their efforts in supporting structural reforms, especially addressing the structural problems behind poverty. However, in their involvement in financial crises, their respective mandates should be fully respected.

Canada (Temporary Alternate Governor Peterson)

Achieving the goals of [the six-point program proposed by Canada] will require greater and more effective collaboration between the Bank and the Fund. In this regard, recent experience suggests four key areas for particular emphasis:

1. Cooperation between the Bank and the Fund needs to be strengthened at all levels. It is not enough for the heads of the two institutions to meet together periodically—staff across the institutions must also be engaged in this effort. Better sharing of data and analysis, joint preparation of policy papers and more missions representing both institutions are a good start to making this happen. Better cooperation and coordination between the two institutions is particularly important in crisis response situations in order to ensure that shorter term emergency financing does not undermine longer term development work.

2. Policy advice to member countries must be effectively coordinated. This does not mean that debate on policy issues should be discouraged, in fact I would argue the opposite. However, discussions between the two institutions must begin earlier, as programmes are being developed, not when they are completed. And, a genuine effort must be made to work out any differences in advance. In effect, it means the IMF and World Bank must be open and transparent partners in the policy-making processes. We have to "walk the talk" of transparency and good governance in our own institutions.

3. A clearer delineation of the roles and responsibilities of each institution is helpful. Generally speaking, the Fund will exercise surveillance over macroeconomic and stabilization policies, while the Bank will promote overall economic development, structural and sectoral reforms.

But we know that, in practice, overlap is sometimes unavoidable. In this respect, the proposed Liaison Committee, drawing on expertise from both the Bank and the Fund, is a step in the right direction. The challenge will be for the Committee to provide open and objective guidance, based on what is in the best interest of the country, rather than in the interests of any one institution.

4. Collaboration on financial sector reforms should be a priority. Strengthening surveillance of financial sector regulatory and supervisory regimes is a key area where the Bank and the Fund have indicated they will work together. Canada strongly welcomes these actions.

Croatia (Governor Skegro)

The Fund's role is constantly being frustrated by the lack of adjustment and reforms that are prerequisites to the achievement of the Fund's wider and, I believe, more strategic objectives of growth and prosperity. I therefore propose the Bank and the Fund to work very closely together to address the special structural needs of member countries.

Estonia (Governor Opmann, speaking on behalf of the Bank Baltic Governors)

We welcome the intended closer cooperation between the World Bank and the IMF to fulfil their important mission to strengthen financial and economical stability in the world.

Finland (Governor Vanhala, speaking on behalf of the Fund Nordic and Baltic Governors)

...taking into account the respective roles of the two Bretton Woods Institutions, I welcome the review of the collaborative experience between the World Bank and the Fund in strengthening financial systems.

France (Alternate Governor Trichet)

To ensure financial stability, it is also important to strengthen the financial infrastructure of the emerging countries. This is an area in which it would be worthwhile to strengthen cooperation between the two Bretton Woods institutions. The proposed Liaison Committee between the Bank and the Fund on the financial sector seems to me to be one approach to achieving the requisite operational cooperation between the two institutions.

Germany (Governor Tietmeyer)

The activities of the IMF and the World Bank complement each other. They are not competing organizations. Close cooperation between the IMF and the World Bank is particularly important when responding to crisis situations in order to avoid conflicting signals. We therefore welcome the ongoing efforts to improve cooperation between the two institutions.

Indonesia (Governor Subianto)

Improved collaboration through an early sharing of information and close cooperation between the Bank and the IMF remains of vital importance. We encourage the Bank to further strengthen its collaboration with the IMF in the future while maintaining its mandate which is promoting sustainable poverty reduction and economic and social development.

Italy (Governor Ciampi)

Our Bretton Woods institutions and their regional counterparts, while preserving their specialized functions and characters, must increase the level of coordination of their approaches and responses to member countries' financial problems.

Japan (Governor Miyazawa)

In the event of a crisis driven by abrupt and large-scale capital movements, it should be a significant mission of the Bank, I believe, to work with the Fund to stabilize the market through prompt supply of funds, as it did for Korea late last year....

...it is essential for the Bank to collaborate with the Fund in dealing with structural problems in the financial and corporate sectors.

Lao People's Democratic Republic (Governor Sombounkhanh)

We believe that if assistance to the least developed countries given by the Bank and the Fund could focus more on the development of the countries' economic potentials and human

resources, the role of the two multilateral institutions will become more prominent, while further enhancing the cooperation for the mutual benefits of the parties concerned.

