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To: Members of the Executive Board

From: The Secretary

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

Attached for the information of the Executive Directors are excerpts from Governors' speeches at the 1999 Annual Meetings relating to various policy issues. The excerpts aim to highlight the messages, arranged by topic, emerging from Governors' speeches and are not intended to provide a comprehensive compendium of views expressed by them. A record of Governors' full remarks will appear in *Summary Proceedings*, to be issued later.

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## **1999 Annual Meetings**

*Washington, D.C.*

### **Excerpts from Speeches by Governors**

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## **1. Policy Requirements for a Sustained Economic Recovery**

### **Austria (Governor Ruttenstorfer)**

...While I am very pleased to see that the financial crises of the past couple of years seems to be over, and that for a number of countries the macroeconomic situation looks quite promising, the real effects of the crises on the respective populations are far from over at this point in time. A lot remains to be done to ameliorate their situation, and to avoid—as far as possible—such dramatic social effects in the future.

### **China (Governor Xiang)**

...we should not be over-optimistic. The global economic environment, though improved, has not stabilized completely. The recovery of the former crisis countries has just started... To further consolidate the recovery and stabilize the world economy is a challenging task before the governments around the world. Developing countries need to continue their economic restructuring. At the same time, we call upon developed countries to increase resource transfer to, and imports from, developing countries. We also urge them to implement proactive and responsible fiscal and monetary policies, and coordinate their interest and exchange rates policies, so as to create a better environment for the healthy development of the world economy.

...the Chinese government, taking into account the need to maintain a healthy development for the Asian and the global economy, has adopted a highly responsible policy stance and made tremendous sacrifice by keeping the Chinese currency stable, thereby contributing to the recovery of the Asian economy...

### **Cyprus (Governor Klerides)**

...There are still considerable downward risks for the world economy, especially if the expected deceleration in the growth of the US economy is not offset by faster growth in the other major industrial economies. It is important that this momentum can be sustained so as to enable significant improvements in the living standards of the population of the poorer developing countries.

### **Fiji (Governor Kubuabola)**

...Despite these positive developments in global economic and financial conditions, many downside risks remain. Great care will now be necessary to nurture the fragile global recovery and guard against some of the potential hazards that lie ahead.

### **France (Alternate Governor Trichet)**

...Current prospects for world growth are such as to inspire new optimism. We should now consolidate these results.

...The global economy is in much better shape but there remain risks and challenges. We must demonstrate that we can take advantage of a quieter and calmer period to embark resolutely on the reforms that are needed.

...we should remain also vigilant so that the more robust growth that we currently enjoy last as long as possible. We particularly should take into account incipient short-term pressures on consumer prices related to the higher oil prices observed over the last months and the lagging effects of the evolution of the euro. With the view to extend the period of non-inflationary recovery and to significantly reduce unemployment, it is also necessary to continue implementing structural reforms.

...we must identify the ways to achieve long-term, balanced growth and to define the framework which will enhance this dynamic movement. The international financial community has a considerable responsibility in this regard. It is in this spirit that we have made several proposals. The improvement in the general situation now allows us to focus on the most pressing problems of the poorest countries.

...I welcome the commitment of the Japanese authorities to continue policy aimed at avoiding any further growth weakening. External demand can play an important role on the condition that the value of the yen ceases to rise: this analysis is shared by the G7 countries.

Strong growth in the United States remains impressive. In this regard, I welcome the fact that fiscal policy is contributing to reducing the national saving deficit: lowering taxes would only increase existing imbalances. Yet, household saving remains insufficient.

The positive signs which have appeared in the last several months, especially in Asia, should not lead to underestimate the vulnerability of these economies to external shocks or the scope of the structural reforms still to be undertaken.

#### **Germany (Governor Welteke)**

But risks remain, despite the improvement in global prospects. Hence it is vital to press ahead with the necessary reforms...

#### **India (Governor Sinha)**

...Although the signs of recovery are visible, there is a need to temper the optimism with caution. Sustainability of the recovery is not yet assured and a number of risks and uncertainties continue to cloud the outlook for the near future, especially for developing countries.

While there is an imperative need for improvements in the present structure, there is also a risk that such efforts may not go far enough, especially if the longstanding concerns of developing countries do not get their due attention. ...issues such as the declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial

stress, low primary product prices and the limited access of most developing countries to private capital flows need to be brought to the forefront of the global agenda.

...The international community cannot turn a blind eye to certain iniquitous aspects of global financial and economic developments during the recent past. ...equitable distribution of the enormous benefits of the new technological revolution is going to be one of the central issues for the new millennium.

**Iran (Governor Namazi)**

...the concern over the collapse of the international financial system has given way to the need for better policy coordination among the industrial countries to maintain the continuity of orderly economic growth in the world. ...the financial flow from international capital markets to developing countries has been cut in half compared to the pre-crisis period. Moreover, access to these resources has become prohibitively costly and limited solely to creditworthy borrowers.

**Italy (Governor Amato)**

Structural policies are required: in the US, to increase private savings while ensuring a soft landing of the economy, and in Europe, to improve the functioning of markets—in particular in the product and labor sector—and thus sustain economic recovery.

In Japan the efforts to sustain aggregate demand and press ahead with structural reforms are key for the turnaround of the economy.

**Korea (Governor Kang)**

Yet for structural reforms to become deep-rooted and effective, it is critical that the global economic environment remains stable. Specifically, we look to a soft-landing for the U.S. economy and a sustained economic rebound in Japan and EU member countries. For achieving stability in the global financial environment, we will all benefit from strengthened policy coordination among the world's major countries.

**Lao People's Democratic Republic (Governor Vorachith)**

...the challenge in the future is the maintenance of the coordination and cooperation so as to ensure that the global economy in the 21st century be truly rid of the recession trend. In my view, I think that it is the responsibility of this Joint Annual Meeting to consistently explore approaches and measures to guarantee the persistent efficiency of the international coordination, particularly ensuring that the concentration of efforts for solving problems in countries facing the economic crisis does not impede the needs of other groups of countries of the world.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

...Africa is now at a crossroads in its history, and we must move forward resolutely towards its successful integration into the global economic and financial system. This is a joint responsibility which begins with the reform efforts of the African countries, to be complemented by the international community, if Africa is to make its rightful contribution to global prosperity...

Given Africa's low level of savings, and the reduction in official development assistance and in foreign direct investment, a major effort is needed to mobilize resources necessary to support this ambitious growth objective. Greater public savings can be mobilized through improved tax administration; prudent monetary policy and increased financial intermediation can also help promote private savings. However, much of the needed resources will still have to come from foreign savings.

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

...we hope that the [Russian] authorities will proceed quickly to implement the comprehensive reforms necessary to revive the economy...

...despite the recent marked improvement in the world economic environment, a number of latent dangers remain that could hinder continued increases in world economic growth in the foreseeable future. These dangers are largely related to an expected slowdown in the American economy. The international community hopes that other regions of the world, particularly Europe and Japan, can achieve sufficient increases in the growth rates of their economies to compensate for the slowdown in growth in the United States and ensure continuation of the current revival of the world economy.

It goes without saying that the international community places great importance on the economic policies adopted by the major industrial countries, given their tremendous effect on the degree of stability that will accompany the expected reform of the world economic system. We therefore call upon these nations to adopt appropriate policies to protect the world from the latent dangers currently facing the world economy. We call upon the U.S. monetary authorities to follow closely developments in the stock market and take them into consideration in determining monetary policies. We hope that the European authorities will hasten to intensify structural reforms, especially in their labor markets, to stimulate growth in their economies. In Japan, it is hoped that the authorities will continue their expansionary policies to stimulate growth of the country's economy while continuing to implement important structural reforms in the banking sector, which have recently begun to produce positive results.

The oil-producing Arab countries have confronted this significant decrease in revenues [from lower oil prices] by intensifying their efforts at economic reforms aimed at reducing the deficits in government budgets and the balance of trade, by reducing expenditures, diversifying the sources of government revenue, and privatizing public projects. They have



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 a number 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.

Nevertheless, the considerable reform efforts undertaken in many developing countries make it unlikely that another currency crisis will trigger the contagion effects of 1997/98...

I am pleased and encouraged that Thailand, along with many other countries, has turned the corner on the recent crisis...

**Turkey** (Governor Demiralp)

... There are risks that must be met with precautionary policy actions. Careful fine tuning of U.S. policies will be needed to control potential inflationary pressures. Structural reforms must be completed before Japan's recovery can be considered durable. In Europe, serious efforts must be made to remove the obstacles blocking the reduction of structural unemployment. For the emerging market economies the picture is mixed. For some Asian countries, the recovery from the crisis has been much faster and stronger than expected; but Latin American growth has never really recovered from the debt crisis of the 1980s. Here, too, further progress with structural reforms is badly needed.

**United Kingdom** (Governor Brown)

Global financial stability depends on individual national governments pursuing strong domestic policies. There are two supremely important tasks which national governments must undertake in order to succeed in the global marketplace—first, building a platform of stability based on openness and transparency in policy making, and second pursuing structural economic reform to promote productivity and employment.

In today's global economy, there is little place for the fine tuning of the past which tried to exploit a supposed long-term trade-off between inflation and unemployment which proved elusive. But equally in today's deregulated liberalized financial markets, governments can no longer try to deliver stability through the application of rigid monetary targets.

The answer to the uncertainty and unpredictability of ever more rapid financial flows is, first, clear long-term policy objectives, second, the certainty and predictability of well-understood procedural rules for monetary and fiscal policy, and, third, an openness that keeps markets properly informed and ensures that objectives and institutions are seen to be credible.

**United States** (President Clinton)

... we have more to do to reform the global financial foundation upon which the future will be built.

I hope we will start the new millennium with a new resolve: to give every person in the world—through trade and technology, through investments in education and health care—the chance to be part of a widely shared prosperity, in which all the peoples' potential can be developed more fully. This is the challenge of the second half-century of the life of the IMF and the World Bank. And for me it is a personal priority of the highest order.

## **2. ESAF and HIPC Initiative: Reforming the ESAF; Financing for the ESAF and HIPC Initiatives; Enhanced Poverty Focus of ESAF-Supported Programs**

### **Australia (Governor Costello)**

The developments in the last few days which will lead to an Enhanced HIPC Initiative holds the prospect of great benefit for indebted countries and their poverty-stricken peoples. Australia will more than double its contributions to this initiative and I congratulate both the Bank and the Fund for the tireless work on financing the initiative.

Write-offs offer new hope for countries crippled by debt. Economic policy to harness this opportunity will be required to build high hopes for a new start into reality. Economic growth is the best way of breaking poverty. High quality growth and the conditions that promote it—honest institutions, accountable and transparent policy, declining trade barriers, open society, respect for human rights and property are the foundations for raising living standards, opening opportunity, hope and achievement.

### **Austria (Governor Ruttenstorfer)**

In the context of our continued efforts to fight poverty the important work on HIPC must continue. I appreciate and fully support the enhancements to the HIPC Initiative framework... I do appreciate the progress made during the last few days on this framework. I am concerned, however, that while expectations have been raised in the countries concerned, at the same time there seems to be an inclination to bypass a number of important particulars and to leave them open for future agreements. Such an approach, in my view, could do substantial damage to the credibility of the initiative and should be avoided. I would like to emphasize here, that Austria stands ready to provide her fair share of financial support to the HIPC Initiative within an agreed framework of fair burden sharing.

Indeed, the principle of fair burden sharing has a variety of implications. Not only do we have to balance the burden amongst industrial countries; also middle income countries might have to bear part of the burden because of the interrelationship between the services provided by international institutions and the implications of allocations of the net income of the institutions for various purposes. Therefore, while seeing some room of manoeuvre for additional contributions by the international financial institutions, I would argue that the demand for such contributions should not be overstretched, for the reasons mentioned and, moreover, in order to protect the financial integrity of the international financial institutions.

Another broadly accepted principle to be observed in the HIPC Initiative is additionality. All the more it is important that, from the outset, we do have a viable concept about the overall financial requirements and a credible plan how these requirements would be fulfilled. Countries benefitting from the initiative should be given a clear perspective of what they can expect in terms of new financial aid as well as in terms of debt reduction

conditional upon implementation of the mutually agreed measures and programs, not only in the short term but also over an extended period of time. Part of such programs under considerations must include issues of governance, budget management, and the structure of public expenditures including social sector spending and military expenditures.

We welcome the Poverty Reduction Strategy Plans to be developed by the countries concerned as particularly useful instruments. However, I urge both, the IMF and the World Bank, that programs be designed in a pragmatic fashion as far as the underlying economic thinking is concerned. They should take into consideration the lessons learned in the past from what has and of what has not worked in previous programs... At the same time, I fully support the IMF's intention to take into account consistently the social aspects and effects of its stabilization programs, and I welcome the steps to make ESAF a program oriented towards poverty reduction as a central focus.

However, in addition to our efforts to either stem crises or alleviate harshest economic difficulty we must not forget all those [middle-income] countries who are neither immediate victims of financial crises nor in extreme poverty, but are, nevertheless, very much in need of our assistance...

**Bangladesh** (Governor Kibria)

...There is need for pragmatism and for the Bank and the Fund to take into account the local context and, in particular the realities of democratic governance in designing institutional and policy reforms. More importantly, the recipient countries must have a greater role in diagnosing and designing their own reform programs.

**Belgium** (Governor Reynders)

I... advocate the establishment of links between programs such as ESAF/HIPC and efforts to reduce poverty in the poorest countries.

