

THE WORLD BANK GROUP

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1998 ANNUAL MEETINGS
OF THE
BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

WASHINGTON, D.C.
OCTOBER 6-8, 1998

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INTRODUCTORY NOTE

The 1998 Annual Meetings of the Boards of Governors of the World Bank Group, which consists of the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID), held jointly with that of the International Monetary Fund, took place in Washington, D. C., on October 6–8, 1998 (inclusive). The Honorable Wolfgang Rüttenstorfer, Governor for the Bank and the Fund for Austria, served as the Chairman.

The Summary Proceedings record, in alphabetical order by member countries, the texts of statements by Governors, and resolutions adopted by the Boards of Governors of the World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

Shengman Zhang
Managing Director and Corporate Secretary
THE WORLD BANK GROUP

Washington, D.C.
February 1999

CONTENTS

	Page
Remarks by Bill Clinton President of the United States.....	1
Remarks by Carlos Saul Menem President of Argentina	8
Opening Address by the Chairman Wolfgang Ruttensstorfer Governor of the Bank and the Fund for Austria.....	13
Annual Address by James D. Wolfensohn President Of The World Bank Group	20
Report by Tarin Nimmahaeminda Chairman of the Development Committee.....	30
Statements by Governors and Alternate Governors.....	32

	Page
Armenia	32
Australia.....	34
*Austria	37
Bangladesh.....	43
*Barbados.....	45
Belgium.....	48
Bosnia and Herzegovina .	55
Cambodia.....	58
Canada.....	62
China.....	66
Croatia	69
Cyprus	73
*Estonia.....	74
*Ethiopia.....	76
Fiji.....	79
*Finland.....	83
France.....	85
Georgia	91
Germany.....	92
Greece	95
*Iceland	98
India	101
Indonesia.....	105
Iran, Islamic Republic of .	107
Iraq	109
Ireland.....	110
Israel.....	113
Italy.....	116
Japan	120
Korea	128
Lao, People's Democratic Republic	129
Libya	132
Malaysia	133
Malta	139
Marshall Islands	143
Mongolia.....	145
*Morocco	147
Myanmar.....	152
Nepal	155

** Speaking on behalf of a group of countries.*

	Page
Netherlands	158
New Zealand	161
Pakistan	163
Papua New Guinea	165
Paraguay	168
Philippines	170
Poland	174
Portugal	177
Russian Federation	178
*Solomon Islands	182
Spain.....	184
Sri Lanka	187
Switzerland.....	191
Thailand	193
Tonga	198
Turkey	200
Turkmenistan	202
Ukraine	204
United Kingdom.....	206
Uzbekistan	213
Vietnam	216

	Page
Concluding Remarks by James D. Wolfensohn	219
Concluding Remarks by the Chairman Wolfgang Ruttensdorfer	222
Remarks by Ram Sharan Mahat, Governor of the Bank for Nepal	224
Documents of the Boards of Governors	225
Schedule of Meetings	225
Provisions Relating to the Conduct of the Meetings	226
Agendas.....	227
Joint Procedures Committee	228
Report II	229
Report III	231
MIGA Procedures Committee	233
Report I	234
Resolutions Adopted by the Board of Governors of the Bank	
Between the 1997 and 1998 Annual Meetings	236
No. 516...Membership of the Republic of Palau	236
No. 517...Transfer to MIGA	238
No. 518...Increase in Authorized Capital and Subscription by Certain Members	238
No. 519...Transfer from Surplus to Replenish Trust Fund for Gaza and West Bank	240
No. 520...Direct Remuneration of Executive Directors and their Alternates	240

** Speaking on behalf of a group of countries.*

	Page
No. 521...Benefits of the Executive Directors and their Alternates	241
No. 522...1998 Regular Election of Executive Directors.....	242
Resolutions Adopted by the Board of Governors of the Bank at the 1998 Annual Meetings	243
No. 523...Financial Statements, Accountants' Report and Administrative Budget	243
No. 524...Allocation of FY98 Net Income and Transfer from Surplus	243
Resolutions Adopted by the Board of Governors of the IFC Between the 1997 and 1998 Annual Meetings	244
No. 227... Membership of the Republic of Palau.....	244
No. 228... Amendment of Resolution No. 179	245
Resolution Adopted by the Board of Governors of IFC at the 1998 Annual Meetings	247
No. 229...Financial Statements, Accountants' Report and Administrative Budget	247
Resolution Adopted by the Board of Governors of IDA Between the 1997 and 1998 Annual Meetings	248
No. 192... Membership of the Republic of Palau.....	248
Resolution Adopted by the Board of Governors of IDA at the 1998 Annual Meetings	251
No. 193...Financial Statements, Accountants' Report and Administrative Budget	251
Resolutions Adopted by the Council of Governors of MIGA Between the 1997 and 1998 Annual Meetings	252
No. 54...Membership of the Republic of Palau	252
No. 55...Review of Allocation of Shares of the Agency.....	252
No. 56...Election of Directors	254
Reports of the Executive Directors of the Bank	255
Membership of the Republic of Palau	255
Transfer to MIGA	255
Increase in Authorized Capital and Subscription of Certain Members to Capital Stock.....	256
Transfer from Surplus to Replenish Trust Fund for Gaza and West Bank	257

	Page
1998 Regular Election of Executive Directors.....	258
Rules for the 1998 Regular Election of Executive Directors	259
Executive Directors Elected at the 1998 Regular Election.....	264
Allocation of FY98 Net Income and Transfers from Surplus	269
Reports of the Board of Directors of IFC	270
Membership of the Republic of Palau	270
Amendment of Resolution No. 179	270
Report of the Executive Directors of IDA.....	272
Membership of the Republic of Palau	272
Reports of the Board of Directors of MIGA	273
Membership of the Republic of Palau	273
Review of the Allocation of Shares of the Agency	273
1998 Regular Election of Directors	275
Rules for the 1998 Regular Election of Directors.....	278
Directors Elected at the 1998 Regular Election	282
Accredited Members of Delegations	
at the 1998 Annual Meetings	287
Accredited Members of Delegations (MIGA)	
at the 1998 Annual Meetings	316
Observers at the 1998 Annual Meetings.....	326
Executive Directors, Alternates and Advisers	
IBRD, IFC, IDA	330
Directors and Alternates	
MIGA	332
Officers of the Board of Governors and Joint Procedures	
Committee for 1998–99	334
Officers of the MIGA Council of Governors and Procedures	
Committee for 1998–99	335

REMARKS BY HONORABLE BILL CLINTON PRESIDENT OF THE UNITED STATES

Thank you very much. Secretary Rubin; my friend, President Menem; Minister Fernandez; Managing Director Camdessus; President Wolfensohn; Dr. Rutenstorfer; ladies and gentlemen: Before I begin my remarks, I hope you will permit me to say a few words about another issue of real concern to the international community, about which I have been working already this morning—the subject of Kosovo.

I have been on the phone with many of my counterparts, and I just was speaking with Prime Minister Blair, who is in China. We all agree that Kosovo is a powder keg in the Balkans. If the violence continues, it could spill over and threaten the peace and stability of Bosnia, of Albania, of Macedonia and other countries in the region. What is already a humanitarian crisis could turn into a catastrophe.

Some 250,000 people have been forced to flee their homes. Of that number, approximately 50,000 are actually homeless. As winter sets in they risk freezing or starving to death.

President Milosevic is primarily responsible for this crisis. The United Nations has made clear the steps we must take to end it—declare an immediate cease-fire, withdraw Serb security forces, give humanitarian relief groups full and immediate access to Kosovo, begin real negotiations with the Kosovar Albanians to find a peaceful and permanent solution to their rightful demand for autonomy.

As we meet here, my Special Envoy, Dick Holbrooke, is meeting with President Milosevic to reiterate what he must do and to make clear that NATO is prepared to act if President Milosevic fails to honor the United Nations resolutions. The stakes are high. The time is now to end the violence in Kosovo. I hope all of you will do whatever you can to that end.

Now to the matter at hand. A half century ago, a visionary Generation of leaders gathered at Bretton Woods to build a new economy to serve the citizens of every nation. In one of his last messages to Congress, President Franklin Roosevelt said that the creation of the International Monetary Fund and the World Bank—and I quote—“spelled the difference between a world caught again in the maelstrom of panic and economic warfare, or a world in which nations strive for a better life through mutual trust, cooperation and assistance.”

The Bretton Woods generation built a platform for prosperity that has lasted down to the present day. Economic freedom and political liberty has spread across the globe. Since 1945, global trade has grown 15-fold. Since 1970 alone, infant mortality in the poorest countries is down by 40 percent. Access to safe drinking water has tripled. Life expectancy has increased dramatically. Even now, despite the difficulties of recent days, per capita incomes

in Korea and Thailand are 60 percent higher than they were a decade ago. A truly global market economy has lifted the lives of billions of people.

But as we are all acutely aware, today the world faces perhaps its most serious financial crisis in half a century. The gains of global economic exchange have been real and dramatic—but when tides of capital first flood emerging markets, then suddenly withdraw; when bank failures and bankruptcies grip entire economies; when millions in Asia who have worked their way into the middle class suddenly are plunged into poverty; when nations half a world apart face the same crisis at the same time; it is time for decisive action.

What has caused the current crisis? First, too many nations lack the financial, legal, and regulatory systems necessary to maintain investor confidence in adversity. Second, new technologies and greater global integration have led to vastly increased, often highly leveraged flows of capital, without accompanying mechanisms to limit the boom-bust cycle—mechanisms like those with are integral to the success of advanced economies.

I am confident that if we act together we can end the present crisis. We must take urgent steps to help those who have been hurt by it, to limit the reach of it, and to restore growth and confidence to the world economy. But even when the current crisis subsides, that will not be enough. The global economy simply cannot live with the kinds of vast and systemic disruptions that have occurred over the past year.

The IMF and the World Bank have been vital to the prosperity of the world for the past half century. We must keep them vital to the prosperity of the world for the next half century. Therefore, we must modernize and reform the international financial system to make it ready for the 21st century.

The central economic challenge we face is to harness the positive power of an open international economy while avoiding the cycle of boom and bust that diminishes hope and destroys wealth. And the central political challenge we face is to build a system that strengthens social protections and democratic institutions so that people everywhere can actually reap the rewards of growth.

We must put a human face on the global economy. An international market that fails to work for ordinary citizens will neither earn, nor deserve their confidence and support. We need both an aggressive response to the immediate crisis and a thoughtful road map for the future. We must begin by meeting our most immediate challenges.

