EBD/99/116
Correction 1

October 13, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **1999 Annual Meetings—Excerpts from Speeches by Governors**

The following corrections have been made in EBD/99/116 (10/4/99):

Pages 5, 19, 39, 46, and 54: for "**Peru** (Governor Joy Way, speaking on behalf of a number of Latin American Governors and Spain)
read "**Peru** (Governor Joy Way, speaking on behalf of Latin American Governors and Spain"

Corrected pages are attached.

Att: (5)

Other Distribution:
Department Heads
Division Chiefs

also increased their efforts to diversify the base of economic activities to reduce the effect on their economies of fluctuations in world oil prices...

...the economic reform policies and structural reform programs being implemented in these countries since the beginning of the decade have helped to reduce the severity of the effects of the world financial crisis upon them. These policies and programs, which are currently being intensified, have produced a marked improvement in the investment climate in these countries, which has in turn helped to increase private sector participation in economic activities...

Nepal (Alternate Governor Bhattarai)

Recent recovery in international commodity prices and of East Asian economies as well as positive growth outlook in industrial countries present some hope for the revival of global economy and, in turn, increase in development assistance.

...greater attention is needed, particularly by industrial countries and international institutions to create an enabling environment that can take care of the interests of the poor and least developed countries.

The transfer of official development assistance to developing countries has not shown any serious move toward the tune of international call and our appeal for many years. The relevance of foreign grant and highly concessional assistance for the growth of developing countries is still very important and appears to remain so for a number of years to come as many of these countries have to develop key sectors of the economy, where private sector is still shy in making investments.

Norway (Governor Gjedrem, speaking on behalf of the Fund Nordic and Baltic Countries)

During the year, international financial markets have come closer to a state of normality and the economic outlook appears brighter in several regions. However, these encouraging developments do not leave room for complacency.

Peru (Governor Joy Way, speaking on behalf of Latin American Governors and Spain)

...we are aware that we are still at risk should there be adverse developments in the global economy—such as an economic slowdown in the United States. On this score, we take a positive view of US preventive monetary policy measures, which will contribute to the stability of international financial markets.

Portugal (Governor de Sousa Franco)

...all over the world, the recovery is uneven across regions and remains unbalanced among industrial countries, while developing countries are growing at a still insufficient rate to make a difference on the poverty situation.

Spain (Governor de Rato Figaredo)

...the worst of the crisis is behind us, and...the future of the global economy rests on solid foundations for stable growth in the future.

...[The] favorable performance of the U.S. economy has been one of the key factors of the incipient recovery of the world economy, although I am convinced that in the coming year many more countries will act as engines of recovery.

Japan should implement fiscal and tax policies aimed at building consumer confidence and promoting growth. The return of Japan to a path of growth is important, not only for Japan, but also for the other Asian economies and for the world economy.

For sustained growth in Latin America, it is necessary to apply appropriate adjustment measures and to address the required tax reforms and the unfinished process of market liberalization. In this context, it is very important to make progress in the trade negotiations with the European Union.

In the second half of this year, we are starting to note an acceleration of growth rates in the EU, which will be gradually taking greater responsibility as a catalyst of growth in the world. This outlook will no doubt be somewhat enhanced by the European countries' progress in fiscal affairs and by their continued efforts to make markets more flexible and to increase competition. It is very important for us to make progress in developing the European domestic market and, more concretely, in creating a single financial market. Lastly, attaining a balanced budget or a budget surplus and moving ahead with the structural reforms will continue to be a priority on our agendas.

Sri Lanka (Alternate Governor Peiris)

...strengthening of non-inflationary demand in industrial countries... [is] necessary to create a conducive external environment for developing countries.

Switzerland (Governor Villiger)

...Developments in recent months have shown that financial markets can become volatile very quickly, given the remaining uncertainties. Abrupt corrections in exchange rates of major currencies cannot be excluded, given existing imbalances between major economies. Furthermore, the uncompleted agendas of structural reform in the banking and corporate sectors in many countries could become a serious source of concern in the event of a deterioration of the global economic picture.

Thailand (Governor Chatu Mongol)

The overall outlook remains positive. A stronger and positively reinforcing Asian recovery and a sharper rebound in Europe are both upside possibilities. A stock market correction and hard landing in the US and a relapse into recession in Japan are the principal downside risks.