At present, the most important consideration is to ensure that these programs receive the necessary financing. ...In addition, the use of IMF-based approaches—and in particular the revaluing of a portion of the Fund's gold reserves—seem fully justified in the present circumstances.

We must now strengthen the activities of the Bretton Woods institutions by giving them a more clearly defined social focus, and by incorporating education and health programs into these activities, since these have a considerable impact on the poorest communities.

**Belize** (Governor Fonseca, speaking on behalf of the Joint Caribbean Group)

...we need to point out that in CARICOM, members are both creditors and debtors. In this regard, we would urge that consideration be given to this fact in the deliberations regarding relief to members to ensure that relief granted to any one country should not be

to the detriment of another. As far as possible, appropriate safeguards should be considered to cushion any negative impacts. We also need to point out that there are countries which, while not qualifying for debt relief under HIPC, also carry significant debt burdens which adversely affect their poverty reduction efforts. We would like to see a mechanism designed to assist those countries' efforts as well.

**Cambodia** (Governors Keat and Chea)

We welcome the coalition between the Bank and the Fund which have departed from the traditional macroeconomic framework to the combination of efforts in linking structural adjustments with poverty reduction agenda. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through new HIPC Initiatives that link debt relief to the efforts in eradicating poverty...

**Canada** (Temporary Alternate Governor Peterson)

Debt relief under the new initiative will more than double. Combined with relief under current mechanisms and forgiveness of aid-related claims, this could release significant resources for poverty reduction programs.

Expanding the HIPC Initiative by itself, however, will not be sufficient to meet the challenge of poverty reduction. The HIPC Initiative can only form one element of what must be a much broader attack on global poverty.

...the shift in development thinking must go further. Experience has shown that to be truly effective, development assistance needs to be targeted to countries whose governments pursue good policies and which are committed to developing and maintaining strong institutions. Governance has been a dominant theme of development assistance work over the last few years and it must remain at the top of the policy agenda. In fact, good governance has become the essential building block for solid gains in poverty reduction and effective development assistance.

To prevent debt crises from becoming a recurring problem for developing countries, Canada also calls on lenders to adopt more transparent lending practices.

**China** (Governor Xiang)

We support the efforts by the World Bank and IMF in strengthening the debt reduction for the HIPCs and poverty alleviation in low-income countries. We have also noted the increased emphasis put on social sector issues by the two institutions. We believe that economic development is a precondition to solutions to poverty alleviation and social issues. The two institutions should help developing countries achieve stable and steady growth, which in turn will help reduce poverty and solve social issues. In this connection, we support the Fund's plan to increase the gold sale in a non-market form with a reasonable cost sharing.

**Croatia (Governor Skreb)**

... we believe that IMF readiness to place more emphasis on social issues in developing programs will be broadly welcomed. This will undoubtedly increase public support for the IMF programs, and make implementation of them easier, especially in recipient countries.

**Cyprus (Governor Klerides)**

... we are concerned that some of these enhanced facilities, such as that of the strengthened HIPC Initiative, will require further large funding in order to provide timely financing and debt relief to deserving countries. In this vein, Cyprus would urge that early agreement be reached on the full financing and equitable burden-sharing for the enhanced HIPC Initiative.

**Fiji (Governor Kubuabola)**

... The proposed debt relief for highly indebted poor countries... is a very worthwhile initiative and commands wide support. We are heartened by the Fund's decision to undertake off-market transactions rather than open market sales of gold to fund this initiative, which would avoid the disruptive effects on gold producing countries like Fiji.

**France (Alternate Governor Trichet)**

The debt burden in the poorest countries represents a major obstacle to their development. When a country's debt service is greater than its education or health budgets, it is impossible to envisage steady development progress...

It will now be necessary to go much farther to free the poorest countries from debt overhang.

We must be watchful that this goal is achieved in full accordance with three fundamental principles which France has put forward from the outset: solidarity which should lead us to concede the most favorable possible treatment to the poorest countries; equity, which is the basis of fair burden-sharing between all bilateral and multilateral creditors; responsibility, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

We are waiting for other developed countries to commit to a comparable effort. Countries like France which make large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on equitable burden sharing.

The dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to

the developing country governments to adopt economically and socially coherent development policies and to improve governance.

Maintaining sufficient flows of public aid is vital. The concessional loan funds, principally IDA and the African Development Fund, at the multilateral Banks must in fact receive the resources committed during the recent replenishments.

**Germany** (Governor Welteke)

People in economically less-developed countries must also be enabled to benefit from the opportunities for lasting growth, innovation, and socially equitable, ecologically acceptable development provided by globalisation. We must all work together to create the conditions for this.

The enhanced Debt Initiative presents major financial challenges to bilateral and multilateral donors. Many industrial economies are in a process of budget consolidation calling for cut-backs by the population as well.

Yet, Germany will contribute to the World Bank Trust Fund and will cancel substantial amounts of bilateral debt. Within the IMF, Germany will make an appropriate contribution to financing the ESAF enhancement and the IMF contribution to the HIPC Initiative.

Other multilateral donors must now step up their efforts to secure financing for the HIPC Initiative as well. We must especially endeavour to ensure that efficient and broadest possible use is made of the institutions' own resources.

However, debtor countries' enhanced scope for policy action offered by debt relief will prove only beneficial to them if they pursue sound economic policies and avoid unproductive expenditures to a higher extent than in the past.

The funds released through debt relief must—in the context of a comprehensive poverty reduction strategy—be targeted at social improvement. Promoting health care and education, for example, is a crucial requirement to ensure lasting economic development and hence economic and political stability.

What is important is that the IMF and the World Bank participate in these tasks within the confines of their respective mandates. Poverty reduction strategies are the task of the countries concerned and the World Bank. The World Bank should concentrate on social and structural issues. The IMF should restrict itself to the macroeconomic issues.

Economic growth cannot achieve sustained development and overcome poverty unless it wears a human face. In the same vein, the efforts of the IMF and the World Bank as well as the bilateral and other multilateral donors will fail unless they are backed up by vigorous efforts on the part of the developing countries themselves. This would foster the creation of a political and economic environment within the country which motivates



individuals and allows them to put their capabilities to productive use. In this context, encouraging transparency and good governance is indispensable in securing the effective deployment of bilateral and multilateral assistance.

The importance of "good governance" is demonstrated not least by the problems of money laundering and corruption. In any case, recipient countries must always take all necessary actions to avoid a misuse of funds.

**India** (Governor Sinha)

I am happy that social sector issues have gained in prominence in the Fund-Bank agenda, and that the link between debt relief and poverty reduction has been emphasized. Larger HIPC funding should, of course, be effected on the principles of additionality and equitable burden sharing among developed countries without affecting the financial integrity of the Bretton Woods institutions. Moreover, it must be recognized that strategies for global poverty reduction will not be successful unless there is adequate flow of additional development assistance also to those countries which have managed their economies prudently and have met their debt obligations, despite difficulties.

**Indonesia** (Alternate Governor Boediono)

...the proposed reform of the HIPC Framework would make not only good politics but also good economics.

**Iran** (Governor Namazi)

We welcome the international support for poverty reduction, and commend the IMF and the World Bank for further progress being made in the initiative to assist highly indebted poor countries (HIPC) and post-conflict societies. It is hoped that by broadening the scope for eligibility under the HIPC Initiative and by increasing financing, more substantial assistance to a larger number of poor countries will be made available. We also welcome the efforts made in ensuring adequate funding for the Enhanced Structural Adjustment Facility (ESAF). (The Poverty Reduction and Growth Facility)

The developing countries are the essential partners of the industrial nations in the globalized world. It is, therefore, incumbent on the industrial countries to work closely with all developing countries, especially with the poorer nations, and to increase the volume of ODA in support of their efforts to eradicate poverty, launch effective policies for sustainable development, and build the economic capacity of their countries. Needless to say, the stability and integrity of the world economy depend on rational relationships between the industrial and developing countries and the political support for the efforts of every developing country that seeks to achieve sustainable development.

**Ireland** (Governor McCreevey, speaking on behalf of the European Union)

Ownership of programs by stakeholders is a prerequisite for successful implementation. An implication of this is that, for example, IMF programs need to take on board, at the

design stage, the social and civic implications of their implementation. This is not the same as saying that IMF should engage directly in the social or developmental aspects, but that the macro design of its programs should be able to integrate fully outside expertise.

... We are all aware of the wide public concern for a serious attack on the problem of unbearable debt which is reflected in the extent of popular support for Jubilee 2000. This must be addressed and the HIPC Initiative must be implemented in a way that achieves its basic aims. We must remain open to any further enhancements required for this to be achieved, in particular, taking greater account of human needs in determining eligibility and the extent of the relief required.

I would, therefore, call on Governors to resolve any outstanding difficulties in implementing the enhanced HIPC Initiative at this stage, particularly in regard to its financing.

#### **Italy (Governor Amato)**

... poverty reduction must come at the core of the activities of the international financial institutions. The enhanced HIPC Initiative provides deeper, faster and broader debt relief and establishes a close link between debt relief and poverty reduction. The funding of the initiative needs to preserve the principles of additionality and the financial integrity of the international institutions. Multilateral institutions thus need additional support on a bilateral basis to cover the costs associated with the enhanced framework. Italy has already made a substantial contribution to a stronger link between debt relief and poverty reduction by canceling all commercial and ODA debt to HIPC countries with a per capita income lower than US\$ 300. In addition, Italy has contributed its full SCA-2 share, around US\$ 60 million, to the ESAF-HIPC Trust of the IMF. Italy will contribute US\$ 70 million to the HIPC Trust managed by the World Bank.

#### **Japan (Alternate Governor Hayami)**

... Under the enhanced Initiative, Japan will provide the largest-scale bilateral ODA debt relief. The enhanced Initiative is now expected to be implemented speedily.

In the implementation of the enhanced HIPC Initiative, it is necessary to identify financial resources to meet the increasing cost to international organizations. Maximizing the use of their internal resources should come first and then, bilateral contribution on the basis of the principle of fair burden sharing. I welcome the agreement on a financing plan that will permit the enhanced HIPC framework to be launched and the delivery of debt relief to begin for countries requiring retroactive relief and those expected to reach their decision points over the near term. I would like to express my appreciation for the efforts made by the managements of the World Bank and the IMF.

It is also important to clearly identify the Initiative as an integral part of the World Bank's poverty-reduction strategies and to ensure a link between debt relief and poverty

reduction. It is essential to secure developing country governments' ownership and participation of civil society during implementation. We should fully recognize the necessity of tailoring assistance to reflect each country's poverty situations, available resources from debt relief, and implementation capacity.

**Korea (Governor Kang)**

I would like to take this opportunity to express Korea's support for the IMF-World Bank initiative to help heavily indebted poor countries (HIPC). Korea is willing to contribute to the ESAF-HIPC trust fund on the basis of a fair burden-sharing principle.

**Lao People's Democratic Republic (Governor Vorachith)**

We welcome and fully endorse the proposals made by G-24 countries concerning the attenuation of conditionalities attached to assistance and loans provided by the international community to countries with low level socio-economic development.

**Madagascar (Governor Andrianarivo, speaking on behalf of the African Governors)**

...we urge the donor community to reach a timely agreement on the funding of the Enhanced Structural Adjustment Facility (ESAF), so that it can focus more on growth and poverty reduction. We also call for adequate provision of international technical and financial assistance to post-conflict countries, including those in arrears to multilateral institutions.

In assuming a greater ownership of our economic programs, we have given increased emphasis to transparency, accountability, poverty reduction and social safety nets, as well as regional integration. We look forward to the continued support of the Bank and the IMF in this endeavor, and encourage them to play a catalytic role in the matter of resource mobilization. In this connection, we urge the Fund and the World Bank to increase their partnership with the donor community and to enhance collaboration in support of these objectives.

...Creative solutions need also to be found for the debt burden of middle-income countries. There is a danger that, unless debt cancellation or substantial debt relief is granted, any potential for high economic growth expansion in Africa will be further jeopardized.

We reiterate our call for a fundamental change in its [HIPC Initiative] structure and for a relaxation of the eligibility criteria so as to include a larger number of countries. Funds released through debt reduction would enable our countries to allocate additional resources to the development of the social sectors and to poverty reduction. We welcome the recent initiatives to reduce further the debt burden of the poorest countries, so as to foster sustainable development. In particular, we welcome the recommendations of the G-7 in its recent Cologne Summit and the global consensus for reform. We therefore urge a rapid implementation of the modifications to the HIPC Initiative as approved by the

Boards of the IMF and the World Bank. We are well aware that the proposed reforms would entail additional costs, and we support the ongoing efforts by the international community to secure financing in the context of an appropriate burden-sharing arrangement. We would like to emphasize that enhanced debt relief should not be provided at the expense of ODA funding or IDA operations.

**Malaysia** (Governor Mustapha)

...Malaysia believes that the international community, including the World Bank and the IMF, need to reexamine current strategies and policies on poverty redressal.

In this regard, we welcome the ongoing efforts to modify the ESAF and the HIPC Initiative through the simplification of its conditionalities as well as enhancing its accessibility to more heavily indebted poor countries. While Malaysia believes that countries should settle their debt obligations, this new ESAF-HIPC Initiative would provide breathing space for them to use their limited resources to undertake social spending to reduce poverty levels.

**Malta** (Governor Dalli)

...we are concerned about the plight of the highly indebted developing countries and are willing to support all measures that contribute towards their development particularly if this takes the form of debt relief or concessional finance.