Two weeks ago at the Council on Foreign Relations in New York, I outlined what we have done and what we must do. I am gratified that today the leading economies speak with one voice in saying, the balance of risks has now shifted from inflation to slow down. The principal goal of policymakers must be to promote growth. Every nation must take responsibility for growth. The United States must do its part. The most important thing we can do is to keep our economy growing and open to other's products and services, by maintaining the fiscal responsibility that has led us to the first balanced budget and surplus in 29 years.

Winning this discipline was not easy and was not always popular. But it was the right thing to do. That is why I have made it clear to our Congress that I will veto any tax plan that threatens that discipline.

Also, the United States must—must—meet our obligations to the IMF. I have told Congress we can debate how to reform the operations of the fire department, but there is no excuse for refusing to supply the fire department with water while the fire is burning.

Europe must continue to press forward with growth-oriented economic policies and keep its markets open. And Japan, the world's largest economy and by far the largest in Asia, must do its part, as well. The United States values our strong partnership with Japan—our political, our security, our economic partnership. But now the health of Asia and, indeed, the world depends upon Japan. Just as the United States had to eliminate its deficits and high interest rates which were taking money away from the rest of the world over the last six years, now Japan must take strong steps to restart its economic growth, by addressing problems in the banking system so that lending and investment can begin with renewed energy; and by stimulating, deregulating and opening its economy.

For all of us there can be no substitute for action. And all of us must also act now to restart growth in the rest of Asia by helping to restructure firms paralyzed by crushing debt and replace debt with equity across entire economies. Through OPIC and the Export-Import Bank, we are providing short-term credit and investment insurance to keep capital flowing into emerging economies.

I welcome Japan's announcement that it will contribute to the reconstruction effort. And I am gratified that the World Bank has agreed to double its investment in the social safety net in Asia to help those who have been harmed by the economic crisis.

In all these ways, we can minimize the consequences of the current financial contagion. But the flash of this crisis throws new light on the need to do more—to renew the institutions of international finance so they reflect modern economic reality. The institutions built at Bretton Woods must be updated for 24-hour global markets if they are to continue to achieve the goals established by the Bretton Woods generation.

First, we must recognize that the free and open exchange of ideas and capital and goods across the globe is the surest route to prosperity for the largest number of people. But we must find a way to temper the volatile swings of the international marketplace, just as we have learned to do in our own domestic economies.

What is troubling today is how quickly discouraging news in one country can set off alarms in markets around the world. And all too often, investors move as a herd, with sweeping consequences for emerging economies with weak and strong policies alike. We've all read of families that worked hard for decades to become middle class, families that owned homes and cars suddenly forced to sell off their possessions just to buy food. We've read of doctors and

nurses forced to live in the lobby of a closed hospital. With fuel and food shortages in some countries, the onset of winter threatens mass misery. And in Asia, where the ethic of education is deeply ingrained and has led to the rise of tens of millions of people, and strong schools are deprived of nations, we now see too many children dropping out of school to help support their families.

Just as free nations found a way after the Great Depression to tame the cycles of boom and bust in domestic economies, we must now find ways to tame the cycles of boom and bust that today shake the world economy.

The most important step, of course, and the first step, is for governments to hold fast to policies that are sound and attuned to the realities of the international market place. No nation can avoid the necessity of an open, transparent, properly regulated financial system; an honest, effective tax system; and laws that protect investment. And no nation can for long purchase prosperity on the cheap, with policies that buy a few months of relief at the price of disaster over the long run.

That is why I support the fundamental approach of the IMF. The international community cannot save any nation unwilling to reform its own economy. To do so would be to pour good money after bad. But when nations are willing to act responsibly and take strong steps, the international community must help them to do so.

Too often, what has appeared to be a thriving market system, however, has masked an epidemic of corruption or cronyism. Investors and entrepreneurs, foreign and domestic, will not keep their money in economies where prosperity is a facade. Bank balance sheets should mean the same thing in one country as another. Contracts should be awarded on merit. Corruption cannot be tolerated.

To this end, I applaud the Working Group reports that call for the IMF to examine and publicize countries' adherence to strong international standards, as well as higher accounting and loan standards for private institutions. The United States will continue to press for new ways the private sector can implement sound practices—for example, through an accreditation system for national bank examiners.

But while strong policies and sound business practices within each nation are essential, at times they simply will not be enough. For even the best functioning markets can succumb to volatility, soaring in unrealistic expectations one minute, followed by a sudden crash when reality intervenes. Such miscalculations of risk are an inevitable fact of market psychology.

In our own domestic economies, we have learned to limit these swings in the business cycle. In the United States, for example, a strong Federal Reserve has ensured a stable money supply. The Securities and Exchange Commission promotes openness and makes the market work. Rigorous bank regulation and deposit insurance have helped to keep downturns in the business cycle from spinning out of control. Other nations have their own institutions performing these same functions.

Now, though we understand that the realities and the possibilities in the international marketplace are different, some of the same functions clearly

need to be performed. We must address not only a run on a bank or a firm, but also a run on nations. If global markets are to bring the benefits we believe they can, we simply must find a way to tame the pattern of boom-bust on an international scale. This task is one of the most complex we face. We must summon our most creative minds and carefully consider all options. In the end, we must fashion arrangements that serve the global economy as our domestic economies are served, enabling capital to flow freely without the crushing burdens the boom-bust cycle brings.

While we must not embrace false cures that will backfire and lead in the end to less liquidity and diminished confidence when we need more of both, we must—we must—keep working until we find the right answers. And we don't have a moment to waste.

Meanwhile, we must find creative ways to protect those countries that right now have strong economic policies, yet still face financial pressures not of their own making. This past weekend, Secretary Rubin and Chairman Greenspan have worked with their G-7 counterparts to find new ways to strengthen our cooperation based on the IMF to make precautionary lines of credit available to nations committed to strong economic policies, so that action can be quick and decisive if needed. This is a critical way to prevent the present crisis from reaching Latin America and other regions, which are doing well. And I ask your support.

Strong government policies, sound business practices, new ways to limit the swings in the global market—all these steps are needed to ensure growth into the future. But let us also acknowledge that we face a political challenge. For the best designed international economic system will fail if it does not give a stake and a voice to ordinary citizens. So I say again, today we see a profound political challenge to the global economic order.

The financial crisis poses a stern test of whether democracies are capable of producing the broad public support necessary for difficult policies that entail sacrifice today for tomorrow's growth. I believe strong democracy, fair and honest regulation, sound social policy are not enemies of the market. I believe they are essential conditions for long-term success. Nations with freely elected governments, where the broad mass of people believe the government represents them and acts in their interests, have been willing and able to act to ward off crisis. Korea and Thailand, with elected leaders who have been willing to take very difficult steps, have succeeded in weathering the worst of the economic storm when so many others have not. Countries in Central Europe have done remarkably well.

But even among the strongest nations, as we have found here in our own, broad change is often difficult. Unless the citizens of each nation feel they have a stake in their economy they will resist reforms necessary for recovery. Unless they feel empowered with the tools to master economic change, they will feel the strong temptation to turn inward, to close off their economies to the world.

Now, more than ever, that would be a grave mistake. At a moment of financial crisis, a natural inclination is to close borders and retreat behind walls of protectionism. But it is precisely at moments like this we need to increase trade to spur greater growth.

Again, we must never lose sight of what the fundamental problem is—we need more liquidity, more growth in this world today. Only by tearing down barriers and increasing trade will we be able to bring the nations of Asia, Latin America, and other parts of the world back on to the path of growth.

The world economy today needs more trade and more activity of all kinds, not less. That is why when the leaders of APEC meet next month, we must press forward to tear down barriers and liberalize trade among our countries; why next January when the United States Congress returns, we will seek a comprehensive effort to tear down barriers at home and around the world, including new negotiating authority and legislation to expand trade with Africa.

But unless we give working people a strong stake in the outcome, they will, naturally and understandably, erect obstacles to change. The answer to these difficulties is not to retreat. It is to advance and to make certain every nation has a strong safety net providing the security people need to embrace change.

At the very least, people who are suddenly without work must have access to food and shelter and medical care. And over time, all nations must develop effective unemployment and retirement systems. We must find ways to keep schools open and strong during times of economic downturn. We must make certain economic development does not come at the cost of new environmental degradation.

I am pleased that the World Bank will be redoubling its efforts to building this strong safety net, especially in Asia. And I urge all international financial institutions to do more to incorporate environmental issues into your operations, and to significantly increase direct lending for environmental and natural resource projects.

Every time we seek to protect the environment, short-sighted critics warn that it will hurt the economy. But over the last quarter century, we have seen time and again, in nation after nation, that protecting the environment actually strengthens, not weakens, our economies.

International institutions themselves must reinforce the values we honor in our own economies. In Geneva last May, I asked the World Trade Organization to bring its operations into the sunlight of public scrutiny, to give all sectors of society a voice in building trade policies that will work for all people in the new century. We must do the same for other multilateral institutions.

When the IMF agrees with a member country on policy measures to restore stability, the people of that country and investors around the world should be told exactly what conditions have been set. Therefore, I urge the WTO, the World Bank, and the IMF, working with the ILO, to give greater consideration to labor and environmental protections as a part of your daily

business. Only by advancing these protections will these organizations earn the confidence and support of the people they were created to serve.

Finally, though we are seized with the crisis of the moment, we must not neglect those whom the capital flows have passed by in the first place. That is why it is critical to continue our efforts to lighten debt burdens, to expand educational opportunities, to focus on basic human needs, as we work to bring the poorest countries in Africa and elsewhere into the international community of a thriving economy.

Creating a global, financial architecture for the 21st century; promoting national economic reform; making certain that social protections are in place; encouraging democracy and democratic participation in international institutions—these are ambitious goals. But as the links among our nations grow ever tighter we must act together to address problems that will otherwise set back all our aspirations. If we're going to have a truly global marketplace, with global flows of capital, we have no choice but to find ways to build a truly international financial architecture to support it—a system that is open, stable and prosperous.

To meet these challenges I have asked the finance ministers and central bankers of the world's leading economies and the world's most important emerging economies to recommend the next steps. There is no task more urgent for the future of our people. For at stake is more than the spread of free markets, more than the integration of the global economy. The forces behind the global economy are also those that deepen liberty, the free flow of ideas and information, open borders and easy travel, the rule of law, fair and even-handed enforcement, protection for consumers, a skilled and educated work force. Each of these things matters not only to the wealth of nations, but to the health of nations.

If citizens tire of waiting for democracy and free markets to deliver a better life for themselves and their children, there is a risk that democracy and free markets, instead of continuing to thrive together, will shrivel together.