Malaysia (Governor Mustapa)

Closer cooperation between the World Bank and the IMF is needed to further strengthen their capacity to respond to the growing demands for assistance in the three key areas of financial, corporate and social safety net programmes....

...closer collaboration among the IFIs, notably the IMF, World Bank, and the BIS are essential to ensure that the world's financial system continues to function smoothly.

Myanmar (Governor Thein)

We have followed with appreciation the World Bank's financial supportive role in joining the Fund in dealing with the Asian financial crisis....

In the light of the changes taking place in the international financial system and the increasing demands for the services from the Fund and the Bank, we hope the two institutions will be able to review and strengthen their partnership to provide more effectiveness in undertaking their challenging tasks.

Nepal (Governor Mahat)

We have noted with interest the Bank moving beyond its traditional focus of funding individual projects to pumping billions of fast disbursing rescue package loans—which was earlier considered to be the role of the IMF. This has also necessitated redefining and delineating the roles of the Bank and the Fund. We think it is an appropriate time that we revamp these institutions, thus giving them new vigor and strength to deal with changed circumstances. Given the linkages between macroeconomic and structural issues, there is a clear need to provide an interrelated and properly sequenced assistance by the two organizations. In this regard, we welcome the, proposed initiatives emphasizing closer Bank-Fund collaboration, which include the Review of Bank-Fund Collaboration in Strengthening Financial Systems and the Pilot Program for Enhanced Bank-Fund Collaboration in Low-Income Countries.

Netherlands (Governor Zalm)

In responding to the international financial crisis, we should ensure that Fund and Bank do not duplicate, but remain complementary. They should continue to focus on their primary responsibilities. The Fund should continue to be focussed on macroeconomic stability and restoring confidence in times of crisis. Medium and long term structural policies are primarily the responsibility of the Bank. In this respect, we welcome the attention paid by the Bank to

the social consequences of crises. In cases of overlap such as the efforts to strengthen the financial sector in emerging markets, the need for good cooperation is evident. We welcome the improved Bank-Fund cooperation in specific pilot cases as a follow-up of the ESAF evaluation. The Bank should not engage in large scale balance of payments financing for the crisis countries, an activity for which it lacks the mandate and the instruments.

Paraguay (Governor Doll)

...we are encouraged by the efforts to review the principles of cooperation and collaboration between the World Bank and the IMF, as a way to ensure coordinated and expeditious operations by both institutions in the socioeconomic and structural reform areas. Such action should make it possible to improve the supervision process and its results, facilitating an appropriate choice of priorities in lending programs, and enhancing the capacity to respond to the future crises that are liable to continue affecting the global economy.

Russian Federation (Governor Zadornov)

In light of the latest crisis-related developments, cooperation must be strengthened between the World Bank and the IMF. In many areas, including the HIPC Initiative and reform of the public sector, both organizations have demonstrated the advantages of close coordination. Ultimately the Bank and the Fund have common strategic objectives. But there is nothing surprising in the fact that, from time to time, we see an overlap of responsibilities, frictions and even serious disagreements. We must not forget that there is a division of labor between the Bank and the Fund: while the Fund's efforts are aimed at maintaining macroeconomic stability and the efficient functioning of the international monetary and financial system, the Bank deals with specific projects, supports structural reforms and places its emphasis on social issues and sustainable development. This division of labor seems fully justified.

In the Asian countries affected by the crisis, the Bank and the Fund failed to set up effective early coordination. At the same time, it is obvious that the nature of the crisis requires a qualitatively new level of cooperation between the Bank and the Fund. The proposal to establish a special Liaison Committee dealing with restructuring of the financial sector deserves particular support. This Committee should facilitate closer contacts between the Bank and the Fund. Moreover, it should be noted that a wider use of joint missions would not only help to optimize the utilization of both organizations' resources, but also promote a genuine culture of cooperation. The Managing Director of the IMF and the President of the World Bank were absolutely right when they pointed to the need for such a culture in their joint report.

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

We support the efforts being pursued to improve Bank-Fund Collaboration. However, this collaboration should aim to better serve members' development and balance of payments needs rather than be pursued for its own sake.

Spain (Governor de Rato Figaredo)

To resolve crises, joint action by both institutions is necessary, with the Fund focusing on macroeconomic equilibrium and the World Bank concentrating on the social impact of programs and on structural reforms--that of the financial sector being a priority.

Sri Lanka (Governor Peiris)

We strongly support improvement of closer Bank-Fund collaboration as it enhances resource utilization efficiency and increases the effectiveness of programmes. The importance of closer collaboration, given the increasing complexity of economic issues and increasing demand pressure on limited resources, should not be underestimated.