We call for support and cooperation from multilateral organizations, in order to ensure the success of our economic revitalization and antipoverty programs, as such measures will be essential to strengthening our government's effort to sustain democracy.

Peru (Governor Joy Way, speaking on behalf of Latin American Governors and Spain)

...we regard as very important the proposal submitted at the G-7 meeting in Cologne, calling for an increase in the scope and coverage of debt reduction for the HIPC countries; it is also essential, therefore, that the necessary financing be provided. The countries in our region are making considerable efforts to contribute to this financing, not only through the multilateral institutions, but also in some cases by reducing the official debt of countries that have qualified for HIPC assistance–as Brazil has done. Some of the non-HIPC countries in the region should join in a plan to share the cost of such financing equitably.

In this connection, we wish to express our concern regarding the financial stability of the regional multilateral institutions, whose commitment to the HIPC Initiative could jeopardize their continuing role in financing development projects in the countries of the region. There is also some concern regarding the financial position of the World Bank and IDB, which are facing serious problems in financing their participation in the enhanced debt relief framework. In our view, the main source of additional financing should be the bilateral contributions from the countries with the largest economic capacity, particularly those that took the lead in enhancing the HIPC Initiative.

The countries in our region applaud the IMF's efforts to find a creative solution to the problem of selling 14 million ounces of its gold reserves by employing a procedure that takes account of both the legitimate interests of gold-producing developing countries, and also the need to secure adequate resources to enable it to contribute to the enhanced HIPC Initiative.

The region welcomes the joint efforts of the International Monetary Fund and the World Bank to strengthen the links between debt relief and poverty reduction, in the context of the economic programs introduced under the HIPC Initiative. But we wish to emphasize that this is an instance of cooperation between two institutions with different mandates. The IMF should continue to concentrate its experience and expertise on issues relating to the macroeconomic stability of its member countries, while the World Bank should focus on development, including poverty reduction.

The countries in our region agree that it would be very difficult in practice to include specific social indicators in the quantitative and structural targets in Fund programs in general, although we acknowledge that, in HIPC countries, substantial progress on social issues and poverty reduction should form part of the final objectives of the Initiative.

Poland (Governor Gronkiewicz-Waltz)

...We welcome the fact that international financial institutions attach growing importance to the problem of poverty.

The international community, especially international financial institutions and governments of the most developed countries, has a crucial role to play in the fight against poverty and in assisting the countries suffering from the effects of crises. We are satisfied with the fact that the terms of alleviating the poorest countries' debts under the HIPC and ESAF programs have been agreed. It is definitely a desirable step towards improving their situation and beginning the process of an economic revival...

However, it ought to be emphasized that the debt reduction itself, without a tailor-made assistance program for each country, will not yield expected results. Debt reductions should supplement and not replace assistance offered to help achieve economic development. We also need to be aware of a crucial task of determining the size of the necessary assistance and a period of time during which it is supplied. We should consider ways of providing political consulting on the steps which have to be taken by the local authorities towards opening the economy, administering public and assistance funds, and pursuing sound economic policy. Taking into account situation specific to individual beneficiaries, we can learn from the useful experience of the countries that have already gone through this difficult stage of their history...

Portugal (Governor de Sousa Franco)

...as the sources of financial instability subside and world recovery expands and takes root, it is our obligation to address urgently the needs of the poorest countries. Fighting against poverty is a long term and complex process and we can not afford set-backs and further marginalization of countries or groups of people within countries.

We warmly support the proposals to enhance the HIPC Initiative and call for its effective implementation. Debt relief is just an instrument for achieving sustainable poverty reduction and development in a broader sense. What is needed is not just growth, but growth that creates jobs, that eliminates inequalities of income and gives access to education, health, water, sanitation and other basic services, in other words, growth that provides opportunity to all people. We have the political commitment, we have a new closer cooperation between the Bank and the Fund, and we need the means to translate our commitment to debt relief into results on the ground under the leadership of recipient countries. Portugal has long been granting debt relief, it has already contributed to the HIPC Trust Fund and my country stands ready to further contribute at a higher level of commitment towards this joint effort.

Development is a long term, multifaceted and interrelated process. It will require strong multilateral financial institutions capable to, along with recipient countries and other partners, assist countries in this process...