This century has taught us many lessons. It has taught us that when we act together we can lift people around the world and bind nations together in peace and reconciliation. It has also taught us the dangers of complacency, of protection, of withdrawal. This crisis poses a challenge not to any one nation, but to every nation. None of us—none of us—will be unaffected if we fail to act.

On the day he died in 1945, as these institutions were taking shape, President Roosevelt wrote in the last line of his last speech: "The only limit to our realization of tomorrow will be our doubts of today. Let us move forward with a strong and active faith." At a time of testing, the generation that built the IMF and the World Bank move forward with a strong and active faith.

Now we who have been blessed with so many advantages must, ourselves, act in the same manner. If we do, we will surmount the difficulty of this moment. We will build a stronger world for our children. We will honor our forebears by what we do to construct the first 50 years of the 21st century.

REMARKS BY HONORABLE CARLOS SAUL MENEM PRESIDENT OF ARGENTINA

Mr. President of the United States, Mr. Chairman of the Meetings of the IMF and World Bank, Mr. Managing Director of the IMF, Mr. President of the World Bank, Mr. President of the IDB, Governors, Ladies and Gentlemen: These meetings provide us with a unique and historic opportunity to address the major challenge facing us at the end of the 20th century; namely, how are we to achieve sustained economic growth that benefits all mankind?

There is a broad consensus that a globalized economy based on market forces is singularly well-equipped to achieve this objective.

At the same time, however, there is also a fear of recurrent financial crises, the consequences of which are likewise "globalized."

Such crises cause uncertainty, and they undermine stability and the rule of law.

It is frightening to think that a person's entire assets or livelihood can be completely at the mercy of sudden market reactions triggered by events occurring in other countries.

Individual nations can no longer afford the productivity gaps created by delays in reforming their political, economic, and social institutions.

Make no mistake; such delays have had short-term repercussions. To make matters worse, these repercussions can assume crisis proportions and, when coupled with weak political, fiscal, and monetary institutions, may evolve from crisis to collapse.

What we are dealing with, then, is a moral issue, one which we must address if we are to muster political support for a global economy based on market forces.

Lest there be any doubts, we are all well aware that inequity is not an inevitable consequence of market forces or of globalization.

Just as governments have the power to influence how fast growth occurs in a society, so too they can use that power to control how equitable that growth is. The challenge is not simply to maximize the gains to be shared, but also to maximize the number of beneficiaries.

This is the philosophy of Pope John Paul II, who has just completed the 20th year of his historic tenure as pope and with whom we in Argentina feel great affinity in every respect.

In order to make up for lost time, and in order to tackle the many problems and challenges ahead, it is essential to implement policies designed to reform institutional structures.

Political leadership and social consensus are all that is required to move the process forward.

Argentina confronts the crisis

In this century, there was a time when Argentina was basking in seemingly infinite prosperity, but decades of inflation and political chaos followed, leaving Argentina on the verge of social ruin.

However, in the 1990s we succeeded in transforming an economy ravaged by hyperinflation, speculation, and systemic corruption.

The keys to achieving this absolute economic miracle were:

- the political will to undertake the reforms;
- the social consensus necessary to bring about, by democratic means, changes which would normally require more than one generation; and,
- coordination with international institutions, which provided us with technical and financial support.

To that end, we have worked side by side with the IMF, the World Bank, and the IDB to achieve macroeconomic stability, deepen structural reforms, and adopt policies aimed at improving the economic fortunes of the poorest members of society.

We in Argentina have restored our society's ethical values.

This is a prerequisite for the normal functioning of any economic system, particularly for a society based on private enterprise and private property.

We definitively eradicated:

- systemic corruption on the part of government employees exercising arbitrary regulatory power;
- state enterprises propped up by infusions of taxpayer money;
- government deficits funded by the unrestricted printing of money, or worse yet, by measures resulting in the confiscation of money.

Structural reforms have enabled us to put in place a sound and competitive market economy.

Today, even amidst the crisis, Argentina is steadily increasing the reserves and deposits in its financial system.

Deposits amount to US\$76 billion, and the banking system is backed by US\$40 billion in international reserves, liquidity requirements and a contingency safety net.

In addition, the World Bank and the IDB are supporting Argentina with fast-disbursing resources to assist us in our efforts to weather the global turmoil.

The financial reform measures that have enabled Argentina to achieve these results are:

- convertibility with backing of over 100 percent;
- stricter liquidity and solvency requirements for the financial system;
- strengthened banking supervision;
- improved maturity structure of external public debt;
- privatization of official banks;

- establishment of a capital market through the privatization of the pension system; and
- adoption of rules-based on transparency in financial and fiscal information, in line with IMF recommendations.

The economic boom has been based on foreign direct investment amounting to US\$800 million per month. Investment in the amount of US\$70 billion has been projected through the year 2002, and this for a country with a GDP of US\$340 billion.

These indicators evidence the peak period of record growth for Argentina in the 20th century; furthermore, its economic performance during this period has been accompanied by a strong tendency toward a more equitable distribution of the benefits of growth.

Hyperinflationary Argentina was the most dualistic period of our history.

There is nothing more inequitable than the collapse of the fiscal system, financial instability, and hyperinflation.

Since our work began in 1989, the poorest 20 percent of Argentina's population have increased their share in income distribution by 10 percent, whereas the wealthiest 20 percent have seen their share fall by 11 percent.

In 1989, 38 percent of Argentines lived below the poverty line, whereas today the corresponding figure is only 18 percent.

Infant mortality—that most revealing of social indicators—has fallen 27 percent since 1989.

And, 100 percent of children of school age are attending primary school.

Here, we must thank the World Bank and the IDB, which have funded a portion of Argentina's social and infrastructure programs.

We have achieved this social progress in a context of sound fiscal discipline, that is well on its way toward budgetary balance, and allows us to project for 1999 a budget deficit of less than 1 percent of GDP.

In addition, we have a precautionary extended arrangement with the IMF and have been systematically meeting all the targets agreed upon in all our programs with the Fund since we took office.

Moving from endemic inflation to a stable economy has made it necessary to make the transition from window-dressing to transparency, based on verifiable and public economic data.

Another example of political determination to lead a process of structural transformation can be found in Brazil under the leadership of President Fernando Henrique Cardoso, whose policies have received the unwavering support of the Brazilian people.

We are absolutely certain that our partner and brother Brazil will be successful.

The challenge today

Crises bring opportunities for change, but they do not always come with ready-made solutions.

Simply put, crises demand change but do not point the way.

It is necessary to rethink the traditional country categories, which are no longer useful for understanding the events currently unfolding around the world.

There are emerging countries which are profoundly stable, such as Argentina; and there are other countries which are extremely unstable and which are currently posing a danger to the world economy.

The time has come to adopt a more universal approach.

The next step is global integration with a view to sustainable development for all; in other words, development that benefits countries and their peoples.

However, we must wipe out the last vestiges of protectionism and production subsidies still lingering in the developed economies if we are to achieve free and fair trade.

Moreover, it is absolutely vital to pursue transparency and ensure continuity in the economic reform processes.

This is the time for all to defend the principles of globalization.

In order to move in this direction, however, we must strengthen and modernize the Bretton Woods institutions.

Because the IMF and World Bank have a vital role to play in restoring market confidence and stability, these institutions must be provided with full financial support and be equipped with the resources they need to carry out their tasks successfully, drawing upon the lessons learned in the past in order to avert such situations of instability more effectively.

Argentina's 1999 budget provides for an increase in its appropriations for these institutions.

It is our responsibility as political leaders, businesspeople, and academics to implement policies that will enable us to seize the opportunities and overcome the challenges of the new world era.

I have arrived at these conclusions in my capacity as head of state and political leader.

Today, as we face the future, we should be more optimistic about the crisis and how it will develop; however, I wish to emphasize that overcoming the crisis will require concerted efforts on the part of the advanced countries and emerging countries.

It is incumbent upon the more advanced countries to take up their responsibility at this time of global crisis and to turn that sense of responsibility into immediate political action.

I am firmly convinced that with the support of all the world's nations, and with the leadership of the United States and the G-7, it will be possible for us to meet these global challenges head-on.

I have every confidence that at our next annual meetings, we shall be applauding the success of our concerted policy efforts.

As we stand on the threshold of a new millennium, we should reaffirm our goal, which must be to establish in all countries of the world a political

leadership that can overcome the difficulties that arise after the collapse of all ideologisms.

We must strive untiringly to impart a social dimension to the course of history, which is currently proceeding along the path of globalization.

That is why we are emphasizing policies of enlightened cooperation able to make a positive social impact since for us the ultimate aim of our efforts is precisely the welfare of our people.

We believe that the human being should be our prime concern and that all our political, social, and economic efforts should be for the benefit of mankind.

We are convinced that in order to address the serious problems facing the world, the Argentine program, adapted to the special circumstances of each nation, is the path that leads us out of the current crisis.

**OPENING ADDRESS BY THE CHAIRMAN
THE HONORABLE WOLFGANG RUTTENSTORFER
GOVERNOR OF THE BANK AND THE FUND FOR AUSTRIA**

I am honored, on behalf of Austria, to chair these 1998 Annual Meetings of the World Bank Group and the International Monetary Fund. Before addressing the issues before us, it is a pleasure for me to extend a special welcome to the delegation of the Republic of Palau, attending these Annual Meetings in the capacity of member for the first time.

These meetings take place against the backdrop of the most serious crisis facing the international economic system in over a generation. While it started in one part of the world, through contagion it spread to others. This turmoil compels us to redouble our efforts in overcoming the crisis through strengthened international cooperation. The attention of the world is focused on our deliberations, so let us move forward to take up these challenges and fulfill our international obligations.

My fellow Governors,

As we stand here in the twilight of the millennium and in the midst of these uncertain times, we might well ask ourselves where we—the international community and the membership of the Bank and the Fund that comprises it—are headed.

Does the past provide a useful guide for the future? The post-war period has been a remarkable and unique period in human history. For the first time, we have, in the shape of the U.N., the Bretton Woods institutions, and recently the WTO, organized fora for international cooperation on a global scale. This has included a gradual opening to new members and in particular the transition economies into the Bretton Woods Institutions, to make them truly universal.

These fora have helped to institutionalize cooperation—a powerful instrument for promoting global prosperity—well before the term “globalization” entered our lexicon. They have allowed us to deal with and adapt ourselves to the challenges of international developments that threatened the well-being of a significant portion of our membership. To mention only a few: the end of the par value system, the oil shocks of the 1970s, the debt crisis of the 1980s, the transition from centrally planned economies to market economies, and, more recently, the Asian crisis.