Switzerland (Alternate Governor Villiger)

The IMF and the World Bank need to continue to give the issue [of strengthening the financial system] high priority. The task is too complex to be mastered by one institution. Therefore, the Fund and the Bank have to cooperate closely. I welcome the efforts and specific proposals that have been made to enhance this cooperation.

United Kingdom (Governor Brown)

And the Fund and Bank must also work much more closely together, particularly in providing advice on financial policy to emerging markets countries. That is why the joint department of the IMF and World Bank we have proposed is essential to carry out this work.

8. Interim Committee

Belgium (Governor Viseur)

If the IMF is to truly fulfill the strengthened central role it is expected to play, the principles legitimizing its actions must also be reaffirmed.

The best way to proceed here is to strengthen the role of the Interim Committee. Two proposals have been put forward recently to achieve this objective. The first, advanced by Philippe Maystadt, my predecessor and former Chairman of the Interim Committee, recommends the formation of working parties that would contribute to the deliberations of the

Interim Committee, and therefore the IMF, on issues relating to the international monetary system.

In my view, this idea has two major advantages. First, it would allow for more direct involvement of national officials and experts in Fund activities. It would also relieve pressure on IMF staff, who cannot be expected to have all the answers. It would also enable the Fund's member countries to play a more meaningful role in solving difficult problems.

Second, the working parties could play a greater part in reviewing issues that cannot be easily taken up by the IMF because they go beyond the scope of its activities and responsibilities, for instance. By creating a working party to study these issues, we will ensure that they cannot be overlooked. It would then be incumbent on the Interim Committee to provide the appropriate follow-up action for the working party's proposals. This process would do much to remedy the deficiencies of the current international architecture.

A second and complementary approach would be to transform the Interim Committee into a Council with decision-making power, thereby applying a provision in the Articles of Agreement of the IMF that has never been implemented.

I am in favor of this idea, which is supported by my French colleague, Dominique Strauss-Kahn, as it can enhance the legitimacy of the IMF's decisions and, therefore, the effectiveness of its actions. One could therefore envisage the Management and Executive Board of the IMF consulting with the Council before reaching a determination about a program whose impact clearly extends beyond the economic sphere....

The transformation of the Interim Committee would also make it possible to strengthen the IMF's surveillance role, as its members could become more actively involved when the economic policies pursued by a member country pose a potential danger to other countries and regions in the world. In this way, the Council could play a more prominent role in the "tiered response" procedure, proposed by the Interim Committee in April 1998: in cases where the "red card" would have to be drawn on a country whose economic policy is seriously off-track, this decision could be made by the Council....

Any such attempt to transform the Interim Committee into a Council of world economic security, would be a momentous undertaking. However, I feel that it is important to envision this possibility, given that one of the important lessons of globalization is that only strong and concerted cooperation and intervention can stop or curb the domino effect of the current crises.

France (Alternate Governor Trichet)

The legitimacy of the IMF—cornerstone of the system—is conferred solely by the support of its shareholders, the member countries, which alone are accountable for the general policy of the institution in the face of public opinion. This is why the IMF's means and political legitimacy must be strengthened. Therefore, it seems that strengthening the "government" of

the international financial institutions is essential. The Governors must play a more active and consistent role in a body that represents the diversity of countries involved in international financial trade. This is why France defends the principle of changing the Interim Committee into a Council, as the Fund's Articles of Agreement in fact provide for....

I believe that we can improve the coordination between the Interim Committee and the Development Committee to reflect the complementarity between the Fund and the Bank.

Greece (Governor Papantoniou)

...in order to reinforce the central role of the IMF in the smooth functioning of the international monetary system, we should carefully reflect on whether it is adequately designed in order to cope with the current economic environment. Apart from enhancing its resources, strengthening its political governance by transforming the Interim Committee into a Council would significantly improve the credibility and efficiency of the Fund.

Italy (Governor Ciampi)

...we must solidify the architecture of our monetary system, beginning with the strengthening of the Interim Committee, possibly transforming it into a permanent body, capable of effectively orienting the strategic choices of the IMF.

Netherlands (Governor Zalm)

We strongly believe that the IMF is the proper place to decide on the future of the international monetary system. The key is to strengthen its capability to prevent and withstand financial instability. Our Interim Committee should remain the core forum for these discussions. If the present arrangements for its meetings do not cater enough to having effective discussions, we should focus on creating the opportunity for that.