In this regard we are pleased to observe that the Interim and Development Committees of the Fund endorsed a strengthening of the current framework of the Heavily Indebted Poor Countries Initiative to provide deeper debt relief in a way that strengthens the incentives to adopt and implement economic and social reform programs, and provides a clear exit from unsustainable debt burdens.

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

We support in particular the international initiative to reduce the debt burden of low-income countries, and we welcome the recently proposed measures to increase the amounts of assistance provided and to accelerate the delivery dates, while strengthening the link between debt forgiveness and the requirement that countries take the necessary steps to reduce poverty within their borders. We also support the recommendation of the Group of 24 concerning the future expansion of this initiative to include highly indebted countries with mid-level incomes. We believe that the World Bank should take the leading role in implementing this initiative, as it is the institution with considerable experience in developing and implementing social policies aimed at reducing poverty. Close cooperation between the World Bank and the IMF is essential in order to distribute the tasks appropriately on the basis of each institution's area of specialization, to ensure that the objectives of this initiative are achieved in the optimal manner.

... We support the international financing plan that includes selling a portion of the IMF's gold reserves and investing the proceeds of the sale. A large number of Arab countries, both oil producers and non-oil producing countries, are willing to help finance this initiative to the extent they are able, while maintaining the financial soundness of the Arab funds and other institutions concerned.

**Nepal** (Alternate Governor Bhattarai)

The progress in poverty reduction is not satisfactory to all of us. A lot more needs to be done in safeguarding the acute needs of small and least developing countries like ours.

We welcome the initiative taken by the Bank and the Fund in reducing the unsustainable debt of Heavily Indebted Poor Countries (HIPC). We note the Bank and the Fund are currently working for enhanced framework for faster, deeper and broader debt relief of the poor countries. We support additional financial assistance from the donors toward this framework. Similarly, further considerations should be given to include the poorest countries, which are being presently excluded from these arrangements.

We appreciate strategy of making ESAF arrangements a central point of poverty reduction program and Fund's effort to help member countries in handling structural and institutional reforms...

**Netherlands** (Governor Zalm)

It is of central importance to develop a concept of economic growth that is centred around durable poverty reduction. In that respect, I warmly welcome the enhanced link between debt relief and poverty reduction as exemplified in the new HIPC Initiative. It should therefore come as no surprise that the Netherlands supports the proposed modifications of the HIPC Initiative with the purpose of providing wider and deeper debt relief whilst encouraging recipient countries to conduct good policies. We support the idea of using floating completion points, and stress the importance of including key social and economic reforms as conditions for completion. It is of the greatest importance that we maintain the focus on good policies in the modified HIPC Initiative and secure full and equitable financing for debt relief quickly, so that the road to sustained growth and poverty reduction in highly indebted poor nations is cleared. In this respect, I hope that improved cooperation between the Bank and the IMF takes off. Better quality and depth of the Bank's poverty analysis should help the Fund to adequately sequence and fine-tune macro-economic stabilization policies. In addition, the financing of the self-sustained ESAF deserves the full attention of the international community.

**New Zealand** (Governor Birch)

... for the poorest and most vulnerable in our societies the continuing challenge is to work to ensure that they too benefit from sustained economic growth—in terms of their living standards, health, education and overall quality of life. Building stronger economies through open and efficient markets is ultimately directed at that goal.

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

The Nordic-Baltic constituency supports the enhanced HIPC Initiative, as well as the proposal to put more focus on social reforms in ESAF programmes. The ESAF/HIPC arrangement is an important tool for supporting macroeconomic reforms in the poorest member countries.

We very much welcome the agreement in the IMF on the financing of the ESAF/HIPC arrangement. We appreciate that the gold sales are envisaged to be a one time operation of a highly exceptional nature.

**Pakistan** (Governor Dar)

...the recently developed proposals by the Bank and the Fund to strengthen the link between debt relief under the HIPC Initiative and poverty reduction, and, to judiciously blend policies of poverty alleviation with structural adjustment and other reform, and transforming the ESAF so as to give greater emphasis to poverty reduction, are especially noteworthy. We hope that the necessary financing for the enhanced HIPC Initiative will be forthcoming and that the funding embodies genuinely additionality and not come at the expense of non-HIPC developing countries. In this context, we are concerned about using IDA resources in any form to fund the Initiative. While these developments are praiseworthy, we should not lose sight of the debt problems of low income non-HIPC countries.

**Papua New Guinea** (Governor Kaputin)

PNG strongly supports the Fund and Bank's objectives in addressing the debt burdens of Highly Indebted Poor Countries (HIPC). There are very real human consequences that need to be addressed. However, we do have very strong reservations regarding the possible sale of gold to finance the initiatives. Gold exports made up 33% of PNG's export revenues in 1998 and were responsible for a significant portion of our fiscal receipts.

**Paraguay** (Governor Zayas)

Empirical evidence shows that those countries which have achieved economic success have done so in the context of free market systems, and, by generating sustained economic growth, have enabled large segments of the population to escape from poverty.

We therefore wish to express our support for the poverty reduction and sustained growth initiative.

Adjustment programs must show their human face and must contain remedial social policies that mitigate societal differences.

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 a number 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...



**Russian Federation (Governor Khristenko)**

We support the HIPC Initiative and the reallocation of resources currently going to service external debt toward funding poverty reduction programs. The countries pursuing sound macroeconomic, structural and social policies should be able to escape from the "debt trap" in the nearest future.

However, our support for the expansion of the Initiative is conditioned on its adequate financing. At the same time, we would welcome a compromise solution that takes into account budgetary and domestic political problems of individual donors and creditors. Firm donors' commitments can be combined with a more flexible schedule of actual payments.

**Spain (Governor de Rato Figaredo)**

...we will not succeed in reducing poverty without sustainable growth. But poverty reduction is not merely a matter of growth; we must have an effective strategy to reduce it. For all these reasons, we support the World Bank's Comprehensive Development Framework and the initiatives being made by the Fund in this regard....

We also welcome the new debt relief initiative for the highly indebted poor countries, which is more generous and comprehensive than the previous one. ...[and] which constitutes a landmark in economic and financial cooperation for the poor countries of our planet... But this financial effort will be insufficient unless it is ensured that the resources made available will be used by the benefiting countries to finance projects that promote sustained economic and social development. Moreover, if debt relief is to have a lasting effect, we must ensure that developing countries become a part of the international economy and are able to benefit from the opportunities offered by the global economy.

For this initiative to become reality, we must find a solution for its financing. ...[This] financing should consist of additional aid and must in no event diminish the resources flowing to other developing countries. In addition, it must not affect the financial soundness of international financial institutions nor drive up the cost of their loans. Accordingly, we rich countries must review our contributions to these institutions.

We, the European ministers, have agreed to contribute the remaining balances in the European Development Fund (EDF) for debt relief for the ACP countries, and we would like to see this contribution extended to the other HIPC countries as well.

In conclusion, and to guarantee the linkage between debt relief and the fight against poverty, Spain is proposing the creation of local currency funds as a counterpart to bilaterally forgiven concessional debt. In this regard, we are considering the possibility that these funds might be managed by the multilateral financial institutions.

**Sri Lanka** (Alternate Governor Peiris)

...My country strongly supports efforts for improving the effectiveness of the ESAF and enhancing the HIPC Initiative to provide deeper, broader and faster debt relief...

**Switzerland** (Governor Villiger)

...Switzerland has strongly supported this joint IMF-World Bank Initiative and has contributed generously to its financing. I welcome the proposals to enhance the current HIPC framework. Providing deeper and faster debt relief and strengthening the link to poverty reduction should help ensure that the stated goals of the Initiative can effectively be reached. However, increasing the amount of debt relief and providing it faster will not be sufficient to do the job. Debt relief has to be accompanied by sound economic policies and a solid institutional framework that will allow the financial resources to be used effectively. This means an efficient tax system, a transparent budgetary process, and good debt management capacities.

...I would have preferred to see a greater share of the costs financed through bilateral contributions. This particularly given the forcefulness with which several major donors have pushed for enhancing the HIPC framework. I urge all members to ensure that their current pledges will result in effective payments.

...I fully support the view that poverty reduction has to be the objective for all of our assistance and of our policy dialogue. I welcome the strengthened cooperation between the IMF and the World Bank to ensure that poverty alleviation is a priority for all the activities of both institutions with regard to developing countries. The proposed new Poverty Reduction Strategy Papers will be a useful instrument to concentrate the minds of the governments, the IMF, and the World Bank on this central challenge and to outline concrete action plans.

It will be impossible to reduce poverty in a sustainable way without improving the quality of public governance.... All lending instruments should be analyzed as to their impact on strengthening institutions and as to their contribution to strengthening governance.

We must also continue with our efforts to reduce the scope of corruption. Such behavior has a negative impact on poor people's access to public services and results in an inequitable redistribution of resources. Specific anti-corruption programs designed by governments should be fully supported by the Bretton Woods Institutions in addition to improving the functioning of the public administration, increasing fiscal transparency, and improving the regulatory framework in general.

**Thailand** (Governor Chatu Mongol)

On the HIPC Initiative, we welcome the Bank and Fund's efforts in providing faster, deeper, and broader debt relief for the poorest countries which demonstrate a commitment to reform debt and poverty reduction. We therefore support the off-market

gold sale and other initiatives to secure the ESAF-HIPC financing. We, however, share the concerns with other developing countries regarding the financial burden that the enhanced HIPC framework will have on the multilateral development banks (MDBs). We urge that major industrialized economies take a strong leadership in this important endeavor through bilateral contributions based on a fair burden sharing principle.

**United Arab Emirates (Governor Khirbash)**

...commend the efforts of the IMF and the World Bank...to reduce the debt burden of the poorest countries and the historical IMF-World Bank initiative to develop a joint strategy for reducing poverty, encompassing the financial, structural, social, and humanitarian aspects of the problem.

**United States (President Clinton)**

For many developing countries, however, there is a greater obstacle in the path to progress. For many of them, excessive and completely unsustainable debt can halt progress, drag down growth, drain resources that are needed to meet the most basic human conditions, like clean water, shelter, health care and education. ...unsustainable debt is helping to keep too many poor countries and poor people in poverty. That is clearly why the Pope and so many other world leaders from all walks of life have asked us all to do more to reduce the debt of the poorest nations as a gift to the new millennium—not just to them, but to all the rest of us, as well.

Personally, I don't believe we can possibly agree to the idea that these nations that are so terribly poor should always be that way. I don't think we can, in good conscience, say we support the idea that they should choose between making interest payments on their debt and investing in their children's education. It is an economic and moral imperative that we use this moment of global consensus to do better. I will do everything I can to aid this trend. Any country, committed to reforming its economy, to vaccinating and educating its children, should be able to make those kinds of commitments and keep them.

In June, at the G-7 summit in Cologne, the world's wealthiest nations made an historic pledge to help developing nations. The debt relief program we agreed upon is a big step in the right direction, dedicating faster and deeper debt relief to countries that dedicate themselves to fundamental reform. This initiative seeks to tie debt relief to poverty reduction and to make sure that savings are spent where they should be—on education, on fighting AIDS and preventing it, on other critical needs. It will help heavily indebted poor countries to help themselves and help to build a framework to support similar and important efforts by the IMF, the World Bank and international financial institutions.

Last week, to make good on America's commitment, I amended my budget request to Congress and asked for nearly \$1 billion over four years for this purpose. We must keep adequate assistance flowing to the developing countries, especially through the International Development Association. I'm encouraged by the financial commitments made by some of the other donor countries this past week.

... Today, I am directing my administration to make it possible to forgive 100 percent of the debt these countries owe to the United States when—and this is quite important—when needed to help them finance basic human needs, and when the money will be used to do so. In this context, we will work closely with other countries to maximize the benefits of the debt reduction initiative.

We believe the agreements reached this weekend will make it possible for three-quarters of the highly indebted poorest countries, committed to implementing poverty and growth strategies, to start receiving benefits sometime next year.

**Vanuatu** (Governor Molisa, speaking on behalf of the Federated States of Micronesia, Kiribati, the Marshall Islands, Palau, Samoa, the Solomon Islands, and Vanuatu)

... It is appreciated that in view of the need to revitalize the global economy, the IMF and the World Bank took the initiative to find ways to finance the ESAF/HIPC countries.

... We understand that the initiative would take into consideration the concerns of the gold producing countries, some of which belong to my constituency, especially the idea that involvement of the Fund's gold be limited to off-market measures.

**Vietnam** (Governor Le Duc Thuy)

... If one desires to efficiently implement the SAC/ESAF-supported programs, it is necessary to promote the ownership of the program countries. The conditionalities contained in the agreement between the Fund/Bank missions and the authorities should take into full account all the realities and peculiarities of the host countries, since they vary from country to country. In establishing these highly concessional programs, closer coordination between the Fund and the Bank is warranted.

We warmly welcome the Fund/Bank-launched initiative of Heavily Indebted Poor Countries (HIPC) to help poor countries towards external exit from the debt burden. However, many analysts have expressed deep concerns about the depth of debt relief and the pace of implementation, especially the financing of the HIPC funds, and the limited coverage of beneficiary countries.

### **3. Strengthening the International Monetary and Financial Systems**

**Armenia** (Governor Barkhoudarian)

The financial crises we have experienced appear to have contributed to an even greater appreciation of the importance of transparency, as reflected in the implementation of World Bank and IMF programs. Transparency is the only means by which it is possible to reach an understanding within a society on the economic programs being implemented and, thus to ensure their success.