The architects of the post-war international financial system provided us with a house with solid foundations, strong walls, and a stable roof.

We are today being asked the question: Is yesterday’s architecture adequate for tomorrow’s challenges? Having my office in a building in Vienna that dates back to the beginning of the 18th century, I would tend to be architecturally cautious—evolutionary rather than revolutionary.

What is even more important than the architecture of a house is how the people inside behave towards each other and how they resolve conflicts. Here,

we have good principles that have served us well over the past decades: Cooperation, democratic principles, predictability and accountability towards each other. We, therefore, need to build on this foundation to strengthen the architecture of the international financial system, adapting it to new challenges.

European Economic Monetary Union

The international economic and financial system is evolving rapidly. One major quantum change in international monetary relations is less than three months ahead of us. The launch of European Economic and Monetary Union this coming January 1999 will constitute one of the most significant changes in the international monetary system during this century. Underpinned by strong fundamentals and sound economic policies, the euro has the potential to become a major vehicle currency in international trade and a major official reserve currency, as well as enjoying a strong role in private sector portfolios.

Prospective euro-area members have worked hard to ensure that the single currency will strengthen the European economy, as well as the world economy. Euro-area members have agreed to adhere to a stability-oriented policy framework, including a commitment to price stability and prudent fiscal policies, as well as concerted structural reform efforts, especially in the areas of labor and product markets. We are convinced that by complementing the single market, the Monetary Union will improve growth and employment prospects in Europe, and will have positive spillover effects for the world economy. Also, by developing deep and highly liquid integrated financial markets, all investors will benefit from more opportunities and greater efficiency. Thus, the euro can be a stabilizing factor for the global financial system as a whole.

In this context, a solid relationship between the euro area and the Fund, between a region of stability and the world economy, combining regional cooperation and a global perspective, is crucial. We welcome the ongoing efforts to establish the appropriate institutional arrangements between the Fund and euro area.

In keeping with the need to foster cooperation, both regionally and globally, the European Union is also reaching out towards the transition economies of Central and Eastern Europe. The process towards EU enlargement marks a new quality of European integration and provides a framework for the further transition of these countries towards strong and stable market-based economies.

The Fund and the Bank have supported the bold reform efforts of the transition economies, and they will continue to play a vital role in assisting their further integration into the world economy.

Benefits and Risks of Globalization—Recent Crises

Integration into the world economy such as the transition economies have been experiencing, nowadays called globalization, can provide enormous potential for growth and prosperity. The Austrian experience is a case in point,

highlighting in particular the importance of international integration for small economies. For the past decades, Austria has successfully pursued a strategy of international openness, culminating in the accession to the European Union nearly four years ago.

The adoption of an outward-oriented approach, underpinned by an exchange rate policy geared at maintaining stability vis-à-vis our biggest trading partner, has contributed to modernizing our industries, maintaining low rates of inflation, and achieving a steady medium-term growth path. In the last years, globalization requirements, but also the preparation for the Monetary Union have resulted in policies which have led to unprecedented price stability, a move towards a balanced budget and strengthened growth performance. Within the euro area—that is within a strong economic and trading area—small countries like Austria will more easily meet the challenges of increased competition stemming from further globalization.

While the potential benefits from globalization are widely accepted, we see the potential for destabilizing risks in those countries unable to withstand the stress of the dynamic forces of globalization.

Since we met last year in Hong Kong, developments in some parts of the world economy have taken a turn for the worse. Recessions in several Asian economies have deepened. The recent crisis brought to the forefront deep-seated problems in many countries, particularly weaknesses in the banking and financial sectors, weak supervisory and regulatory systems, and lack of good corporate governance. Recent developments in Russia have been worrying. Contagion effects have been compounded by homemade problems, such as poor fiscal policy performance and the failure to address structural weaknesses in the financial sector, but also in the real economy.

We must realize on the other hand that also countries with essentially sound policies have been affected by the crisis, as markets do not always seem to be sufficiently aware of country-specific circumstances. In finding ways to prevent and resolve such crises, an essential condition is to rectify weaknesses in the countries themselves and the pursuit of sound domestic policies to make them resilient to external shocks.

However, we need to go beyond that. Global problems need global answers. We need to see what we—the international community—but also, importantly, the private sector, can do. Therefore, a major challenge before us is to adapt the international financial system to better respond to the realities of today and the challenges of globalization in future years.

Architecture of the International Monetary and Financial System

Although much more needs to be done, work has already progressed in a number of areas toward reinforcing the international monetary and financial system.

First, information and transparency are central. In order to improve the functioning of financial markets and the conduct of Fund surveillance over

members' policies, the availability and transparency of information must be enhanced. Timely disclosure of economic data and policies is important for lessening the likelihood of crises and reducing their severity when they occur. International capital markets, in order to function effectively, also need comprehensive and timely information. To that end, we look forward to further initiatives at increasing transparency, while paying due respect to the role of the Fund and the Bank as trusted advisors to members.

Second, while more transparency and information are necessary, they are not sufficient. Globalization has increased the vulnerability of domestic and international financial systems to potential shocks. A clear lesson from the recent crisis is that we must strengthen the supervision of financial systems. In this regard, standards in banking supervision, data dissemination, fiscal transparency, monetary and financial policies, bankruptcy, corporate governance, and accounting have an important role to play in strengthening national and international financial systems. This would allow market participants to compare information about a particular country's practices. We welcome the ongoing work in the Fund and the Bank and in other organizations and fora on this important matter.

Third, work has also moved forward in considering ways to more fully involve the whole international community, including the private sector, in preventing and resolving financial crises. We need to think creatively about ways to respond to acute short term liquidity crises, particularly those generated by a generalized loss of market confidence rather than by economic policy failures in the countries concerned.

One aspect of this, as I mentioned above, is involving private creditors at an early stage. This could help to achieve an equitable burden sharing vis-à-vis the official sector, and to limit moral hazard. Private sector creditors must recognize their responsibility to remain engaged in a country's economy during times of crisis. Another aspect is a good look at ways the international community as such can respond better to the challenges it faces, and at the financial institutions that deal with those challenges. Greater openness and accountability of countries also necessitates a corresponding effort by international financial institutions.

Many efforts in that direction have already been made, but we must do our best to improve the cooperation between international financial institutions, to improve the public perception of their activities and to take fully into account the impact on the poorest sections of society.

Fourth, the trend toward greater mobility of capital across borders is here to stay. The transfer of capital on a long-term basis also brings with it other benefits in terms of access to technology and skills. At the same time, we would all agree that we need to work to make countries more resilient to possible shocks arising from volatile capital movements. To that end, liberalization of capital flows must proceed in a prudent and properly sequenced manner in order to maximize the benefits and minimize the risks. The pre-con-

ditions for liberalization, especially a sound financial system, must be well in place first.

Efforts at Assisting the Neediest Members

Whilst reflecting on the architecture of the international monetary system is important, let us not forget that, in the midst of and due to this financial crisis, there is an ongoing human crisis as well. Millions of lives have been affected.

The impact has been felt most severely by the most vulnerable in the countries involved—the poor, and in particular, the women and children. Because unemployment is on the rise and incomes have fallen, poverty is increasing at an alarming rate. The poor will suffer from the irreversible losses in potential education and health that will impede their participation in future recovery. An increase in social unrest, crime and violence has also resulted from this crisis.

In the short term, the poor must be protected against drastic declines in consumption. Measures should aim at ensuring food security and preserving the purchasing power of vulnerable households. In the long term, appropriate social safety nets will need to be created.

The Bretton Woods Institutions are increasingly mindful of the social aspects of crises. In particular, the Bank is assisting governments to manage the social consequences of the crisis by protecting and improving the quality of social services and public expenditures targeted to help the poor. This includes improving the design and financing of social funds; strengthening social security systems for the unemployed and the elderly, supporting labor-intensive projects; and addressing key institutional issues.

We must also ensure that the trend toward globalization does not impede the development of the neediest countries. In the spirit of solidarity and cooperation, we must support the bold adjustment efforts that these members undertake. In this context, the World Bank must continue to respond to the needs of its borrowing countries. The actual challenge is not only to protect the poor, but more than ever to support structural reforms and improvements in public and private sector governance to make countries more resistant to economic shocks. We also encourage the IMF and the Bank to continue their fight against corruption.

We welcome the progress achieved in implementing the HIPC Initiative. Only two years after this challenging and pioneering effort of the international community was initiated, seven countries have been included in this initiative, of which two have reached the completion point. We need to continue our cooperation and also to make progress in complementary assistance for countries emerging from conflict.

We must also pledge to ensure that a sufficient level of resources are made available for the proper functioning of the ESAF, and we should redouble our efforts to secure the necessary financing. We welcome efforts to strengthen the ESAF following the recent evaluations. We must ensure that countries adopting

courageous policy reform programs aimed at sustainably reducing poverty receive strong donor support. IDA is a key instrument in support of the poorest countries. Reaching an agreement in the coming weeks on an IDA-12 replenishment is critical to demonstrate to the poorest countries—particularly those with sound social and economic policies—that their plight is not forgotten and their efforts will be supported, even as the world community responds to crises elsewhere.

Resources

The international community has assigned a central role to the Fund and the Bank in the international financial system and in fostering sustainable development. Against the background of present challenges their effectiveness needs to be enhanced. Essential to this goal is ensuring that they have sufficient resources to do their jobs.

The Fund's financial resources are at a precariously low level, limiting its ability to support members' adjustment efforts. Therefore, it is essential that the quota increase become effective as soon as possible. To strengthen confidence in the institutions' ability to respond to the crisis, the international community must live up to its obligations.

The Bank has recently taken actions to maintain its financial integrity. Its contributions to support recovery in East Asia and elsewhere and to provide necessary protection to the poor will be needed also in the future. To maximize efficiency and coherence, we need to make sure that our institutions take account of their comparative advantages and respective mandates.

In addition to strengthening the Fund and the Bank with adequate financial resources, we must do more to support and advocate their work in our respective nations and ensure that they remain the central institutions for international economic cooperation. We must do more to explain carefully their vital work, in order to cultivate a broader and deeper understanding among our citizens. So many different fora are increasing their efforts to contribute to strengthening the international monetary system that it is difficult to keep track of their work. Let us not forget: we are here as the G-182, the centerpiece of international cooperation! This cooperation effort is crucial and the time has come to distill the lessons from these deliberations and to integrate the different building blocks into the central work of a new architecture.