Peru (Governor Joy Way, speaking on behalf of Latin American Governors and Spain)

The unforeseen, major shocks that many of our economies have had to contend with since mid 1997, not to mention the rapidity and extent of their contagion, have proved a sharp reminder that the individual countries, as well as the international financial system as a whole, need to strengthen existing preventive mechanisms. The Contingent Credit Line introduced by the IMF in April this year is a valuable tool in this regard, although we believe its design could be improved in certain respects.

...Our countries support the initiative calling for voluntary participation by the private sector in the resolution of international financial crises, and in doing so wish to reiterate that it is necessary to exercise caution in designing and implementing the arrangements through which such participation would materialize. In our opinion, creditors should participate on a voluntary basis and in their own best interests; steps should be taken to minimize possible adverse effects on the risk premium applied to the developing countries; and the mechanism should be sufficiently flexible to accommodate the varying circumstances surrounding the issue of debt instruments by private entities.

In this process, the International Monetary Fund must help seek solutions that will be viable for both sides, and not impose any one specific solution on private creditors. The proposal by the industrial countries to incorporate provisions in bonds that would facilitate their restructuring is a positive initiative that should first be adopted in the developed countries, in both the public and private sectors, so as to establish a new standard. Nevertheless, until conditions such as these prevail in the market, it is likely that this clause would adversely affect the access of developing countries to the international capital market.

The countries in our region approve of the efforts to strengthen the international financial system by going beyond the Basle standards. Nevertheless, the role to be assigned to risk assessment agencies must be approached with extreme caution, and care should be taken in general to ensure that the measures do not affect our countries' access to international markets, or the costs they incur in the process.

Poland (Governor Gronkiewicz-Waltz)

Within the process of strengthening financial systems we attach great importance to analyses and assessments made by the Financial Stability Forum. Its works on capital flows, risk related to excessive short-term debt or the role played by international financial organizations able to exert political and economic influence, will significantly contribute to the implementation of a reasonable policy in all fields relating to the stable financial system...

One of the key elements in the process of strengthening the international financial system and successful carrying out economic reforms is transparency of actions taken by governments and central banks. Disclosure of information related to fiscal and monetary policies enables the public to understand and evaluate financial policy as a whole, thus facilitating the authorities to undertake actions leading to financial and systemic stabilization. It is obvious to us that only a credible information system can guarantee an effective execution of the economic policy...

We should also aim at increasing involvement of the private sector in the process of preventing and overcoming a crisis. Cost-sharing should be determined on voluntary rather than obligatory basis. Emerging markets' governments should attach more importance to regular cooperation with the private sector on creating advantageous conditions for long-term foreign investment as well as to maintaining current contacts.

Another priority we must not fail to recognize is taking up a determined fight against a phenomenon of widespread corruption, which is one of major factors hampering economic and social development. Corruption diminishes effectiveness of international assistance to the poorest countries, which, in extreme cases, can even be discontinued. However, applying only legal means in this fight is not sufficient. Such actions need to have strong political and social support. Eliminating adverse effects of corruption on international financial and commercial transactions requires close cooperation of developed and developing countries. In the ever-changing international situation defining new forms of corruption as well as increasing pressure on applying effective means, which have already been used in numerous developed countries, of counteracting corruption at any level, should also be taken into consideration.

Russian Federation (Governor Khristenko)

The question of involving the private sector in forestalling and resolving financial crises is very important for strengthening the global financial architecture. ...At the same time, we believe that this is a very complicated task requiring a cautious approach. On the one hand, we understand the desire to work out a set of rules on this issue, which would both help reduce uncertainties on financial markets and provide for a more equitable burden-sharing among various groups of creditors. On the other hand, any hasty and unwise steps in this area could lead to a drastic deterioration in borrowing conditions for emerging market countries. We would also note that some useful experience is being gained in this area now.

We also need to maintain an ongoing dialogue with representatives of the private sector. We need to explain that the IMF does not seek to impose specific parameters for restructuring private sector claims, and that the IMF simply evaluates the status of a country's balance of payments, while all decisions should properly be based on the outcome of negotiations between creditors and debtors. It is also important that the private sector not get the wrong idea that some specific decision taken with regard to one country or another will henceforth necessarily become a rule.