**Australia (Governor Costello)**

Australia has concerns about the potential impact of destabilizing short-term capital flows and the role of highly-leveraged institutions, particularly their potential ability to manipulate small to medium sized foreign exchange markets. Steps are necessary to ensure adequate disclosure by hedge funds and other highly leveraged institutions and to ensure appropriate risk management on the part of creditors and counterparties in dealings with such entities. We are pleased with the Financial Stability Forum's work on highly leveraged institutions and strongly support the development of that work into concrete proposals for change.

We have also been pursuing the issue of the role of private sector borrowing in the international financial system, encouraging consideration of the issue in the Fund, as well as through APEC and the Manila Framework Group. It was also an area examined by a high level Task Force that I chaired in 1998 to report on how Australia could contribute to international financial reform. I am pleased to see that a number of practical options that were raised in the report are now under consideration by the international financial institutions.

Australia welcomes the establishment of the G-20 which will be able to look at private sector involvement in prevention and resolution of crisis. We support a framework of guiding principles and tools which are not overly prescriptive. We are greatly encouraged by the agreement of the Interim Committee at this Meeting to ask the Executive Board to report at the Committee's next meeting on the ways in which the broad principles could be implemented. We would encourage the Fund to extend the excellent work done to date and develop ways on how the private sector involvement might be activated and negotiated in particular circumstances. We would expect there to be sufficient room for flexibility to allow common sense solutions to prevail and take into account the circumstances of individual cases. A set of practical "ground rules" that can shape expectations about the handling of a crisis would facilitate discussion between debtors and creditors and speed up the resolution of these extremely difficult situations.

**Austria (Governor Ruttenstorfer)**

As for financial systems, we have seen the unfortunate effects of a fragile system on a country's ability to withstand market pressures, and we have also learned that special caution must be maintained when reforming such a system. We are pleased with the common efforts of the World Bank and the IMF to assist countries in the endeavour to strengthen their financial systems.

Breaking new ground for the interaction of all segments involved, with special emphasis on the private sector: Interaction with the private sector is a very challenging subject, as we all wish for a cooperative, balanced approach that does not resort to excessive regulation. Solutions should be found—as far as possible—in a voluntary discussion process. Still, we are all aware that public funds are limited and cannot be used to assume the risks while the private sector makes the profits.

**Cambodia** (Governors Keat and Chea)

To prevent the recurrence of the crisis and to cope with the fast changing global environment caused by the force of globalization, Cambodia has expressed its full support for the “common ASEAN position in reforming the international financial architecture,” which includes equal application of standards of transparency and disclosure to the public and private sectors, closer and more coordinated monitoring of short-term capital flows, closer collaboration and information-sharing among national and international regulators, an orderly and well-sequenced approach to capital account liberalization in tandem with the degree of development of the domestic financial sector and supervisory regime and sound, consistent and credible macroeconomic policies to support exchange rates. We have attached serious importance to the ASEAN Surveillance Process, which is aimed at providing an early warning on a possible crisis to member countries.

...We clearly recognize that the key to success of this reform program is Good Governance. For us, this means aiming at improving efficiency and effectiveness of the public sector, on one hand, and fighting corruption, on the other.

**Canada** (Temporary Alternate Governor Peterson)

Perhaps the most serious risk is that we do not succeed in implementing the necessary reforms to make our own financial systems and the international system less vulnerable to crisis. There are at least two reasons why our efforts could fall short. The first is complacency. We will be making a grave error if we let the return of relative calm in financial markets and the improvement in world growth prospects lead us to believe that further reforms are not necessary. The second danger is that we get caught up in a flurry of activity that, while giving the appearance of achievement, leaves critical issues or gaps unaddressed.

...One of the key questions for us in this regard is how to ensure an adequate framework so that the private sector can be productively involved when a crisis does break out. Canada believes that we need to develop mechanisms that enable an orderly workout of debts. The role of the official sector should essentially be that of a neutral broker, in the negotiation of a debt workout. The provision of large-scale official finance should be a rare occurrence.

To have the private sector involved in crisis prevention and resolution, however, we are going to have to establish a framework that will enable private investors to know in advance their responsibilities in the event of a crisis. And, we are going to have to ensure the mechanisms, which operate within this framework, balance the rights of creditors and the responsibilities of debtors to ensure that both sides have an incentive to achieve a cooperative solution with adequate financing supplied at an appropriate price.

**China (Governor Xiang)**

In order to prevent any future crisis, it is all the more important to strengthen the international financial cooperation and promote the trouble-free and smooth operation of the international financial market. To this end, the international community should, on the one hand, help developing countries improve their financial supervision and risk prevention capacity, and on the other hand, strengthen the supervision on short-term capital flow and contain the excessive speculation of cross-border hot money.

The formidable shocks of the financial crisis have prompted a reassessment of the costs and benefits of globalization. ... We are of the view that economic globalization and financial integration should be based on equity, and aimed at prosperity for all. The law of the jungle must be abandoned. Globalization and integration will not be sustainable if they benefit only a few. Therefore, in the process of reforming the international financial architecture and establishing a new international financial order, the developing countries' full participation is essential, and their interests and demands must be reflected. At the same time, the policy choices by the affected countries or regions to overcome the crisis must be respected, and no model should be imposed indiscriminately.

Increasing transparency of all market participants will help raise efficiency and prevent crisis. But lack of transparency is not the main cause of the financial crisis. We are not in favor of mandatory enforcement in any form. And the Article IV consultation should not be linked with transparency assessment.

The international community should encourage the private sector to participate in preventing and finding solutions to financial crisis, and there should be concrete actions as soon as possible. At the same time, the cooperation between debtors and creditors should be strengthened, and a balance maintained between their short-term and long-term interests.

**Croatia (Governor Skreb)**

This year, it became more than evident that the general recommendations of international financial community had to be applied quickly and become reality of Croatian banking system. The adoption of internationally accepted standards and their internal development and dissemination, enhancement of transparency, closer monitoring of banking system soundness through effective supervision (supported by an adequate legislative framework), in relation with macroeconomic policy as well, have to be our priority. Besides, a number of rules have been set and/or are going to be established in the near future as to enhance market discipline, owner control and supervisory effectiveness. Precious advice in this respect has been received from the World Bank and IMF staff through technical assistance missions. Needless to say, in the design and implementation of the above mentioned measures, provisions of the Basle Core Principles for Effective Banking Supervision and other internationally accepted standards have been duly respected. By increasing transparency in this way, we have tried to facilitate foreign entry in order to increase the competition.

... The recently experienced turbulence in our economy taught us that close communication with all market participants (domestic or foreign) is a prerequisite for having an effective macroeconomic policy transmission mechanism. Transparency in one area by itself does not suffice. The IMF initiative in terms of the Code of Good Practices on Transparency in Monetary and Financial Policy and its further elaboration through the Manual will be of utmost help. Once again, tasks at the micro level (e.g. country level, regardless the size of the country) are identical to global prerequisites. Our adherence to SDDS is already well established, as is our openness to IMF policies and advice. Croatia, that is, made public its Letter of Intent five years ago. Therefore it is needless to say that we support the release of the Article IV Staff Report.

Consequently, we support all the efforts of the international financial institutions in searching for mechanisms for the prevention and resolution of crises by securing private sector involvement. It is essential to limit moral hazards, strengthen market discipline, and ensure orderly adjustment processes, while maintaining international financial flow. The only thing I would like to stress in this regard is that, independently of the approach taken, the equality of treatment should be ensured.

**Cyprus** (Governor Klerides)

The experience of the last two years has demonstrated the vital role international financial institutions can play in resolving and helping countries recover from financial crises. Indeed, the enhancement of the resources and facilities of the IMF, including its new Contingent Credit Line should help the Fund to prevent and contain future financial crises.

With respect to the "New International Financial Architecture" and "Strengthening Global Economic Governance" we would support the view that the IMF must continue to perform the role of a crisis manager on the global financial stage, but that public resources be used more prudently and only with strong conditionality so as to avoid moral hazard. New mechanisms must be developed and implemented to strengthen the involvement of the private sector in forestalling and resolving financial crises, a process that would make imprudent creditors and investors bear part of the burden and losses associated with financial crises.

**Fiji** (Governor Kubuabola)

... as part of the reform process, policy makers should work towards developing systems, institutions and financial markets that are strong enough to withstand potential shocks to the economy. Strong domestic financial sector regulation and prudential oversight are important ingredients for weathering financial storms.

[It is also important to maintain] sound macroeconomic management, which include strong fiscal positions that provide governments some cushion to withstand unfavorable shocks. Appropriate monetary policy is also important to maintain stability and confidence in the financial system.



[There is also a] need for greater transparency, by both the public and private sectors. Better and timely information allows better risk assessment and decision making by policy makers and the private sector. The recent codes of good practices on transparency in monetary and fiscal policies are good examples of recent initiatives in this area. I understand the Special Data Dissemination Standards (SDDS) have now been adopted by some member countries. Fiji has been involved in the General Data Dissemination Standards (GDDS) pilot in the Pacific region.

This new financial system calls for closer consultation and better burden sharing. We therefore welcome recent discussions at the Fund and the Bank about better ways to involve the private sector in preventing and managing financial crises. This is a complex issue, but one of utmost importance. In practice, it involves finding ways of getting creditors and debtors to come together in a collaborative manner to assess problem situations and arrive at mutually beneficial processes for recovery.

**France** (Alternate Governor Trichet)

For this renewed growth, we need a better framework in support of good governance and against money laundering and corruption. We need a better framework for banking and tax havens, especially for combating money laundering and corruption.

- more specific and stringent rules, especially as concerns a ban on underregulated legal entities (shield companies) and strengthening legislation against money laundering and bribery.

- strengthening our power to act through the rapid establishment by the Financial Action Task Force and prudential authorities of a list of non-cooperative states and territories and engaging reinforced technical cooperation with those states and territories to implement international standards according to a defined timetable.

- identifying drifts more effectively by an increased mobilization of the international financial institutions in the fight against money-laundering and corruption. These institutions, especially the IMF, could adopt a «Governance Charter», which could review good governance in the context of assessing a country's economic situation («Article IV»). This could also be a precondition for providing financial support.

- Graduated sanctions going from incentives to sanctions within the multilateral framework and, in bilateral relationships, up to and including measures to progressively restrict capital movements with off-shore centers to be implemented under the aegis of the prudential authorities.

The reform of the international monetary and financial system which we launched over a year ago has made real progress. Working out the different codes, strengthening the IMF's surveillance mechanism for assessing potential economic vulnerability, and the definition of an orderly strategy for liberalizing capital flows are all essential building blocks.

In regulating financial activities, the issue of hedge funds must be addressed.

Traditionally limited to protecting savings, it is now recognized that prudential regulation impacts the macroeconomy. The creation of the Financial Stability Forum, which unites the Bretton Woods institutions and the financial oversight organizations, illustrates this point.

In the context of the Forum's activities, I wish that the will to act prevail. For example, a large commercial bank whose potential difficulties could have a systemic impact on markets, must be subject to prudential regulation to limit its leverage, its liquidity risks, and its exposure concentration. In my view, it is not inconceivable to submit an investment bank or a hedge fund to similar regulations. These institutions can harbor exactly the same systemic risks. For this reason, it seems indispensable to develop regulations applicable to these funds and as a first step to request more transparency in their operations vis-a-vis both their financial counterparts and the market.

The principle of private sector involvement in crisis management is a given. But recent examples of negotiation with the private sector have demonstrated the limits of a strictly cooperative approach. We must be prepared to disseminate an agreed framework to facilitate private sector involvement. I would like the IMF, along with other interested institutions, to work as quickly as possible on the basis of the principles proposed by the G7 at the Koeln Summit, and with the intent to achieve equitable treatment for all private creditors.

With the Paris Club principle of comparability of treatment, we have at our disposal a preliminary response. I would ask that in other cases, the international community be sure that all categories of creditors be involved equitably, no matter what the nature of the debts at stake.

**Germany (Governor Welteke)**

The positive results of the past few months should not distract us from further resolute action to reform the international financial architecture. Much has already been achieved in the course of the past months:

The IMF and the World Bank have enhanced the transparency of their operations, providing the financial markets with an improved basis for decision-making.

The new Financial Stability Forum will bring together the international supervisory bodies and the Bretton Woods institutions and create the opportunity to improve early identification of crises and strengthen global cooperation.

... Given the potential for a variety of situations on the part of debtors and creditors, it is reasonable to assume that the precise modalities for the involvement of the private sector can only be determined on a case-by-case basis. What is important, however, from the

German perspective is that the financing role of the official sector will be determined a priori in a way that precludes a "bail-out" of private creditors.

**Greece** (Governor Papantoniou)

... Actions are needed in coordinating the surveillance process and in designing incentives so that the private and the public sector alike benefit from international financial stability. The crises of the last few years have made it clear to all of us that transparency of corporate, financial and state institutions is paramount in preventing and detecting non viable situations...

**Ireland** (Governor McCreevey, speaking on behalf of the European Union)

... we strongly support current efforts to address the challenges posed by globalization. As recent crises have shown, various aspects of this process are interrelated and it is important to develop a holistic approach, particularly in dealing with developing economies.

In keeping with evolving trends at national level the Institutions need to be more transparent. Such a trend has been quite marked in the last twelve months, not only with the publication of hitherto unpublished information, but its speedy publication in a widely accessible form over the Internet. This has enabled many interested parties to have easier and quicker access to the work of the institutions. This, in itself, constitutes a form of empowerment of stakeholders, which will become more evident as time goes on.