Conclusion

My fellow Governors,

As you know, I come from Austria, a mountainous country, where we had to learn long ago how to deal with the perils and uncertainty of uncharted, terrain mountain territories. In such a situation, markers along the way are important in helping to orient ourselves. Much like in the deep snows of the winters in Austrian mountains, these markers may be hidden to us, but it is our duty to work to reveal them to the international community. We are all in that chal-

lenging situation now. We have a difficult time ahead of us, but I am certain that our common effort will lead us to resolve our problems in an equitable manner. Let us now, together in this Meeting, set those markers that will carry us through the difficult time ahead.

ANNUAL ADDRESS BY JAMES D. WOLFENSOHN THE PRESIDENT OF THE WORLD BANK GROUP

The Other Crisis

This is the fourth time I stand before you as President of the World Bank Group. At the outset I would like to express my appreciation to our Chairman, Wolfgang Ruttensdorfer, and to my colleague and friend, Michel Camdessus for the partnership that we have enjoyed during the past year.

I would also like to pay tribute to the work that the Fund has done in a year that has been characterized by great turmoil and acknowledge the contribution which Michel and his colleagues have made dealing with very difficult problems at a very difficult time. We all recognize that we meet under the shadow of a global crisis. We come here in a united endeavor to protect the common welfare, to listen to ideas from all quarters, to reach out to friends and critics alike to find new solutions. We must embrace the bold.

I stand before you today under very different circumstances from last year. Twelve months ago, we were reporting global output that grew by 5.6 percent—the highest rate in 20 years. Twelve months ago, East Asia was stumbling, but no one was predicting the degree of the fall. Twelve months ago, South Asia, home to 35 percent of the world's poor, was still nuclear-test free, and seemed set to enjoy future years of 6 percent growth. Perhaps more.

Twelve months ago, developing countries as a whole were on a path toward strong growth over the next decade. Twelve months ago there was optimism about Russia with its strong reformist team.

And then came a year of turmoil and travail.

East Asia, where estimates suggest that more than 20 million people fell back into poverty last year, and where, at best, growth is likely to be halting and hesitant for several years to come. Russia, beset by economic and political crisis—caught between two worlds, two systems, comfortable with neither. Japan, the world's second largest economy, so crucial to East Asian recovery, with a government committed to economic reform, and yet still in recession, with a profound impact not just in Asia but around the world. Nuclear tests in India and Pakistan. War threatened in Eritrea and Ethiopia. Terrorist bombs in Kenya and Tanzania.

And all this compounded by the impact of El Nino—the worst in history—with its full devastating force falling most heavily on the poor. In Bangladesh, floods that kept 2/3 of the nation under water for more than two months, setting back many of the recent social and economic gains. In China, flooding of the Yangtze River region with an estimated 3,500 deaths, 5 million homes destroyed and 200 million lives dislocated.

I have spoken in the past about images of hope—of people from the slums of Brazil to the rural villages of Uganda, from the Loess plateau in China to the hundreds of thousands of women who are finding their dignity through microcredit. People empowered to take charge of their destinies.

But today I have other memories. Dark, searing images of desperation, hopelessness and decline. Of people who once had hope, but have it no more.

The mother in Mindanao, pulling her child out of school, haunted by the fear that he will never return. The family in Korea, with a mid-size scrap metal business, made destitute through lack of credit. The father in Jakarta, paying a money lender 3 times in interest what he can make that day, falling deeper and deeper into debt. Not knowing how he will ever work himself free. The child in Bangkok, now condemned to work the streets, a child no longer.

Today, while we talk of financial crisis: 17 million Indonesians have fallen back into poverty; and across the region a million children will now not return to school.

Today while we talk of financial crisis—an estimated 40 percent of the Russian population now lives in poverty.

Today while we talk of financial crisis—across the world, 1.3 billion people live on less than \$1 a day; 3 billion live under \$2 a day; 1.3 billion have no access to clean water; 3 billion have no access to sanitation; 2 billion have no access to power.

We talk of financial crisis while in Jakarta, in Moscow, in Sub Saharan Africa, in the slums of India and the barrios of Latin America, the human pain of poverty is all around us.

We must address this human pain.

We must go beyond financial stabilization. We must address the issues of long-term equitable growth on which prosperity and human progress depend. We must focus on the institutional and structural changes needed for recovery and sustainable development. We must focus on the social issues.

We must do all this. Because if we do not have the capacity to deal with social emergencies, if we do not have longer term plans for solid institutions, if we do not have greater equity and social justice, there will be no political stability and without political stability no amount of money put together in financial packages will give us financial stability.

And so in response to the current crisis, we at the Bank have been focusing on putting in place the short and the long-term measures for sustained recovery.

Working with governments on financial, judicial and regulatory reform, on bankruptcy laws, anti-corruption programs and corporate governance—so essential to the restoration of private sector confidence. Before the crisis hit we had already worked on financial sector reform in 68 countries. At the request of our shareholders we have now expanded that capacity by one third and we are reinforcing our leadership in corporate governance.

On the social side, we have been restructuring our existing portfolios to ensure a sharp focus on priority programs that can reach poor communities quickly. Working to keep children in school—for example in Indonesia where we support a program to provide scholarships for 2½ million children. Creating jobs—in Thailand, through a new social fund. Putting in place frameworks for social protection—in Korea through a series of structural adjustment loans.

Throughout the region trying to maintain food supplies, trying to make sure vital medicines reach the sick. Trying to ensure that health and education programs continue, and that the environment does not suffer. Trying to put people first.

We have learned that while the establishment of appropriate macroeconomic plans with effective fiscal and monetary policies are essential in every respect, financial plans alone are not sufficient.

We have learned that when we ask governments to take the painful steps to put their economies in order we can create enormous tension. It is people not governments that feel pain.

When we redress budget imbalances, we must recognize that programs to keep children in school may be lost, that programs to ensure health care for the poorest may be lost, that small and medium enterprises, which provide income to their owners and employment to many, may be starved of credit, and fail.

We have learned, that there is a need for balance. We must consider the financial, the institutional and the social, together. We must learn to have a debate where mathematics will not dominate humanity; where the need for often drastic change can be balanced with protecting the interests of the poor. Only then will we arrive at solutions that are sustainable. Only then will we bring the international financial community and local citizens with us.

There has been much talk leading up to and within these meetings of a new global financial architecture.

That talk reflects a growing sentiment that there is something wrong with a system in which even countries that have pursued strong economic policies over a period of years are battered by international financial markets, where workers within those countries will be thrown out of work, where their children's education will be interrupted, their hopes and dreams destroyed.

I believe that in the more than half century that has elapsed since the creation of the new economic architecture in the aftermath of World War II, our international economic institutions have served us well. No, they have not solved all our problems. But we are far better off with them than we would have been without them.

While poverty has not been eradicated, incomes have been raised. The Green Revolution has brought food to millions who might otherwise have starved. Some scourges, like river blindness, have been almost eradicated, and we have made progress against many others.

We have gone for more than a half century without a major global crisis. The system withstood large shocks, such as the huge increase in oil prices. And in that half century the institutions have evolved with the global economy.

But we cannot pretend that all is well. We cannot close our eyes to the fact that the crisis has exposed weaknesses and vulnerabilities that we must address.

We must be bold but we must also be realistic. We will not devise a new architecture in two days, or even two weeks. But neither can we afford a lost

decade like the one that afflicted Latin America in the aftermath of its crisis in the early 1980s. Too much is at stake, too many people's lives.

What we can do here and now is this: We can identify what needs to be done. We can recognize the problems. We can clarify our objectives. We can work to reach consensus. The problems are too big, their consequences too important, to be guided by the pat answers of the past, or the fads or ideologies of the day. We must make a collective commitment to join together to build something better. Let me suggest a three-pillared approach

The first pillar must be prevention: we must understand the causes of the crises, and work to create economic structures which make them less frequent and less severe.

The second pillar must be response: No matter how successful we are in the first task, there will be crises. We need to devise more effective ways of responding to the crises, ways that entail a better sharing of the burden, ways that do not entail such pain on workers and small businesses, and other innocent victims.

The third pillar must be safety nets: No matter how successful we are in devising fair and efficient responses—and it is clear that we have a long way to go—there will be innocent victims. Unemployment rates will rise. We must do a much better job of ensuring that these innocent victims are protected.

At the request of finance ministers we have been working to increase collaboration between the Bank and the Fund. Ministers asked us to review our division of labor and we have done that in a spirit of true partnership.

Our roles are clearly different. The Fund's mandate covers surveillance, exchange rate matters, balance of payments, growth-oriented stabilization policies and their related instruments. The Bank has a mandate for the composition and appropriateness of development programs and priorities, including structural and sectoral policies—and therefore, by building a sound basis for development, a responsibility for crisis prevention.

At this moment of crisis, with private sector funds withdrawing from emerging markets, IMF resources strained, and little direct support from more wealthy nations, we recognize the obligation to be a counter-cyclical lender, committed to help where it is needed. Not just in the crisis countries but for our many clients who are excellent performers—but who are caught short in the current squeeze for funds in the global markets. Yes, we must help them so that they do not become crisis countries.

Yes, we must come in quickly in crisis countries to make sure that social, institutional and policy reform can take immediate root and are integral parts of the overall program—that the responses to the crisis enhance long-term recovery.

Yes, we must come in quickly with emergency social assistance.

But ours is a different role from that of the Fund. We can be an emergency lender, but we cannot be a liquidity lender. Given our financial structure, and the need to stay within our prudent lending limits, there are trade-offs that we cannot ignore.

If we are to lend more upfront, there will be less to lend for our long-term development mission. Less for IDA, less for HIPC, as well as less for the poor in the crisis countries. New demands made on us will require a very careful assessment of possible needs for new resources. Today, backed by our existing capital and resources and substantial uncalled capital, we are in a very strong position, but as we move forward we must be careful not to find ourselves constrained by capital.

And we must also remember that we cannot be distracted from the urgent need to ensure that we have full funding for the poorest countries through IDA-12 and HIPC. That must be a priority in the weeks and months ahead.

When we look at the pace and the depth of global change over the last 12 months, we, like all of you in this room, are concerned about what are the lessons we should learn from these experiences. We like all of you are asking, what can we do differently in the future to try and avoid these shifts in the economic and sociopolitical landscape? What is it that we have observed?

We see that in today's global economy countries can invest in education and health, can put the macroeconomic fundamentals in place, can build modern communications and infrastructure, can do all this, but, if they do not have an effective financial system, if they do not have adequate regulatory supervision or adequate bankruptcy laws, if they do not have effective competition and regulatory laws, if they do not have transparency and accounting standards, their development is endangered and will not last.