Substantial progress has been achieved in the development and implementation of international standards in the areas directly related to the Fund's mandate. ...At the same time, we believe that the use of standards in the Fund's activities should be restricted to the analysis of progress achieved by the countries, and recommendations about further

further internationalization of our currency, the ringgit, and restore stability in the financial market. In the past one year we have used this window of opportunity to strengthen the fundamentals of the Malaysian economy...

Despite the severe criticism leveled at us when we first adopted selective exchange controls, the unorthodox measures have yielded positive results as they provided the stability required for recovery measures to be effective. What is perhaps most significant is that the economic recovery was achieved with minimal social costs to the most vulnerable segments of society. Unemployment remained low and poverty did not increase significantly. Our experience has shown that the standard IMF policy prescriptions introduced during the earlier part of the crisis did not work for Malaysia.

The return of stability to the financial markets allowed Malaysia to liberalize the exchange controls within six months of its implementation....

In the absence of rules to manage capital flows, small emerging market economies have become extremely vulnerable to volatility...

It should also be noted that in spite of the best institutional framework, small countries can be completely overwhelmed by a liberalized capital account framework. Without a parallel institution at the international level, countries may be forced to resort to more inward-looking policies in order to protect incomes and employment.

The experience in the last two years indicate that small countries are most vulnerable to liberalization. It is our view that they should not be coerced into accepting capital account liberalization at any cost. Instead, they should be allowed to liberalize at a pace commensurate with their stage of development. Liberalization of the capital account should not be part of Fund conditionality. Malaysia believes a more productive approach is to create a conducive environment, which would serve as an incentive for countries to liberalize their capital accounts. This requires stable financial markets that would make it "safe" for countries to open their capital accounts.

In our view, any expansion of the IMF's jurisdiction over the capital account should await the outcome of discussions in various international fora on reform of the international financial architecture. The issue of IMF jurisdiction over capital movements can be revisited at a future date. At this juncture, the priority should be ensuring a sustainable recovery in the crisis-affected countries and on reforming the architecture of the international financial system to restore stability and order in global financial transactions.

Malta (Governor Dalli)

...having observed the experiences of a number of countries with capital account liberalization we feel that we should proceed cautiously and not get carried away by the attraction of unlimited capital inflows. The implementation of sound and consistent macroeconomic policies together with the attainment of a sustainable position on the current account of the balance of payments are necessary pre conditions for full capital convertibility. Thus before capital controls are completely relaxed we will aim at achieving much more stability in our economy by first addressing the structural imbalances particularly in the fiscal sector.

Mauritania (Governor Ould Mohamed Ali, speaking on behalf of the Arab Governors)

...while we acknowledge the advantages of the globalization of financial markets and its effect on developing countries through the transfer of private capital and support of their development efforts, we must also acknowledge that the recent financial crises warned the international community of the dangers of premature capital account liberalization in developing countries, as well as the importance of strengthening the financial and banking sectors to ensure that they are well established, before proceeding to liberalize the capital account.

We support the efforts of the IMF to assist member countries in controlling short-term capital flows, which we believe played an important role in the outbreaks of recent financial crises. We also support the Fund's efforts to create mechanisms to help reduce dependence on these flows as a source of financing, and to stimulate long-term capital flows, especially those related to foreign direct investment.

We call on the IMF to expand and complete its study concerning systematic capital account liberalization in order to help developing countries determine the appropriate pace for liberalizing their accounts, and to take appropriate measures to maximize the benefits obtained from capital inflow and reduce the possible adverse effects upon their economies. It is important to take the particular circumstances of each country into consideration in determining the appropriate pace and phases for liberalizing their capital accounts.

Norway (Governor Gjedrem, speaking on behalf of the Fund Nordic and Baltic Countries)

We favor a central role for the IMF in helping countries to open up their capital accounts in an orderly and properly sequenced way. The Fund should be given appropriate jurisdiction over the liberalization process. An opening of countries' capital accounts must be preceded by a strengthening of the domestic financial system; for example, through more information and improved regulation and supervision. Furthermore, liberalization must be accompanied by adequate macroeconomic and structural policies.

However, liberalization of the capital account should, as far as possible, be synchronized with the liberalization of trade in goods and services.