Information is not, however, a substitute for active participation by stakeholders and the current trend needs to be accompanied by positive efforts by the institutions to involve them more in its work, consistent with the ultimate responsibility lying with the member Governments representing their citizens.

**Italy** (Governor Amato)

... the efforts should be renewed to preventing financial crises. Standards and codes of good practice have been designed by the Fund and the Bank, in collaboration with other standard-setting bodies in a number of areas. They should now be implemented by all countries on a voluntary basis, but according to an agreed-upon and transparent timetable. The Fund has a major responsibility in monitoring the implementation of these standards.

... important progress has been made in involving the private sector in crisis resolution. Building on this experience, and on the broad principles that have been agreed upon, the Fund must now design the "rules of the game" for a consistent approach to crisis management.

**Japan** (Alternate Governor Hayami)

... we must consider preventive measures for the future, as we cannot completely avoid the risk of crisis, and be prepared to implement them swiftly when a crisis erupts. ... We

must remember that no single reform measure can act as a panacea for reinforcing the international monetary system. All parties should be required to implement their share of reforms: emerging market economies, which are exposed to the risk of currency crises; private investors who are investing in these countries; developed countries, which are responsible for instituting prudential regulations covering their investors; and the IMF and other international financial institutions.

To maintain stability in the international monetary system, improved risk management is needed on the part of investors. A particularly important issue, which is currently being discussed in the Financial Stability Forum, is the question of hedge funds and other highly leveraged institutions (HLIs). A consensus has been reached on the need to expand the scope of disclosure for all market participants, including HLIs, and to institute more thorough risk management by counterparties to transactions. As an initial step, it is important to translate this consensus into concrete action. At the same time, we believe that it is also necessary to further examine the following types of defensive actions by the emerging market economies. When there is a possibility of market manipulation, measures may be taken, such as requiring HLIs to report on their activities in the interest of maintaining market integrity. The use of nonstandard interventions like those recently made by the Hong Kong SAR and Malaysian authorities—which are different from traditional policy responses, namely, intervention in foreign exchange market or the adjustment of interest rates—may be necessary in special circumstances.

The continued use of public funds to bail out private investors is not viable and invites moral hazard. We now have an international consensus that private creditors, including bond holders, must be asked to cooperate appropriately. However, it is true that the actual implementation of such a cooperative approach entails numerous difficulties.... It must be clarified that the objective is to promote appropriate burden-sharing and cooperation between public-sector and private-sector creditors. From this perspective, measures should be taken to promote dialogue with the private sector concerning conditions in borrowing countries and to improve ways and means to encourage private-sector involvement. Moreover, a framework should be developed for cooperative action for individual country cases. It is important that the IMF lead the way in discussing specific measures in this area, and that the entire international community cooperate toward achieving appropriate private-sector involvement.

... We welcome the higher level of transparency achieved through the publication of IMF staff papers. This year has also seen IMF surveillance and research activities undergo external evaluation, yielding a number of positive recommendations. Let me reiterate a point made in this external evaluation process: IMF surveillance and programs should remain focused on the core areas of fiscal and monetary policies, exchange rate regimes, the financial sector and capital movements, and problems directly related to these core areas.

It is now essential to mobilize domestic and foreign private sector funds to achieve a full-scale, vigorous recovery in these economies. With this purpose in mind, Japan announced the "Resource Mobilization Plan for Asia (Second Stage of the New Miyazawa

Initiative)" on May 15, 1999 at the APEC Meeting of Finance Ministers. As part of this program, in line with the scheduled establishment of the Japan Bank for International Cooperation in October, we have enacted the necessary legislation to allow it to guarantee public-sector bonds issued by the Asian countries.

Recently, Japan called on various countries in the region to participate in cooperative efforts for the establishment and development of bond markets throughout the Asian region, and discussions are already under way. We will also increase our efforts to provide technical and personnel assistance for the establishment of a stable financial system in the region. I would like to reiterate that Japan is committed to implementing this initiative while maintaining close cooperation with related countries and international institutions.

#### **Korea (Governor Kang)**

...I welcome the international community's efforts to enhance transparency through the establishment of more stringent global information standards. Also, to promote an orderly financial integration, the international community should cooperate closely in strengthening regulations on short-term capital flows and devising safeguards that can be readily implemented during times of crisis. In this context, I urge stepped-up international efforts for improved monitoring and regulation of hedge funds to minimize their disruptive effects on emerging market economies.

#### **Lebanon (Governor Corm)**

What has happened in certain parts of the world in terms of economic instability, financial disruption, and abuse of public assets, show that the global markets are indeed needing better governance and accountability to become more beneficial.

...corporate governance rules which are enforced in some countries are not being introduced or implemented in many other countries. Due to this situation, privatization does not always yield the expected benefits for the consumer and the economy in general. This is why we believe that both the IMF and the World Bank, in their remarkable efforts to induce member states to fight corruption more efficiently, should put the same emphasis on corporate governance in the private sector as is being put on State and public sector governance, transparency, and accountability rules. In many emerging markets, private sector companies are resisting the introduction of corporate governance and business ethics' rules. Legal rules and the judicial system are not being adequately modernized and made more efficient to secure the minimum level of corporate governance to the benefit of the economy as a whole.

#### **Libyan Arab Jamahiriya (Governor Elmal)**

The lesson learnt from the financial crisis experienced by some countries of the world is the need for creating a financial and banking system that operates under an effective and transparent oversight framework coupled with a framework of moral responsibility.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

Since the Asian crisis—the repercussions of which appeared to threaten the stability of capital markets throughout the world—African countries share the view that, although these consequences have been contained, the financial sector should be extensively reformed. Our efforts are being directed to crisis prevention through strengthened supervision, increased surveillance, improved transparency and implementation of internationally recognized standards, so as to detect weaknesses in a timely manner and protect our economies against the adverse effects of any similar crises.

...we welcome the recent creation of the Financial Stability Forum (FSF), which should contribute to the establishment of a sound and stable international financial system...

**Malaysia** (Governor Mustapha)

In the absence of rules to manage capital flows, small emerging market economies have become extremely vulnerable to volatility. The global financial system clearly does not provide a level playing field, as large players can effectively corner and manipulate small markets with impunity. In our view, reforms are needed to safeguard the interests of small emerging markets so that they will not be subjected to predatory tendencies of large market players.

Current efforts on the new architecture need to consider options for some form of indirect and direct regulation of highly leveraged institutions, in addition to measures to enhance transparency of their operations. Given the increasingly important role of the private sector in the global economy, a more balanced approach to the issue of transparency and disclosure by both the public and private sectors is essential. Ongoing efforts to promote greater transparency of Government operations must be complemented by a mechanism to strengthen surveillance and transparency of private sector market participants that are of systemic importance to guard against market failure. Consideration of the issues associated with managing volatile capital flows should include both debt as well as non-debt related flows. Lest we forget, let me remind that the Asian crisis was largely due to the non-debt creating capital flows by the private sector.

In addition to extending disclosure requirements to the private sector, we also need a global mechanism to supervise the international financial markets. Such a global regulator would ensure the orderly functioning of the international capital markets and compliance with measures to inhibit cross-border manipulative activities in financial markets and design rules against the cornering of financial markets, circuit breakers, and appropriate international standards for financial institutions.

**Malta** (Governor Dalli)

The Fund has continued to stress the importance of surveillance and transparency in economic policy making. It is essential that policy processes are as transparent as possible, as greater transparency helps to improve both the quality and the timeliness of

decision making by both international institutions and member countries. The development by the IMF of a Code of Good Practices on Transparency in Monetary and Financial Policies is certainly a major step forward since it promotes more transparent institutional arrangements. We believe that transparency and accountability are the key factors which need to be in place before structural reforms are undertaken. Otherwise any institutional arrangements would tend to lack credibility and, hence, the authority to carry out the necessary changes...

Malta fully supports the Fund in its efforts to further enhance the standards of economic and financial data published by members.

We have observed also that the Fund has taken new initiatives to strengthen the transparency of the surveillance process. Members are being encouraged to release more information on the discussions that take place at Executive Board level after Article IV consultations have been conducted by the Fund with member countries...

We are also satisfied that the Fund has agreed to provide Contingent Credit Lines as a new instrument of crisis prevention for member countries with strong economic policies, when faced with potential balance-of-payments problems from international financial contagion.

**Marshall Islands** (Governor De Brum)

For the past four years the phrase, "accountable and transparent" has dominated the reform programs of various world organizations. It is generally considered that a lack of transparency hides corruption. Or said another way; "corruption creates a system which lacks transparency". I challenge this notion... There is a true shortage of accountants, finance professionals as well as economists [in the Marshall Islands]. As a result many standard accounting practices and internal control devices have failed, thus creating a lack of transparency.

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

We welcome the efforts of the IMF and the World Bank to help developing countries strengthen their financial and banking sectors, and we call on them to give greater importance to technical assistance in this area, focusing on the establishment of adequate precautionary measures to help the economies of these countries absorb the shocks that may result from fluctuations in capital flows.

We also welcome the Fund's increased interest in developing and publishing internationally accepted economic regulations and standards, while we stress the importance of taking into consideration the particular circumstances of each member country and how they affect its ability to comply with these standards. Technical assistance from the Fund is necessary to help member nations publish and comply with the standards that are applicable to them, although we have some reservations concerning attempts to make the IMF responsible for monitoring the application of standards not directly related to its area of specialization. We would also like to mention the strong interest of the Arab countries in improving the

management methods of their public and private institutions, and in taking the required measures to comply with the principles of transparency and accountability.

... we applaud the efforts of the IMF to get the private sector involved in reducing the likelihood of future financial crises and sharing the burden of handling such crises when they occur. It is also important to improve surveillance of the international activities of private financial institutions in the advanced countries, and to require these institutions to publish accurate data on their activities, in particular their high-risk activities.

**Netherlands** (Governor Zalm)

... The IMF deserves praise for the role it has played in the development of international transparency standards and the promotion of the implementation of these standards. However, I think we should be more ambitious...

On private sector involvement, in the absence of a set of clear internationally accepted rules on how to promote private sector involvement, the Fund has proceeded on an ad hoc basis. Although this approach succeeded in securing private contributions to the funding of members' financing gaps, the approach carries a number of risks. First, this is not very transparent, making the pricing of debt difficult. Furthermore, considering every case on an ad hoc basis might also lead to unequal treatment of countries as well as of creditors. While recognising that every crisis situation has its own specific characteristics, I see a clear need for establishing some general principles and instruments for the involvement of the private sector in international financial crises. A key principle is that of equal treatment. Therefore, the following instruments should remain on our agenda: collective action clauses, creditor committees and the use of rollover options in debt contracts.

**New Zealand** (Governor Birch)

... The release of staff reports will increase the need to have confidence in and justification of advice by the Fund. Similarly, if a country is not following advice recommended by the IMF, the authorities of that country will have to justify their reasoning to the public.

... However New Zealand's experience with giving policy advice that is subject to the freedom of information laws is that transparency does not substantively alter advice—rather it increases incentives for advice to be of the highest quality.

... [the recent economic crisis] showed the need for greater transparency and openness; of markets, of policy settings, of rules and regulations, of standards, and of performance against them—including improved reliability and timeliness of information... The IMF has to be more than a financial bank. It should also be a Knowledge Bank—a provider and facilitator of surveillance, expert advice and even more important, an assurance of transparency.



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

The Nordic and Baltic countries fully support the work on a strengthened international financial architecture. We note with satisfaction that the recent crises have not, in general, led to the adoption of exchange restrictions or other steps that prevent efficient resource allocation. Instead, the focus has been on adopting positive rules to enhance the functioning of markets.

Improved statistics and more transparency should have a stabilising effect on capital markets. Standards for economic policy will draw attention to necessary action for domestic policy makers, and make it easier for international investors to make informed decisions.

The newly released report on external evaluation of Fund surveillance is interesting reading. We would like to draw attention to the recommendation that the IMF put more emphasis on identifying macroeconomic vulnerabilities. An important part of the prevention policy is to identify which shocks are likely to arise and analyze how member countries most effectively can absorb these shocks. Moreover, as recommended in the report, it is important that the Fund strengthen its cooperation with other international financial institutions.

The lesson with respect to crisis prevention can be summed up in one sentence: Financial stability requires solid macroeconomic "fundamentals" and resilient financial markets. This message is not new. On the contrary! What is new is that liberalised capital markets and new information technology have increased the urgency of the message. The financial markets have become less forgiving.

As part of a strengthened financial architecture, the Contingent Credit Line initiative should contribute to reducing the spreading of future crises. However, to achieve this, the facility must not create new moral hazard problems. It is important that the eligibility requirements are interpreted very strictly, that the countries involved conduct a firm and credible policy, and that serious steps are taken to involve the private sector. We note that this facility has, so far, not been used.

Moral hazard problems will be reduced if the private sector were involved to a larger extent in crisis resolution. The overriding principle should be that the private sector must be involved primarily on a voluntary basis. However, we believe there is a need to establish a framework which clarifies the roles of the various actors in international financial crises. It is important that transparent ex-ante rules are instituted, leading to a strengthening of the pricing mechanism. The IMF has an important role to play in such a framework.

A number of countries have taken steps to stimulate long-term private sector involvement; for example, by establishing private contingency credit lines. The IMF should encourage countries to undertake such initiatives. The ongoing work to promote the establishment of creditor committees and the introduction of collective action clauses

in bond contracts should be intensified. We support that the IMF follows a restrictive lending practice with the aim of involving private sector lenders.