We see that in today's global economy countries can move towards a market economy, can privatize, can break-up state monopolies, can reduce state subsidies, but if they do not fight corruption and put in place good governance, if they do not introduce social safety nets, if they do not have the social and political consensus for reform, if they do not bring their people with them, their development is endangered and will not last.

We see that in today's global economy, countries can attract private capital, can build a banking and financial system, can deliver growth, can invest in people—some of their people—but if they marginalize the poor, if they marginalize women and indigenous minorities, if they do not have a policy of inclusion—their development is endangered and will not last.

We see, that in a global economy, it is the totality of change in a country that matters.

Development is not just about adjustment. Development is not just about sound budgets and fiscal management. Development is not just about education and health. Development is not just about technocratic fixes.

Development is about getting the macroeconomics right—yes; but it is also about building the roads, empowering the people, writing the laws, recognizing the women, eliminating the corruption, educating the girls, building the banking systems, protecting the environment, inoculating the children.

Development is about putting all the component parts in place—together and in harmony.

The need for balanced development is true for East Asia and Russia. It is true for Africa. It is true for Latin America, for the Middle East, for the transition economies of Central, Eastern Europe and Eurasia. It is true, for us all.

The notion that development involves a totality of effort—a balanced economic and social program—is not revolutionary, but the fact remains that it is not the approach that we in the international community have been taking.

While we have had some extraordinary success over the many years with individual programs and projects, too often we have not related them to the whole. Too often we have been too narrow in our conception of the economic transformations that are required—while focusing on macro-economic numbers, or on major reforms like privatization, we have ignored the basic institutional infrastructure, without which a market economy simply cannot function. Rather than incentives for wealth creation, there can be misplaced incentives for asset stripping.

Too often we have focused too much on the economics, without a sufficient understanding of the social, the political, the environmental and the cultural aspects of society.

We have not thought adequately about the overall structure that is required in a country to allow it to develop in an integrated fashion into the type of economy that is chosen by its people and its leadership. We have not thought sufficiently about the vulnerabilities—those parts of an economy that can bring all the building blocks tumbling down. Or about sustainability—what it takes to make social and economic transformation last. Without that, we may build a new international financial architecture. But it will be a house built on sand.

Let me suggest a concept that may help us address some of these concerns.

The IMF has an overall framework that it reviews annually with its client countries—a framework which finance ministers—all of us—use to evaluate the macroeconomic performance of each country.

Today, in the wake of crisis, we need a second framework, one that deals with the progress in structural reforms necessary for long term growth, one that includes the human and social accounting, that deals with the environment, that deals with the status of women, rural development, indigenous people, progress in infrastructure and so on.

And so in our discussions at the Bank, we have developed and are experimenting with a new approach. One that is not imposed by us on our clients but developed by them with our help. An approach that would move us “beyond projects,” to think instead much more rigorously about what is required for sustainable development in its broadest sense.

We need a new development framework. What might countries look for in such a development framework?

First, the framework would outline the essentials of good governance—transparency, voice, the free flow of information, a commitment to fight corruption, and a well trained, properly remunerated civil service.

Second, it would specify the regulatory and institutional fundamentals essential to a workable market economy—a legal and tax system that guards

against caprice, secures property rights, and that ensures that contracts are enforced, that there is effective competition and orderly and efficient processes for resolving judicial disputes and bankruptcies, a financial system that is modern, transparent and adequately supervised, with supervision free of favor, and with internationally recognized accountancy and auditing standards for the private sector.

Third, our framework would call for policies that foster inclusion—education for all, especially women and girls. Health care. Social protection for the unemployed, elderly, and people with disabilities. Early childhood development. Mother and child clinics that will teach health care and nurture.

Fourth, our framework would describe the public services and infrastructure necessary for communications and transport. Rural and trunk roads. Policies for livable cities and growing urban areas so that problems can be addressed with urgency—not in 25 years when they become overwhelming. And alongside an urban strategy, a program for rural development which provides not only agricultural services, but capacity for marketing and for financing and for the transfer of knowledge and experience.

Fifth, our framework would set forth objectives to ensure environmental and human sustainability—so essential to the long-term success of development and the future of our shared planet—water, energy, food security—issues which must also be dealt with at the global level. And we must ensure that the culture of each country is nurtured and enriched so that development is firmly based and historically grounded. All of these five, of course, within a supportive and effective macroeconomic plan and open trade relations.

This may not be a comprehensive list. It will of course vary from country to country depending on the views of government, parliamentary assemblies and civil society. But I would submit it gets at the essentials.

Mr. Chairman, we must learn from the past—how a framework is developed and applied is as important as the contents of the framework.

Ownership matters. Countries and their governments must be in the driving seat, and, in our experience, the people must be consulted and involved.

Participation matters—not only as a means of improving development effectiveness as we know from our recent studies, but as the key to long-term sustainability and to leverage.

We must never stop reminding ourselves that it is up to the government and its people to decide what their priorities should be. We must never stop reminding ourselves that we cannot and should not impose development by fiat from above—or from abroad.

In our discussions at the Bank we ask each other a simple series of questions.

What if it were possible for governments to join together with civil society, with the private sector, to decide on long-term national priorities? What if it were possible for donors to then come in and coordinate their support, with countries in the driver's seat, with local ownership and local participation? What if it were possible for these strategies to look 5, 10, 20 years ahead so

that development could really take root and grow and could be monitored on an ongoing basis? Too ambitious some will say. Too utopian. But what if I told you it is already happening?

In El Salvador today, there is a national peace commission, born of civil war, which together with civil society, the private sector and the government, is drawing up a list of national priorities. So that those priorities can extend beyond the life of one government and become part of a national consensus for the future. And the same thing is happening in Guatemala and is being considered elsewhere in Latin America.

In Ghana last year, the government held a National Economic Forum in Accra, involving policy makers, civic leaders and large numbers of stakeholders. Out of this forum came proposals for concrete action, targets for reducing inflation, sectoral policies on agriculture and human development, with goals for macroeconomic policy.

In Andhra Pradesh in India, a state of 70 million people, the Chief Minister has a program for 2020. A program for literacy, for improved access to health care, for livelihoods, empowering women, developing backward areas, creating safety nets, a program with clearly monitorable targets that can be regularly checked.

El Salvador, Guatemala, Ghana, India, and I could have added others where there are elements of this approach—Brazil, Mozambique. These are not countries that have reverted to central planning. These are countries that, together with their stakeholders, are designing road maps for the future—their future—in much the same way as do successful businesses.

Hubris should not allow us to think we at the Bank or in the donor community can be the cartographers. But we can be important catalysts.

What I am proposing is that over the next couple of years we bring a new perspective in working with interested governments in drawing up holistic frameworks that sharpen strategic vision. We would like to find two countries in each region of the world that we could work with to test this idea. And we will report to you all at the end of that time.

We must work with our partners in the donor community to see how it is that together with the participant countries we can develop coordinated strategies, joint missions and joint objectives, so that we can put an end to the duplication which wastes precious resources and leaves tempers and clients frayed.

Within our institution we must build on the work we have already begun to move from a project-by-project approach, to an approach which looks at the totality of effort necessary for country development, which takes the long-view, which asks of every project—how does this fit into the bigger picture? How can this be scaled up to cover the country? How can this be rolled out over time—five, ten, twenty years, so that it is not only fully owned by countries and participated in, but that it becomes sustainable and part of the strategy and fabric of that society's overall development?

In some cases we will go beyond national strategies to regional strategies to better reap the benefits of economies of scale. And we must think also of global strategies to achieve global public goods—not only the often discussed need for a cleaner environment, but also the international economic environment—the instability which is of such concern today—and knowledge which we are increasingly recognizing as a key to successful development.

What we are talking about is a new approach to development partnership. It is a partnership led by governments and parliaments of the countries, influenced by the civil society of those countries, and joined by the domestic and international private sectors, and by bilateral and multilateral donors. It is a partnership that can look at measurable goals with much better marked roadmaps for development achievement. Critically, it is a partnership where we in the donor community must learn to co-operate with each other, must learn to be better team players capable of letting go.

Let me assure you, that we in the Bank Group are committed to such a partnership. To putting issues of turf behind us. What matters is not who leads, or who follows, who has their name on a project or who is anonymous. What matters is that we join together to get the job done.

In normal years at this stage in the speech I would give you a progress report on the Bank's achievements. But this is not a normal year. You will be happy to hear that I will not mention the Strategic Compact, nor will I tell you of our achievements or the challenges that still lie ahead. All these issues I discuss regularly with our Executive Directors and I am extremely grateful for their advice, guidance and hard work. I am also very encouraged by the support that I have received from Ministers for our renewal program and the improvements we are making in development effectiveness and we will of course push ahead with that program. But it seems inappropriate to talk of housekeeping when the village is burning.

Let me just say two things. First I want to take this occasion to thank World Bank Group staff for the extraordinary work that they have done this year. I am enormously proud of them. There is no better team of dedicated and motivated colleagues in the world today.

Secondly, I want to thank Jannik Lindbaek, Executive Vice President of IFC and Akiro Iida Executive Vice President of MIGA for their work over the last 5 years. I am delighted also to welcome Peter Woicke who shortly takes up the leadership of IFC, and Motomichi Ikawa who is now leading MIGA.

This year the headlines have been full of the financial crises. This year we are asking ourselves how we can prevent the financial crises of the future. This year we are focusing on financial architecture, corporate restructuring, and building strong safety nets as part of both crisis prevention and crisis resolution. This year we are waking up to the fact that we do not have all the answers.

Let us not stop at financial analysis. Let us not stop at financial architecture. Let us not stop at financial sector reforms. Now is our chance to launch a global debate on the architecture—yes—but also on the foundations of

development. Now is our chance to show that we can take a broader and more balanced view. Now is our chance to recognize that there is a silent crisis looming on the horizon.

A crisis of world population that will add 3 billion more people to the planet over the next 25 years. A crisis of global water that will see 2 billion people suffering from chronic water shortages by 2025. A crisis of urbanization that will mean that urban populations will treble over the next 30 years. That by the year 2020 two-thirds of Africa's population will live in cities—cities that today have no economic growth. A crisis of food security that will mean that over the next 30 years food production will have to double.

A human crisis, a human crisis from which the developed world will not be able to insulate itself. A human crisis that will not be resolved unless we address the fundamental issue of the essential interdependence of the developed and the developing world. A human crisis that will not be met unless we begin to take a holistic approach both to development and to how we respond to crisis—looking at the financial, the social, the political, the institutional, the cultural, and the environmental aspects of society—together.