Peru (Governor Joy Way, speaking on behalf of Latin American Governors and Spain)

There is general consensus that the process of capital account liberalization should follow an ordered sequence so as to minimize risks like those stemming from the contagion effect of crises originating outside the particular country. Our countries stand to benefit from the opening up of the capital account, as long as they follow sound macroeconomic policies and

6. Exchange Rate Regimes

Croatia (Governor Skreb)

...As already emphasized by many distinguished colleagues, responsible policymakers cannot imagine withstanding the pressure from defense of the peg in the present world of a globalized economy and high capital mobility, without having sound economic and financial structures...

France (Alternate Governor Trichet)

Exchange rate systems and policies have played a crucial role in the recent crises. In conformity with its mission, the IMF must develop a global strategy. But, we should remain pragmatic. Pure floating or currency boards are not the only available alternatives. Had only a polar approach prevailed, the euro would not have become the European currency and would not be a magnet for many European countries. Room should be left for regional cooperation.

Transparency and consistency should prevail : in adopting a particular exchange rate regime, a country should make clear the objectives it is pursuing. The IMF should continue to reflect on this, taking into account the policy choices of each country.

The experience of the nineties demonstrates that, in countries where capital account liberalization has been completed, consistent macroeconomic policies are a prerequisite for appropriately managing or pegging exchange rates. Nonetheless, financial crises in various emerging economies have highlighted that macroeconomic discipline alone does not suffice to sustain pegs and must be accompanied by sound and robust financial systems, effective regulation and supervision, good corporate governance, as well as greater transparency in the conduct of monetary and financial policies.

Germany (Governor Welteke)

...the Euro has already become the second most important currency in the world. The countries making up the Euro zone are aware of the responsibility this imposes on them. With the continuation of fiscal policy consolidation and structural reform, the Euro countries will create the conditions to promote sustained, vigorous growth and high employment.

Italy (Governor Amato)

We must be aware that such volatility produces repercussions on other countries' economies. This does not mean, however, that we should introduce some form of exchange rate rigidity between the three major currencies, which would only come at the expense of domestic stability.

Emerging market economies must be careful in choosing their exchange rate regimes. With increased capital mobility, countries should peg their exchange rate only if they can implement economic policies that are consistent with both domestic and external requirements. The Fund has the responsibility to assist countries in devising the most appropriate exchange rate regime and supporting policies.

Japan (Alternate Governor Hayami)

On the question of what type of exchange rate regime should be adopted by emerging market economies, we must remember that numerous crises have been caused by misguided efforts to maintain a de facto fixed exchange rate pegged to a single currency. Based on extensive past experience, the IMF should provide appropriate advice on this matter through the programs it supports and its surveillance activities.

Norway (Governor Gjedrem, speaking on behalf of the Fund Nordic and Baltic Countries)

The most appropriate exchange rate regime depends on the economic circumstances facing the individual country. However, experience reveals the risk of upholding a rigid exchange rate policy when there are underlying pressures in the economy and financial markets are characterised by rapid capital movements. Exchange rate pegs require a high degree of prudence in macroeconomic as well as financial sector policies.

Peru (Governor Joy Way, speaking on behalf of Latin American Governors and Spain)

On the subject of choice of a particular exchange rate arrangement, our position is that countries are entitled to opt for whatever exchange system they consider best suited to their needs. The experience of our countries has demonstrated that the most important factor is the fit between the country's economic policies and the exchange system it has chosen.

Russian Federation (Governor Khristenko)

Increasing globalization of international capital markets is bringing new challenges to exchange rate regimes in emerging market economies. As the recent experience of many countries shows, defending the exchange rate with interventions counter to the market sentiment merely leads to rapid exhaustion of foreign exchange reserves. Many believe nowadays that the only choice for emerging market countries should be either freely floating system or currency board arrangement.

Clearly, exchange rate stability is of great importance for robust development of the economy, since it reduces the degree of uncertainty for all agents. Successful management of the exchange rate however requires that a whole range of conditions, such as a healthy macroeconomic situation, a strong financial system, and a high level of foreign exchange reserves. For emerging market countries where these conditions do not hold, it is better to adhere to a floating exchange rate policy. This is especially true for countries that are heavily dependent on world commodity prices, since a floating exchange rate makes it easier to absorb terms of trade shocks.