It is an often-raised concern that such steps would increase the cost of borrowing for emerging markets. We are not entirely convinced by this argument. First, the main aim must be to achieve a better pricing of international loans, reflecting the underlying productivity of capital. Secondly, if the steps lead to increased financial stability, the risk premium could actually fall.

In sum, moral hazard problems and a tendency towards a reduction of the catalytic effects of IMF programmes suggest that some adjustment of the Fund's lending policy is warranted. We should seek to tip the balance towards more adjustment and local "ownership" of the programmes. Furthermore, we strongly support active steps to involve the private sector in the resolution of crises.

... The relative calm experienced during the last few months should not let us defer the difficult task of devising new and better rules for strengthening the international financial system and stabilising the world economy. The International Monetary Fund will play a key role in this endeavour.

**Norway** (Governor Johnson, speaking on behalf of the Bank Nordic Countries)

... Even though a worldwide recession is no longer imminent, we must not relax our efforts to strengthen the international financial architecture to prevent similar crises in the future.

**Pakistan** (Governor Dar)

The turmoil in East Asia has taught us important lessons. We are now more aware of the various elements that are needed to reduce the severity of potential risks in the process towards liberalization: consistent macroeconomic policies, a sound and well-regulated domestic financial sector and an appropriate contingency mechanism to deal with potential threats to sustainability of open regimes. On the latter point, as noted in the Communiqué of the G-24, the limited applicability of the Contingent Credit Line (CCL) calls for a reexamination of all possible options, including consideration of a global lender-of-last resort. ... and look forward to an early agreement on a comprehensive and structured framework for involving the private sector in crisis resolution. We hope that this will be done in a manner that does not cause widespread disruption, nor raise the cost of capital flows to developing countries. The Fund can play a crucial role in this endeavor as a facilitator of good relations of sovereign debtors with their creditors.

**Paraguay** (Governor Zayas)

... This makes it imperative for us to join in the efforts of the Bretton Woods institutions to design a new international financial architecture that will help developing countries strengthen their financial markets and ensure their proper integration into the globalized world.

**Peru** (Governor Joy Way, speaking on behalf of a number 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

improvements; in no way should they be used to categorize countries for whatever purpose.

**Spain** (Governor de Rato Figaredo)

...the institutions born under the Bretton Woods Agreement must continue to be the cornerstone of the international monetary and financial system. To play this central role, however, they must adapt their operations to the new international environment, and in particular to the new challenges posed by the increasing integration of markets, the emergence of new players, and the increased mobility of financial flows.

We also believe in the search for voluntary consensus solutions for effective private sector participation in forestalling and solving financial crises.

**Sri Lanka** (Alternate Governor Peiris)

...We appreciate the progress made by the IMF in improving the existing instruments and introducing new instruments, in order to provide faster and adequately necessary resources to crisis-affected countries...

We welcome the Fund's efforts in expanding external evaluations to improve its surveillance and research activities. I am confident that implementation of constructive proposals in these evaluations will strengthen the Fund's surveillance activities and its role as policy adviser.

We welcome the progress made so far on a number of fronts by the IMF and the World Bank in collaboration with other institutions in their efforts to strengthen the international financial system. However, I wish to reiterate the necessity of adequate and effective involvement of developing countries in this process in order to develop measures acceptable to all of us.

**Switzerland** (Governor Villiger)

Significant progress has been achieved in the area of promoting greater transparency of members' policies and IMF advice. Article IV reports are being published by a large number of countries, and most members with IMF-supported programs are publishing their policy documents. Better-informed populations and market participants translate into less uncertainty and strengthened ownership of economic policies. I also commend the IMF for its efforts in establishing international standards and best practices in the areas of its core activities. The next step is to ensure the implementation of these standards and practices and monitor the progress. The IMF plays a key role in this area, given its universal membership and its surveillance mandate. ...Our experiences in recent crises have demonstrated how macroeconomic difficulties can be exacerbated by weaknesses in corporate governance...defining and implementing standards and good practices also [in corporate governance and social policy] is important...

We must continue our efforts to involve the private sector in forestalling and resolving financial crises. Progress has been relatively slow in this area because of the complexity of the issues involved. However, in my view, market participants have received the most important message, namely that private creditors should no longer be bailed out by official resources. Future policies will have to be based on the ongoing experience with specific cases of private sector involvement. This will allow to develop consistent approaches over time. The private sector is only able to assess the risks of its lending correctly if the rules of the game are clear.

**Thailand** (Governor Chatu Mongol)

...we would like to compliment the Fund on its role and contribution towards the reform of the international financial architecture, [including with regard to] a number of issues on transparency, international standards, and the strengthening of the Interim Committee. The voluntary preparation and publication of transparency reports, focusing on a description of a member country's practice and progress on meeting the standard is an important step towards strengthening the overall financial system. Many crucial issues, however, still require further work. We urge that concrete mechanisms be established for securing private sector involvement in resolving and forestalling the financial crisis. In this regard, careful consideration should be given to allow the international community to sanction a temporary stay on creditor litigation in extreme circumstances. Regarding the Fund's role in the liberalization of capital movements, we would like to reiterate that the sequence and pace of liberalization should be closely linked to stage of economic development and to a country's individual circumstances, given the complexity of the issues.

**Turkey** (Governor Demiralp)

...we join the emerging consensus that private financial institutions must play a more active contribution to the stability of the international financial system by accepting orderly debt work-outs based on an equitable burden sharing. This appears to be one of the thorniest issues facing the international community today.

**Turkmenistan** (Governor Orazov)

The continuing efforts of both organizations to implement reforms of the international financial system in order to avoid future global financial crises are well appreciated...

**United Arab Emirates** (Governor Khirbash)

I would also like to commend the IMF's recent initiative to determine the means for preventing future crises, to improve the performance of world markets, and to encourage private sector participation in this undertaking.

**United States (President Clinton)**

We have also worked hard...in the wake of these crises to prevent future ones, to respond more quickly and effectively, to lessen the toll they take on ordinary citizens. We have intensified our efforts to construct a global financial architecture that is stable and strong in the new conditions of the new economy.

**4. Liberalization of Capital Movements**

**China (Governor Xiang)**

The Fund's role in promoting capital account liberalization should be helping developing countries put in place the necessary conditions for liberalizing capital account, rather than pushing with the speed of liberalization only.

**Croatia (Governor Skreb)**

In a small, open economy at the advanced stage of transition as the Croatian economy is, we cannot allow ourselves not to be up to date with (above all) recent discussions, opinions, and experiences related to capital account liberalization. It is beyond any doubt that capital account liberalization is necessary as a part of financial integration. But so as to use all the benefits from liberalization, it should be carefully managed and adjusted to the strength of financial system of the country concerned (especially, in transition countries). If financial disturbances are to be avoided, this fact must be taken into account by all international institutions that try to monitor or regulate capital account liberalization. In this respect, the IMF study on the use and effectiveness of specific capital controls is going to be of invaluable help to us.

**Fiji (Governor Kubuabola)**

...We all know that financial sector liberalization can spur economic growth and development but liberalization also entail risks if reforms are not appropriately designed and implemented. The recent crises in Asia, Russia and Latin America have demonstrated the urgency of finding ways to achieve orderly liberalization...

...The higher and volatile capital flows ought to be properly managed to minimize their disruptive impact on domestic markets.

**Iran (Governor Namazi)**

...The recent experiences suggest that the liberalization process should be very cautious and orderly. The member countries should not be advised, let alone pressed, to liberalize their capital account in absence of necessary financial structures and supervisory and regulatory capacity. The structure and capacity development requires time, which in itself varies with the social and cultural foundations of countries. It would also require a substantial amount of

financial and technical support from the Fund and the Bank. I would like to reiterate that the Executive Board of the IMF must also carry on very careful deliberations in designing an effective and protective framework, allowing the members to undertake capital account liberalization at their own pace and with full confidence that appropriate safety nets are in place should their economies be subjected to shocks in the process.

**Japan** (Alternate Governor Hayami)

The massive inflow of foreign capital into the emerging market economies creates opportunities for accelerated economic growth in these countries. However, at the same time, it entails potential risks. In order to minimize these risks, it is essential for individual governments to pursue sound macroeconomic and structural policies.

In this context, we must not forget that when steps are being taken toward capital liberalization, it will be even more important than before to closely monitor private sector liabilities, including those of the financial sector. It is also necessary to improve debt management and liquidity management for countries as a whole.

... In the course of recent IMF discussions, we have seen growing support for the view that, if combined with appropriate measures such as a more flexible exchange rate system, restrictions on capital inflow can suppress the inflow of speculative short-term capital. Malaysia's recent use of restrictions on capital outflow was effective in drawing a line of defense against speculative attacks and stabilizing the foreign exchange market. We expect further discussions on the usefulness of restrictions on capital flows from a practical point of view. Possible effects include the reinforcement of appropriate macroeconomic policies and strengthening of the financial sector in some cases, especially the supplementing of prudential regulations.

**Libyan Arab Jamahiriya** (Governor Elmal)

We believe that developing countries do not need capital that is intent on realizing quick profits, usually at the expense and for the detriment of the financial and economic stability of the countries involved. Developing countries need capital which is ready to contribute, along with national investments, to increased production and development of national productive forces. Consequently, we believe that there is need for developing and organizing means and instruments for the movement of capital among the various countries of the world.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

... the liberalization of capital movements should be done within a sound macroeconomic framework and should go hand in hand with the development and strengthening of our financial systems.

**Malaysia** (Governor Mustapha)

In September last year, Malaysia imposed selective exchange controls in order to prevent



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 a number 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

move ahead with essential structural reforms, including stronger financial system regulation and supervision. The Bretton Woods institutions should continue assisting those countries that require it to strengthen their public administration and the institutional framework through which such policies and reforms are implemented.

**Poland** (Governor Gronkiewicz-Waltz)

... Our viewpoint is that capital flows liberalization in combination with implementation of adequate and rational fiscal and monetary policies can contribute to foreign capital inflows, to an increasing extent from private sources, essential to achieve a fast sustainable economic growth. However, because of huge volumes of daily capital flows, the question of liberalization needs to be considered with due care as free capital can be a source of potential turmoil in international financial markets. Poland actively takes part in all discussions on these subjects, taking the view that the most important question is the actual implementation of internationally accepted standards of conduct which may be instrumental in alleviating problems related to the flows...

**Russian Federation** (Governor Khristenko)

Prudential control of capital flows (especially short-term ones) are permissible, and in certain cases even desirable. The very term "orderly liberalization of capital movements" assumes the sensible use of restrictions and their gradual relaxation in line with the pace of economic reforms. The advisability of employing such restrictions is determined by a whole set of circumstances, such as the overall level of country's economic development, depth of financial markets, state of the banking system, and so on. As noted in IMF reports, many countries view such restrictions as a useful instrument and their own experience in using these restrictions as an obvious success. Moreover, interest in the experience of these countries has been growing lately. Therefore, we believe that there is a need to continue the studies of experience with using capital control measures.

We are not opposed to amending the IMF Articles of Agreement to add the capital account liberalization to the Fund's objectives. At the same time, capital account liberalization should not become a condition for access to Fund resources.

**Spain** (Governor de Rato Figaredo)

The free flow of capital promotes growth, and we must insist on this objective. The liberalization process must take into account the particular circumstances of each country, especially the extent of its development and market liberalization, its integration into the international economy, and the degree of development of its financial supervision and control mechanisms.

## 5. International Trade Issues

**Belize** (Governor Fonseca, speaking on behalf of the Joint Caribbean Group, at the Joint Annual Discussion)

...the implications for the Caribbean of the WTO ruling on Bananas and the response thereto continues to be a matter of great concern to our governments and people and will have a gravely negative impact on the strength and vibrancy of the regional economy. We urge the international community to recognize the considerable effort that we have made to restructure this industry to face competition...any settlement arrived at that does not provide an adequate transition period is unacceptable.

**Belgium** (Governor Reynders)

...we must ensure that, over the coming years, development remains a prime concern when the new rules governing world trade are formulated, and that there is close coordination of the activities of organizations as different as WTO, the UN, the IMF, and the World Bank.

**Cambodia** (Governors Keat and Chea)

On the front of economic integration, Cambodia is well prepared to take an active part in the ASEAN Free Trade Area (AFTA) and other ASEAN economic initiatives. Attention is given to the establishment in the next century of the ASEAN Economic Region, in which there is a free flow of goods and services, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities. We are committed to ensuring close cooperation in strengthening the open, multilateral trading system, and reinforcing the role of the business sector as an engine of growth.

**Canada** (Temporary Alternate Governor Peterson)

Canada views with particular concern the development challenges faced by the world's smallest states...

Our constituent members in the Caribbean are clearly facing a difficult transition period with the changes to existing trade preferences, the decline in development assistance and the need for increased participation in the global economy.

Development, trade and finance institutions must recognize the impact of the phase-out of the Lomé preferences on small states and help smooth the transition. Financial and technical assistance, and time are needed in support of small state's efforts at restructuring their economies to the new external environment. Changes in global trade have made unsustainable some sectors that once accounted for a large portion of small states' gross domestic product.

The importance of this issue cannot be over-emphasized. The research conclusions and policy prescriptions laid out will be used by international development players to sharpen

their interactions in small states over the years to come. Furthermore, and potentially most important, this research will set the stage for small-state participation and treatment within the next round of World Trade Organization (WTO) trade negotiations...