The poor cannot wait on our deliberations. The poor cannot wait while we debate new architecture. The poor cannot wait until we wake up—too late—to the fact that the human crisis affects us all.

The child on the streets of Bangkok needs to go back to school. The mother in the slums of Calcutta needs to survive through childbirth. The father in the village in Mali needs to be able to see beyond today.

As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility and a shared interest in promoting prosperity in developing and emerging markets. As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility to put in place policies that can help these countries work their way out of crisis.

In the end, we succeed or we suffer together. We owe it to our children to recognize now that their world is one world linked by communications and trade, linked by markets, linked by finance, linked by environment and shared resources, linked by common aspirations.

If we act now with realism and with foresight, if we show courage, if we think globally and allocate our resources accordingly, we can give our children a more peaceful and equitable world. One where poverty and suffering will be reduced. Where children everywhere will have a sense of hope.

This is not just a dream—this is our responsibility.

REPORT BY TARRIN NIMMANAHAEMINDA CHAIRMAN OF THE DEVELOPMENT COMMITTEE

As Chairman of the Development Committee, I am pleased to report to you the Committee's work during the two meetings held during this year.

I am honored to have been selected by the Committee as Chairman, succeeding Mr. Anwar Ibrahim, former Deputy Prime Minister and Finance Minister of Malaysia. The Committee's communique, issued after yesterday's meeting, expressed ministers' great appreciation for his able Chairmanship of the Committee at its meeting last April. Last March he had succeeded the Honorable Driss Jettou from Morocco, who made the last Annual Report to you one year ago in Hong Kong.

Mr. Chairman, in attempting to summarize the Committee's work in this past year, three key themes emerge. These are:

- an attempt to address problems of middle-income countries, particularly those resulting from the current Asian Crisis;
- a search for additional ways to help poor countries deal with their special needs; and
- the encouragement it has given to the strengthening of the Bretton Woods institutions' ability to assist all its members.

Let me address each one briefly.

The first theme is a focus on issues primarily related to middle-income countries, emerging market countries and countries in transition. The main topic in the Committee's last two meetings has been the Asian Crisis and its aftermath. Members addressed the broad range of issues generated by the crisis and the steps needed to support sustained recovery in the region. While Members initially concentrated on the impact in East Asia, we have also broadened the focus as the global ramifications of the crisis increased the vulnerability of all countries.

Within this broad context, and mindful of the work of the Interim Committee on which Chairman Ciampi has just reported, the Committee has concentrated particularly on financial sector issues, the social consequences of the crisis, and on other key development priorities. Yesterday we paid special attention to the response of the World Bank.

The second key theme which has characterized the Committee's work in this past year is the focus on the especially difficult problems of the poor countries.

The Committee has urged a successful conclusion of the IDA 12 replenishment negotiations now underway, and stressed the need to secure the financing of the Fund's ESAF, given their critical importance to the reduction of poverty in the poor countries.

It was in the Committee over two years ago that the Initiative for the Heavily Indebted Poor Countries (HIPC) was successfully launched. Since

that time, seven very poor countries have been included in the program; these countries are scheduled to receive over \$6 billion in nominal debt service relief. In our meeting yesterday, Members expressed continued strong support for HIPC and for the extension by two years of the entry deadline. They encouraged all eligible countries to meet the conditions for assistance so that they would be able to benefit from this innovative program.

Yesterday we also discussed the special problems faced by countries emerging from conflict situations. The extremely difficult circumstances of these very poor countries require special attention, but Members recognized that they also create especially difficult policy issues for international financial institutions when they seek to provide substantial assistance. As a result, the Committee requested that the Bank and the Fund, along with their partners, develop an approach to guide assistance to these countries. We shall review this subject again at the next meeting.

The third key theme of the Committee's recent work cuts across all these country concerns; this theme is the Committee's support for the strengthening of the World Bank Group and the Fund so that they can best serve the interests of their members.

Much attention has been paid to the strengthening of Bank-Fund collaboration, and we have seen considerable evidence of the fruits of these efforts by the two managements. The Committee looks forward to reviewing this subject again in the future.

The Committee has been a strong supporter of the Bank's Strategic Compact and Bank management's ambitious goals of augmenting skills and capacities in new areas of concentration. The Committee receives regular reports on the Compact's implementation.

Following up on the Committee's 1996 Multilateral Development Bank Task Force Report, the Committee has continued to promote a deeper partnership between the World Bank and the regional development banks.

It has never been more important to ensure the Bank's financial soundness, and so the Committee has addressed in both meetings this year the Bank's income dynamics and its overall financial structure, particularly in light of the increasing demands placed on its resources as a result of the East Asia crisis and its impact on others regions.

As a newcomer I am impressed with the breadth of the Committee's mandate and the opportunities it offers to strengthen international cooperation. The Committee, representing the full range of the Fund and Bank membership, can use these semi-annual meetings to address critical issues in a forum small enough to permit a real exchange of views. It can call upon the vast combined resources of the Bank and Fund—its management and its staffs—for a wealth of information and experience. But in the end, the value of the Committee lies in the degree to which we as ministers are prepared to use these opportunities to good advantage. I am honored to be part of this effort.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS

ARMENIA: ARMEN R. DARBINIAN

Governor of the Fund

It is a pleasure to be here this morning, to have this opportunity to speak before such a distinguished and knowledgeable audience. On behalf of the Government of Armenia, I welcome the participants of the WB/IMF Annual meeting. It is my belief that this gathering today will have a major role in overcoming the pressing issues that the global economy faces today.

1998 has been a year of achievements and challenges for all of us and moreover, it has been a period of learning. We have been witnessing new accomplishments in the areas of economic growth, poverty alleviation and integration trends. At the same time, we have also been witnessing the consequences of the recent financial crisis.

Today, almost everyone agrees that an integrated international financial system is essential for development. Improving the financial system can lead to higher growth and reduce the likelihood and severity of crises. In speaking about financial reform, we need to treat liberalization as a means rather than an end.

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

The crisis, which began in Thailand in mid-1997 has spread beyond Asia to Russia and is now affecting countries all over the globe. The affected countries and the other emerging market economies need to continue to undertake the hard work of disciplined macroeconomic policies, which involve sound public finance, a stability oriented monetary policy and a pragmatic and transparent approach to exchange rate management. In this regard great importance should be attached to the role of IMF and the World Bank in the following three directions:

- first, maintenance of stability in international financial markets,
- second, prevention of the expansion of financial crises and provisional support to affected countries,
- third, introduction of new consultations mechanisms on a regional level.

In elaborating on this last point, it is our understanding that we would gain more if the IMF starts its Article IV Consultations on a regional level in addi-

tion to the state level. With regard to economic policy development many of the countries that are closely cooperating with international financial institutions are on the contrary very passive on regional level.

Consultations on a regional level would provide us with a possibility to substantially decrease the threat of the expansion of financial crises and will highly contribute to economic growth.

The 21st century, I believe, will be a period of economic integration among countries. At this point, we are witnessing the emergence of new developments, such as integrated communications system; regional infrastructure development; and a free movement of labor, commodities and capital. There is a pressing need for joint management and operation of oil and gas pipelines; communications; construction of roads and railways, which will result in the more effective utilization of the existing infrastructures. These will provide additional possibilities for the countries to fully use their potential.

Regional cooperation is a first priority foreign policy issue for Armenia. We repeatedly express our readiness to foster such co-operation. As such, Armenia is proving its commitment to this on a day to day basis, be it within the framework of cooperation among the Caucasian States, the NIS, the BSEC countries, and the TRACECA program. This is also demonstrated by Armenia's stance to acquire membership in the World Trade Organization.

Last year, we joined the 8th Article of the IMF Articles of Agreement. Also, Armenia is among the few countries that have joined the 4th Article of the mentioned Agreement.

However, to our great regret, we have to state that regional cooperation in the Caucasus is obviously being hampered by the blockade imposed on Armenia by Turkey and Azerbaijan. No region can reach its full development potential while attempts are being made to isolate one of its components. Such attempts are doomed to failure, as they hinder regional cooperation, which has become an imperative as we enter the 3rd millenium.

We understand that the efficient utilization of Armenia's possibilities, afforded by its strategic location, is directly linked to the political stability and economic prosperity of the country. In this regard, the Government of Armenia has adopted the following policies for the coming five years:

- First, in the political arena, our goal is the creation of a democratic society;
- Second, in the economy the major task for us is the formation of a legal basis that will establish a competitive framework for a liberalized market economy. Also, we need to encourage of the supremacy of private ownership;
- And third, in the social sphere, we recognize that the state should guarantee a necessary level of social protection for everyone, and should provide citizens with the possibility to fully apply their potential.

Today, the economy of Armenia has demonstrated significant achievements. A strong economy is the guarantee for a strong country; this has become

the slogan of 21st century Armenia. Since the beginning of 1998 a transition was made from the stabilization policies that were adopted at the start of independence to strategies for high economic growth and maximum encouragement of investments. The new Government's program of macroeconomics, structural, sectional and institutional development policies, approved by the Parliament of Armenia in May 1998, has introduced the concept "From Stabilization to Economic Growth." The implementation of this program is to provide by year-end 6 percent or more real GDP growth annually, with inflation lower than 10 percent. Consequently, an unprecedented high rate of economic growth was registered, and also new export possibilities were discovered.

A substantial increase in the volume of investments has been observed this year in Armenia. I would like to emphasize the importance of IFC and MIGA in providing support for investors throughout the world and I encourage them to expand their activities in our country as well.

I am sure that building upon Armenia's strong macroeconomic and structural reform record, these institutions could be more responsive to the country's pressing investment needs.

Investment in human capital is the another important point of our policy. We believe that Armenia's highly educated labor force is one of the major factors contributing to the country's future economic growth. The Government of Armenia gives priority to the reforms in the education and health sectors in its overall economic reform program. In this regard we are going to enhance our relationships with the World Bank.

To summarize I want to restate the message that the long term and sustainable economic growth will enable us to meet the challenges that we are facing today in our collective goal of creating a peaceful, integrated and a stable world.

AUSTRALIA: ROD KEMP
Governor of the Bank

I join with other Governors in welcoming, most warmly, Palau as a member of the Fund and the Bank and as a member of Australia's constituencies.

The Australian Treasurer, Peter Costello, is not able to be here today, due to our federal elections. He has asked me to record his support for the Managing Director and the President as they lead the Fund and the Bank in these difficult times. He also wishes to pay tribute to Anwar Ibrahim for the outstanding contribution he has made in chairing the Development Committee.