**Cyprus (Governor Klerides)**

...we are concerned that countries hurt by the indirect effects of the East Asian crisis, mainly through sharply falling primary commodity prices, will continue to experience irretrievable losses in income and will remain vulnerable to further price fluctuations... In this context, we would welcome the creation of the commodity price risk insurance scheme for developing countries that has recently been proposed by the World Bank. We trust also that in the development of new trading arrangements at the forthcoming World Trade Organization meeting in Seattle and those to follow the Lomé Convention for the ACP (African, Caribbean and Pacific) Group with the European Union, sufficient priority be given to assuring that developing countries have continued access for their main export commodities to the markets of the European Union and other industrial countries.

**France (Alternate Governor Trichet)**

At the moment when the WTO is opening a new cycle of commercial negotiations, it also behooves each of our governments to reflect on how they will affect development in poor countries. The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries' market. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

Regional integration is also a necessary step. Integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional economies critical mass in the global one. It's not a question of creating new regional fortress, but of facilitating global integration.

**India (Governor Sinha)**

...issues such as ... low primary product prices and the limited access of most developing countries to private capital flows need to be brought to the forefront of the global agenda.

**Libyan Arab Jamahiriya (Governor Elmal)**

...the promotion of globalization as the freedom of movement of goods, services, labor, capital and information will lead to monopolization by a few countries and corporations of international trade in goods and services. It will also help giant international corporations to control the global economy and to weaken the economies of developing nations in the absence of regulatory arrangements and controls. Unless such arrangements and controls materialize, developing countries will pay an exorbitant price due to the lack of ability to compete with developed nations. Developing countries will then be transformed into consumer markets for the products of advanced countries.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

The continuing decline in commodity prices has highlighted the vulnerability of our economies to external shocks, leading to significant losses of real income. So far, African economies have coped with the deterioration of the terms of trade and the international financial crisis by strengthening their adjustment effort. This has not been an easy task. In this connection, we welcome the International Task Force on Commodity Risk Management in Developing Countries, recently established by the World Bank, to seek for market-based hedging mechanisms that could reduce Africa's vulnerability to commodity price fluctuations and increase the predictability of export revenue flows.

...the long-term solution for commodity-exporting economies lies in the diversification of exports and of export markets. This requires that industrial countries liberalize their markets for African exports, in areas where our economies have a comparative advantage.

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

Regional cooperation among the Arab countries was enhanced last year, as a reduction of customs tariffs was implemented within the framework of the Greater Arab Free Trade Zone agreement, starting in January 1998, to stimulate development in the Arab countries. Partnership agreements were also signed between a number of Arab countries and the European Union, which we hope will help attract investments to the region and increase exports from Arab countries to foreign markets.

We call for efforts to reduce the debt burden of the largest number possible of low-income countries and assistance to developing countries—including Arab countries—to help improve their position in the upcoming trade negotiations in Seattle.

**Nepal** (Alternate Governor Bhattarai)

The hopes that we had while the Uruguay Round Agreements were signed are still to be felt by many of us. Many countries are yet outside the realm of the WTO. Some industrial countries need to fulfil their global commitments toward easing constraints of international trade and development.

**New Zealand** (Governor Birch)

In New Zealand, APEC leaders re-confirmed their commitment to achieve their goals of free and open trade and investment for the developed APEC economies by 2010 and the developing ones by 2020. Many of those economies, including our own, are already making substantial steps to remove all tariffs.

APEC wants to: Conclude an agreement with the WTO this year on the Accelerated Tariff Liberalization initiative, which includes fish and forest products; and launch at the Seattle WTO ministerial a new round of multilateral trade negotiations for comprehensive market access including the abolition of export subsidies. That is to be concluded in three years.

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

...liberalization of the capital account should, as far as possible, be synchronized with the liberalization of trade in goods and services. One-sided integration into the world markets may be destabilizing and increase exchange rate volatility. The new multilateral trade round to be launched in December, coupled with a strengthened international financial architecture, is important for the overall stability of the world economy.

**Norway** (Governor Johnson, speaking on behalf of the Bank Nordic Countries)

...[there is a] need to see aid policies as a coherent whole. A globalized world offers many benefits, but there are also many countries, particularly the poorest ones, that have not yet been able to profit from this process. Unless we cease to treat development and international trade as two separate issues, we will never be able to integrate all the developing countries into the global economic system, and do so in a more just manner.

This leads us to one of the most difficult and challenging dilemmas of international development. How can we avoid a situation where ministers responsible for development cooperation... advocate more reasonable distribution of resources in for a like this, while other ministers restrict the import of agricultural products as well as textiles and clothing from developing countries?

**Paraguay** (Governor Zayas)

We believe...that options for reducing or offsetting the effects of barriers to free trade need to be explored, and we wish to voice our disapproval of the use of agricultural subsidies.

**Portugal** (Governor de Sousa Franco)

One way to help countries to become more integrated with the world economy is the participation in international trade. We concur with the proposed approach by the Bank to assist developing countries to participate in the upcoming round of WTO negotiations.

**Spain** (Governor de Rato Figaredo)

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.

**Sri Lanka** (Alternate Governor Peiris)

...Continuation of depressed prices of non-fuel commodity prices creates terms of trade difficulties for commodity exporting countries. ...strengthening of non-inflationary demand in industrial countries and further opening of their markets for developing country exports are necessary to create a conducive external environment for developing countries.

**United States (President Clinton)**

...we have more to do to reform the global financial foundation upon which the future will be built.

As we approach the 21st century we must also ask ourselves, however: is it enough just to fix the market that is? Should we accept the fact that, at a time when the people in the United States are enjoying perhaps the strongest economy in their history, 1.3 billion of our fellow human beings survive on less than a dollar a day? Should we accept the fact that nearly 40 million people—after the Green revolution, when most of us discuss agriculture and food as a cause for international trade conflicts because we want to fight over who sells the most food, since there are so many places that can produce more than their own people need—are we supposed to accept the fact that nearly 40 million people a year die of hunger? That's nearly equal to the number of all the people killed in World War II.

I hope we will not accept that. I hope we will start the new millennium with a new resolve: to give every person in the world—through trade and technology, through investments in education and health care—the chance to be part of a widely shared prosperity, in which all the peoples' potential can be developed more fully. This is the challenge of the second half-century of the life of the IMF and the World Bank. And for me it is a personal priority of the highest order.

Open trade already has improved the prospects of hundreds of millions by marketing the fruits of their labors and creativity beyond their borders. In this way, both the IMF and the World Bank have played a vital role in helping more nations to thrive. We need you to work with the WTO to build a rules-based framework for global trade. We need you to help developing countries provide education and training to lift wages, and to establish social safety nets for tough transitions.

In two months, I want to launch a new type of trade round in Seattle, at the WTO ministerial. I want this round to be about jobs and development. I want it to raise working conditions for all. I want it to advance our shared goal of sustainable development. By breaking down barriers to trade, leveling the playing field, we will give more workers and farmers in those countries that are struggling for tomorrow—and in leading industrial nations, as well—more opportunities to produce for the global marketplace.

In Seattle, I hope we will pledge to keep cyberspace tariff-free, to help developing countries make better and wider use of technology—whether biotechnology or the Internet. I hope we will pledge to open markets in agriculture, and industrial products and services, creating new activities for growth and development.

I hope we will also work to advance the admission of the 38 developing countries who've applied for WTO membership. And I hope we'll keep working to give the least developed countries greater access to global markets. Here in the United States, I am working hard to persuade our Congress to pass my trade proposals for Africa and the Caribbean Basin this year.



## **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 a number 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.

**Sri Lanka (Alternate Governor Peiris)**

These concerns underscore the necessity of strengthening of macroeconomic policy coordination among the major industrial countries. Such a policy coordination is also crucial to minimize sharp exchange rate fluctuations among major international currencies....

**7. Bank-Fund Collaboration**

**Armenia (Governor Barkhoudarian)**

...we welcome the day-by-day increase in cooperation between international financial institutions, especially the International Monetary Fund and the World Bank. I consider that in such areas as pensions, provision of satisfactory infrastructure for the development of the private sector, environmental protection and fiscal federalism, the cooperation of sister organizations in a coordinated and efficient manner can bring major benefits to the economic prosperity of the countries involved.

**Belize (Governor Fonseca, speaking on behalf of the Joint Caribbean Group)**

...we have an ongoing concern about the relative roles of the Bank and the Fund in the emergency response to the financial crisis. We see a primary role for the Fund in the initial response to balance of payments crises, where quick-disbursing assistance is required; while the primary role for the Bank is in addressing underlying structural issues, in promoting long-term development, and in fighting poverty. We are uncomfortable with recent funding responses by the Bank which appear to be indistinguishable from emergency balance of payments support, not least because of the effects on the Bank's ability to discharge its core functions and the effects on financing costs for non-crisis borrowers. We therefore call on the Bank's management and its other members to take necessary action to ensure that the core responsibilities of the two institutions are not blurred, and to ensure that sufficient resources are available for the proper discharge of the respective mandates.

**Germany (Governor Welteke)**

The IMF and the World Bank must stick to their respective mandates, but close cooperation between the two institutions, based on mutual trust, is vital. It is also vital for both institutions to retain their role as the central fora of international cooperation. Ensuring this is the task to which we are all committed.

**India (Governor Sinha)**

... While there is every need to empower the Bretton Woods Institutions so as to enable them to effectively deal with the emerging challenges, we must not lose sight of the basic mandate of these organizations. The preoccupation with crisis management in some countries must not distract the IMF and the World Bank from their basic missions of providing temporary balance of payments support and long-term development finance in all developing countries, respectively...

**Ireland** (Governor McCreevey, speaking on behalf of the European Union)

The Bretton Woods institutions have a vital and central role in the international economic and financial area. To carry it out adequately, they will need to intensify cooperation among themselves, and with other agencies in the economic, social and political area and with the various informal Groupings.

Cooperation will need to be intensified with not only member Governments, but with a wide range of civil society, particularly in program countries....

**Italy** (Governor Amato)

...[In the area of standards] the Fund and the Bank must strengthen cooperation among themselves and with other relevant international organizations as well.

**Malta** (Governor Dalli)

The financial crises in Asia, Russia and recently in Brazil has also highlighted the important role the IMF and the World Bank are playing in strengthening the architecture of the international financial system. We are convinced that the outcome would have been very different today had it not been for the effectiveness of both the Fund and the Bank in tackling the crises. In this regard, we are glad to note that the collaboration between the two institutions has been enhanced, especially where this is related to the monitoring of member countries' financial systems.

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

It must be underscored, however, that the complexity and composition of the economic problems facing the world are such that increased cooperation is called for. The IMF must work closely with the World Bank, regional development banks, the BIS, and other institutions. The rapid changes in the world around us underscore the need to continue to adopt and reform the IMF.

**Paraguay** (Governor Zayas)

...we are heartened by the 1998 review of the Concordat, the purpose of which was to reconsider the principles of Bank-Fund cooperation and collaboration with a view to increasing the effectiveness of both institutions.

**Russian Federation** (Governor Khristenko)

Successful cooperation between the Bretton Woods institutions is a crucial element of the international financial architecture. This cooperation becomes even more important during major financial crises. The IMF and IBRD are currently facing with a dual task: dealing with the aftermath of the crises and preventing contagion and recurrence. We are pleased to note significant progress achieved in this area....

This cooperation should be based on two fundamental principles—complementarity and avoiding duplication. On the one hand, each institutions should focus on its own area of expertise; on the other, the knowledge and experience should be shared between the two and integrated into respective policies and documents. Contacts should be established at all levels of the hierarchy. In our view, the activities of the Financial Sector Liaison Committee of the IMF and IBRD may be viewed as a model for such of cooperation.

**Switzerland (Governor Villiger)**

...defining and implementing standards and good practices also [in corporate governance and social policy] is important. A strong cooperation between the IMF and the World Bank will be crucial in this respect. We should continue our endeavor to make full use of the complementary nature of the two institutions and reduce work duplication.

**Turkey (Governor Demiralp)**

...The IMF and World Bank, each preserving its specialized function and nature, must improve the coordination of their responses to countries' financial problems...

**8. Y2K Issues**

**Fiji (Governor Kubuabola)**

We are also pleased with other recent IMF and World Bank initiatives. On the Fund side we welcome the introduction of two new facilities—the Contingency Credit Line (CCL) and Y2K facilities. These facilities will provide a useful complement for existing techniques and may help member countries respond quickly to financial crises.

...Dealing with [the Y2K problem] has become quite complex—as you are aware the issue is not just about fixing a computer problem—as policymakers we must recognize that the Y2K issue involves managing risk. In Fiji, we have been taking the necessary steps to minimize Y2K-related problems in our financial system. We applaud the decision by the Fund to introduce a temporary facility that will help members deal with unforeseen balance of payments problems that may arise in connection with the Y2K problem.

**Germany (Governor Welteke)**

...We must also be prepared for the possible threats posed by the Y2K problem. The IMF has made preparations to offer temporary financial help to member countries encountering difficulties from the Y2K problem. However, it will be the foremost responsibility of all countries to prepare thoroughly and convincingly for the date change.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

We are concerned that this Y2K problem could disrupt economic activity in a wide range of sectors. To this end, the assistance from the IMF, the World Bank and the international community in human and financial resources is desired. However, we are of the view that these new demands should not be addressed at the expense of traditional technical assistance.

**Sri Lanka** (Alternate Governor Peiris)

...potential reactions to actual or perceived Y2K compliance in the run up to the year 2000 may create an additional risk factor... We also welcome the introduction of a facility to help members to meet their balance of payments needs related to Y2K compliance problems...

**Vanuatu** (Governor Molisa, speaking on behalf of the Federated States of Micronesia, Kiribati, the Marshall Islands, Palau, Samoa, the Solomon Islands, and Vanuatu)

We believe that this [Y2K] facility is an appropriate response by the Fund in any likely event of Y2K related capital outflows.

## **9. Transforming the Interim Committee and other Institutional Arrangements**

**Austria** (Governor Ruttenstorfer)

Rules to improve the relevant international institutions: This central question has led us to the establishment of new structures, and some new fora have emerged, together with a stronger commitment towards better cooperation. These new structures are all linked to existing ones and reaffirm the central responsibility of the Bretton Woods institutions. I hope these steps will stand the test of time and contribute to institutions that are efficient and effective while being representative of their universal membership.

Finally, there is a recent development which I find worrisome. We are gathered here, because we are all members of the Bretton Woods Institutions. We have all experienced, in different ways, the important positive contributions these institutions can make to our common global goals. Therefore, I deeply regret to see how the credibility and reputation of these institutions are suffering right now from a less than fully constructive public debate. While I believe that intense public debate about the best way how to manage the difficult challenges our complex world presents to us, is necessary, it would be highly regrettable if such a debate led to the weakening or loss of a credible and efficient international framework of cooperation in financial and development matters. Therefore, I call on all countries participating in these meetings to contribute to a more substantive debate about the Bretton Woods Institutions and to help prevent these important institutions from being drawn into national party politics. One possible way out of such situations might be, to refocus the discussion on the tasks assigned to the institutions in their Articles of Agreement, thereby enabling them to maintain their independence from the day-to-day political interests of their shareholders, small or large.

**Belgium** (Governor Reynders)

The debate on the future role of the International Financial and Monetary Committee should continue. It would be wrong to believe that the international monetary and financial architecture is an unimportant matter, and that the main focus should be on dealing with more substantive issues, rather than on determining in what forums they are to be discussed.

We consider the following to be fundamental objectives: preservation of the multilateral approach, as embodied by institutions such as the IMF; acknowledgement of democratic legitimacy in decision-making, and increased emphasis on the need to provide justification for decisions; the need to reconcile flexibility in examining certain types of problem with the absolute need for an overall coordinating body to deal with financial and monetary issues.

...the International Financial and Monetary Committee should—ideally—become a forum for decision-making on IMF matters, and for coordination and consultation on related financial issues. The preparatory meetings of Alternates should continue, so that the Committee's plenary sessions can be more effective. Systematic use should be made of working groups, so that the Committee's central role will be preserved, and particular issues can be dealt with by groups with the necessary ad hoc membership.

I would also emphasize that the International Financial and Monetary Committee should be given an enhanced role in the auditing of operations. This would be a way of ensuring that all financing provided was being properly used, monitoring which would go beyond mere enforcement of the macroeconomic criteria normally applied.

**Canada** (Temporary Alternate Governor Peterson)

Asking the right questions is only one of the challenges. Another is to have the proper institutional infrastructure to deal with them. This is an area where we are making progress; for example, by giving a revitalized Interim Committee permanent standing as the International Monetary and Financial Committee and by creating the Financial Stability Forum.

**China** (Governor Xiang)

We endorse the proposal to change the name of the Interim committee into "International Monetary and Financial Committee." We strongly request that the representation of developing countries be safeguarded. We hope the Committee will do a better job in coordinating the major proposals on reforming the international monetary and financial system.

**France** (Alternate Governor Trichet)

The transformation of the Interim Committee is an important step towards reinforcing the governance of the Fund and improving its functioning. The IMF would thus become all the more effective. We have made a very positive step today, but it is still only a step. For

France, the arguments for a «Council» of the IMF remain valid, and a more ambitious reform is perceived as both necessary and inevitable.

**Ireland** (Governor McCreevey, speaking on behalf of the European Union)

The Bretton Woods institutions have a vital and central role in the international economic and financial area. To carry it out adequately, they will need to intensify cooperation among themselves, and with other agencies in the economic, social and political area and with the various informal Groupings.

**Japan** (Alternate Governor Hayami)

A decision has been reached to reinstitute the IMF's Interim Committee as a standing committee to be renamed the "International Monetary and Financial Committee." We urge the new Committee to work toward enhancing the functions of the IMF and to play an important role in the international community's engagement in problems related to international finance. In this connection, I would also like to mention the G-7's proposal for the first meeting of a new mechanism for informal dialogue, which would include the emerging market economies, to be convened at the end of this year. We hope that this forum will play a constructive role in reinforcing the international monetary system.

Based on the experience of the Thai currency crisis, the Manila Framework was created, and it has functioned effectively in complementing the actions of the IMF in terms of both surveillance and financing.

**Korea** (Governor Kang)

In the spirit of a more balanced approach to improving the global financial system, I strongly support the expansion of the existing G-7 consultation framework to include so-called "systemically important countries" such as Korea.

**Libyan Arab Jamahiriya** (Governor Elmal)

... we stress the fact that the IMF and the World Bank operate, in their capacity as international institutions, in the framework of the respective Articles establishing each of them, to provide economic stability and support development and progress opportunities in the various countries of the world. Consequently, their approach must be characterized by absolute professional objectivity removed from any political, racial, religious or any other influences.

**Madagascar** (Governor Andrianarivo, speaking on behalf of the African Governors)

... We call for an extension of the FSF's membership to include developing countries and urge the FSF to ensure that African countries and their views are suitably represented during its deliberations. Similarly, African governors insist that the relevant organs of the new international financial system maintain a constituency-based structure that is representative



of member countries. This would increase the chances that solutions to crises will be reached through consensus.

**Malaysia** (Governor Mustapha)

The recent G-7 initiatives, particularly the establishment of the Financial Stability Forum and its working groups, represent an important step forward. However, given the restrictive nature of this forum, the concerns and interests of small emerging market economies have not been adequately addressed. This is further aggravated by the exclusion of smaller economies in the G-20 which was set up over the weekend. None of the ASEAN countries has been included although their economies are open and well integrated into the global financial system and have been the major victims of the crisis. We urge for an expanded membership in the FSF and the G-20 to ensure greater acceptance and ownership of the recommendations of both these fora.

**Netherlands** (Governor Zalm)

...Recent experiences have clearly shown us how important it is to have strong Bretton Woods institutions. The IMF should remain at the heart of the International Monetary and Financial System. By combining wide membership with well-defined procedures for representation through constituencies, the IMF and its fora are better suited than any informal or ad-hoc grouping to discuss and decide on matters relating to the monetary and financial system. The participatory nature of the decision-making process in the IMF guarantees 'ownership' of and accountability for Fund policies with all IMF members. I welcome the fact that the role of the IC as the preparatory body for the Board of Governors has been reconfirmed. Improving the preparation of the IC by a deputies-IC on an as needed basis can contribute to this. Further strengthening could take place through the creation of working groups of flexible composition under the IC, with the appropriate participants being selected on the basis of the topic under consideration.

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

...irrespective of the positive efforts aimed at prevention, the world will experience new financial crises in the future. The IMF is, and will continue to be, the major institution appropriate to address them...

The participation of all countries must be assured in the work. The constituency structure of the IMF and the World Bank safeguards this. We consider it vital that work on the architecture, to the greatest extent possible, be within the established framework of the Bretton Woods institutions. Furthermore, while preserving the principle of genuine participation of the whole membership, there is a strong need to consider how to strengthen the policy-making bodies of the Fund and improve their working methods. Progress in this area is crucial to ensure the continued leadership of the Fund in international monetary and financial matters.

**Poland** (Governor Gronkiewicz-Waltz)

... We believe that the [FSF] should take into consideration opinions of as many countries and international institutions as possible...

**Spain** (Governor de Rato Figaredo)

... we welcome the measures aimed at strengthening the role and improving the functioning of the Interim Committee. We must not allow the debate on the international financial architecture to be shifted to illegitimate groups or fora, and we must ensure that all countries concerned are brought into the discussions.

**10. Other Specific Country Issues****Australia** (Governor Costello)

We remain concerned by economic developments in Indonesia and the very troubled state of affairs in East Timor. I call on the international community to lend its humanitarian hand to address the crisis in East Timor.

**Austria** (Governor Ruttenstorfer)

... the support of the World Bank is particularly important for the region of South Eastern Europe. There we cannot just rely on time to heal the wounds of the conflicts between various population groups, but must undertake active efforts in order to plant the seeds for an eventual reconstruction and reconciliation within this troubled region. This is another important example for the deepening and broadening cooperation between the world community, the EU and the Bretton Woods Institutions, and a particularly crucial one. A good economic basis, and a fair social structure, will be essential ingredients in any concept for lasting peace in the region.

Let me say one word on the programs with Russia. For us, it is clear that at this crucial time the Bretton Woods institutions must continue to support the changeover to a market process in this large country. We urge the Fund, however, to put additional efforts into monitoring its Russia program effectively.

**Belgium** (Governor Reynders)

While focusing on the heavily indebted poor countries, we cannot forget the specific problems that other countries face, and so we particularly support the program of assistance for Turkey, which suffered a devastating earthquake on August 17.

**Bosnia and Herzegovina** (Alternate Governor Prlic)

We hope that the international community and the World Bank will continue to support the

reconstruction of Bosnia and Herzegovina, at least for... those activities that would lead to accelerated economic growth and increased employment.

**Croatia** (Governor Skreb)

...Croatia has also been touched by effects of the financial crisis, and unfortunately, not only a financial but also a political one—that in Kosovo.

**Indonesia** (Alternate Governor Boediono)

...I would like to express the deep regret of the people of Indonesia for the loss of life caused by events in East Timor. Let me reaffirm that the Government of Indonesia is committed to taking the steps necessary to enable the fulfillment of the newly expressed will of the majority of East Timorese to seek a new destiny outside Indonesia.

**Japan** (Alternate Governor Hayami)

...Japan expresses its deepest sympathies to the victims of the earthquake in Turkey and will extend reconstruction support. At the same time, we fervently hope that as the core of the international community's assistance, the World Bank will contribute to the reconstruction in Turkey by providing timely and large-scale loans. Another important challenge is assistance for reconstruction and development from the recent turmoil and destruction in East Timor. We expect the World Bank to lead the reconstruction process, and Japan intends to play an important part for its reconstruction and development.

**Netherlands** (Governor Zalm)

In addition to their tasks in promoting international financial stability and sustainable growth, the Bretton Woods institutions have an important responsibility to help members whose economies have been severely damaged by a war or natural disaster back on their feet. I welcome the efforts that have been made by World Bank and IMF, in good cooperation with the EU, to help South Eastern Europe overcome the hardship caused by the crisis in Kosovo. A combination of well-targeted international assistance and sound domestic policies should facilitate a speedy recovery.

**Portugal** (Governor de Sousa Franco)

...for my country the most important event in the last months is the referendum in East Timor and the following massive destructive actions. Let me pay homage to the brave people of East Timor, that in spite of risking their lives, gave to all of us a lesson of their firm commitment to take into their hands their future and pursue an independent democratic state. This was a first step to create the necessary conditions for peaceful development within the country. Before initiating that process, however, peace, law and order have yet to be restored and emergency assistance is extremely urgent, with the help of all friendly countries, all neighbors of East Timor and the international community as a whole...

Before ending, I would like to return to my first topic: East Timor. We call for the international community to take firm action to restore peace, provide emergency aid and contribute to the reconstruction needs of this devastated territory and people. We have to focus on immediate humanitarian needs – protecting and feeding displaced people, helping them returning safely to what is left of their homes, preventing any recurrence of violence and reconstructing families and communities, and providing basic infrastructures. At the same time we have the obligation—the solidarity obligation—to begin the urgent and demanding process of reconstruction, to help East Timor building schools, health facilities, starting up economic activities and setting institutions and training people for a democratic and self-governed nation. Otherwise, words like democracy, human rights, law and order, social and economic development, would become quite empty. As our institutions have shown in the past, and will show again in the future, cooperation for democracy and development shall be the right and urgent medicine for this situation.

**Turkey (Governor Demiralp)**

...on behalf of my country and its people, I wish to pay due tribute to the international community, and particularly Fund and the World Bank, for the immediate and splendid aid and cooperation provided to help us cope with the effects of the earthquake.

The disruption of Turkey's economic recovery creates challenges that are enormous, but not insurmountable.

Let me thank the IMF, the World Bank, other multilateral institutions, and bilateral donors for their early support in the design of streamlined emergency arrangements for the massive rescue operations. We are confident that this essential cooperation will continue during reconstruction efforts to restore essential facilities and services and reestablishing basic economic activities in the disaster zone, so that long-term economic and social disruption can be avoided. We are also grateful to the Fund, the World Bank, and other donors for their coordinated assistance within the comprehensive plan toward the effective restoration of normal economic and social conditions.

**United Arab Emirates (Governor Khirbash)**

...I am honored to convey the thanks and appreciation of the government of the United Arab Emirates for the Boards of Governors' decision to select the city of Dubai to host the 2003 Annual Meetings. I am also honored to express my thanks to the Board of Governors for their decision, which embodies the principle of maintaining a geographic balance in selecting sites for these Meetings.

**United States (President Clinton)**

Last Saturday, the G-7 finance ministers outlined specific safeguards for Russia and called for comprehensive review by the World Bank and the IMF, to make sure that funds are used appropriately in high-risk environments. The United States will continue to insist on such accountability.