We are all aware of the seriousness of the current financial crisis and the weakened outlook for the global economy. However, we should avoid excessive gloom. There is continuing solid growth in two pillars of the world economy—North America and continental Europe. Global growth is forecast to be positive, albeit slower than was envisaged a year ago. China's policies are con-

tributing significantly to stabilization in Asia. And there are signs of emerging recovery in countries such as Korea and Thailand that are applying themselves vigorously to implementing Fund and Bank programs.

The Australian economy also is continuing to grow solidly and represents another area of relative strength in the world economy. This is despite the closeness of our trade links with Asia and the openness of our capital markets. In large measure, the resilience of the Australian economy in the face of the crisis reflects sound macro-economic policies, a return to budget surplus, the benefits of structural reforms, strong financial institutions and a flexible exchange rate. Last weekend the Australian Government was re-elected on a platform based on continuing sound economic management and continuing economic reform. Comprehensive reform of the tax system—including the introduction of a new value-added tax, major reductions in income tax and the abolition of a wide range of inefficient taxes—was the centerpiece of our election commitments. It will follow action already taken by the Government to introduce much greater transparency in fiscal and monetary policy, to further improve the laws governing corporations and to upgrade prudential regulation of the financial sector by bringing all institutions under a single regulatory regime. Australia is at the forefront of world practice in these fields and that has served us well in the current global crisis.

Introducing such changes is never easy. But Australia's experience should help give others confidence that difficult but necessary changes can be introduced and accepted by our electorates if the necessary political effort is made.

There is a great deal of consensus about the action that needs to be taken in dealing with current global problems. Markets need to put aside any tendencies towards knee jerk reactions and look carefully at the circumstances of individual borrowers, so that credit can continue to flow to sound enterprises. Credit is the lifeblood of every economy. Countries in crisis need to resolve quickly any doubts affecting the creditworthiness of financial institutions so as to restore the health of their banking systems. Continuing efforts are needed to address deep-seated structural and institutional problems. And industrial countries have a key role in sustaining global demand and accepting the inevitable deterioration in their balance of payments that is a necessary part of restoring growth elsewhere.

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

It is also very important that we work to strengthen the international trading system and to keep markets open. We must maintain the momentum of

trade liberalization and work together to pursue these goals, including in the World Trade Organization and APEC.. We welcome President Clinton's announcement yesterday that he will be seeking to take this up this issue at next month's APEC Economic Leaders meeting. We look to all APEC members to accept this challenge.

Australia wishes to add its voice in supporting speedy implementation of the general quota increase and adherence to the New Arrangements to Borrow. We welcome also efforts by the Bank and the Fund to develop new instruments to provide liquidity support for crisis economies and for economies with sound fundamentals which may also be affected.

From the beginning of the current financial crisis last year, Australia has played a very active role in international efforts to deal with it. We participated in the support groups for Thailand, Korea and Indonesia. We are promoting the development of regional surveillance in the Manila Framework Group. In APEC, we are sponsoring and supporting a range of initiatives to strengthen regional institutions and markets. And we have encouraged the Fund and the Bank in their efforts to assist regional economies and participated in international discussions such as those of the so-called Willard Group.

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

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

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

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

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

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

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

AUSTRIA: WOLFGANG RUTTENSTORFER

Governor of the Fund and the Bank

(on behalf of the Member States of the European Union)

Since Austria currently presides over the Council of the European Union, I have the honor to address this meeting on behalf of the Union. My speech will center on the following topics: on the outlook of the world economy, on the progress made toward European Economic and Monetary Union and on the European Union's contributions toward international financial stability.

Global economic and financial conditions have become more volatile in the course of this year. World economic growth has slowed down, mainly as a result of the economic and financial turmoil which started in Asia and has spread to other regions. The impact of increased global financial instability is unevenly distributed. While growth in industrial countries has generally remained steady, the situation in many emerging economies has deteriorated markedly, sometimes despite the pursuit of sound policies.

The short-term outlook for the world economy points to sustained growth in 1999, but the risks are higher on the downside. Key factors in this context are the pace of recovery in Asia, the resumption of sustainable growth in Japan, the vigorous implementation of a market-oriented economic reform program in Russia, and the containment of contagion effects to other regions.

Global inflationary pressures are set to remain fairly subdued. To a large extent, this is due to the general commitment around the world towards stability-oriented policies, which were supported by the behavior of world commodity markets, where prices have fallen markedly.

Financial conditions in emerging Asia have stabilized somewhat as a result of strong policy responses to the crisis, but the impact of the crisis on domestic demand, output and employment in the countries affected is far from over. Liquidity constraints, financial sector weaknesses and corporate bankruptcies

continue to put a severe strain on economic activity. However, external balances have improved considerably, and export volumes have begun to pick up, thus contributing to a recovery of growth. The European Union fully backs the IMF-supported economic and structural reform programs undertaken by the countries affected. Continued persistent implementation of these programs should restore confidence and lead to a resumption of capital inflows.

The economic situation has also deteriorated in Japan, which is most closely linked to the countries in crisis, and which is suffering from a protracted weakness in domestic demand as well as long-standing financial sector problems. The European Union urges Japan to take the necessary structural reform measures—particularly in the banking sector—and to implement a sustainable fiscal policy in order to ensure a strong domestic-demand-led recovery.

Russia has fallen into a deep economic and political crisis which was accentuated by the announcement of unilateral measures in mid-August. The European Union calls on the government of Russia to take all necessary steps towards the re-establishment of credibility within and outside the country, towards solving its structural budget problem, which is the essential precondition for the control of inflation, and towards restructuring the financial and corporate sectors.

Economic conditions are uneven in other parts of the world. The US economy continues to enjoy a robust expansion. A moderate slowdown in domestic demand, together with favorable developments in commodity prices and the appreciation of the dollar has somewhat reduced the risk of overheating and should enable the US economy to contain inflation. Latin American countries have substantially strengthened their macroeconomic performance and are generally pursuing sound domestic policies that in some cases need to be accompanied by a strengthening of their budgetary positions. However, financial market contagion has increased financial instability and poses serious challenges for macroeconomic management. In this context, greater market awareness of country-specific circumstances may be called for. Growth in developing countries has slowed only moderately. In a large number of countries, sound macroeconomic policies and the commitment to market-oriented structural reform have improved the economies' medium-term growth potential. Still, large disparities in economic performance remain. The transition countries of Central and Eastern Europe have generally shown steady growth and resilience vis-à-vis financial market fluctuations. In a number of countries, policy measures to contain external imbalances and to avoid overheating were implemented.

The European Union and its Member States continue to be fully committed to promoting international co-operation and to maintaining a stable and sound economic environment. They actively contribute to resolve the current difficulties in Asia both through bilateral and multilateral channels. The recently-created ASEM Trust Fund, to which the Union and a number of

Member States contribute, will provide Asian countries with technical assistance and advice on restructuring their financial sectors and on measures to deal with the social problems caused by the crisis. We also welcome the private sector involvement, including European banks, in resolving the financial difficulties of Asian countries.

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

Growth in the EU has become increasingly solid and even-based. The recovery, which was initially export-led, is underpinned by a healthy upswing in domestic demand, though obviously its future pace will also depend on global economic and financial conditions. In an environment of low inflation and low interest rates, private investment and consumption growth have strengthened. A high degree of convergence among European economies in the run-up to Economic and Monetary Union has been attained, as reflected in a sizeable reduction of budget deficits and inflation rates. These achievements, which have been acknowledged by the markets through low and converging long-term interest rates and a high degree of exchange rate stability, also during recent upheavals in the international financial markets, set the conditions for sustainable non-inflationary growth.

Regarding the introduction of the euro on 1 January 1999, the last phase of preparatory work on the policy and logistical framework is currently under completion. The legal and technical framework for the single currency is in place, ensuring legal certainty and facilitating a smooth transition for markets, businesses and consumers.

At the beginning of May, the decisions on first-wave EMU membership and the pre-announcement of the bilateral exchange rates used to determine the conversion rates which will be irrevocably fixed on January 1, 1999, were taken. EU Heads of State or Government decided that, having fulfilled the convergence criteria according to the Maastricht Treaty, eleven countries will introduce the euro on January 1, 1999. The pre-announced bilateral rates correspond to the bilateral central rates in the ERM, which are consistent with underlying economic fundamentals, and to which the exchange rates of participating Member States have tended to converge over the last two years. The calm and favorable reaction of financial markets to these decisions reflects the credibility and the sound economic footing of the EMU project. The introduction of the euro will be accompanied by a framework designed to ensure stable prices, sound public finances and thus an adequate policy-mix in the euro area. On June 1, the ECB and the ESCB were created. Their independence and commitment to price stability are enshrined in the EU Treaty. The ECB Council will shortly decide about the monetary policy strategy and framework which

is most appropriate to the achievement of this aim. In all Member States, sound fiscal policies will be pursued in the framework of the Stability and Growth Pact, which sets strict rules for the application of the budget surveillance procedure stipulated in the Treaty.

As agreed at the Luxembourg European Council in December 1997, economic policy co-ordination and surveillance within the Union is being stepped up in view of EMU. Enhanced co-ordination and surveillance encompasses those national economic policies which have the potential to influence monetary and financial conditions throughout the euro area or the smooth functioning of the single market. This includes the monitoring of macroeconomic developments as well as budgetary surveillance and the monitoring of structural policies in labor, product and services markets. Also, as from January 1, 1999, a new European exchange rate mechanism will help to ensure that Member States outside the euro area participating in the mechanism orient their policies to stability and thus foster convergence.

While the Ecofin Council remains the core economic policy institution in the EU and the sole decision-making body, Ministers of the states participating in the euro-area—the so-called Euro-11-Group—meet on an informal basis to discuss issues connected with their shared specific responsibility for the single currency. Whenever matters of common interest are concerned, they are discussed by all Member States.

The single currency will allow businesses and consumers to reap the full benefits of the European single market by reducing transaction costs, eliminating intra-European exchange rate risk and increasing cross-border prices transparency. Thus, a stable euro will create a potential for more growth and employment in the EU, the realization of which will also crucially depend on the implementation of various structural reforms, particularly in the labor markets.

Nevertheless, for the EU Member States a number of challenges remain. Unemployment, though recently receding, is still unacceptably high. Following common Employment Guidelines, Member States have developed Employment Action Plans which they are in the process of implementing. The four pillars of the Employment Guidelines aim at improving employability, developing entrepreneurship, encouraging adaptability in business and strengthening the policies for equal opportunities. To promote growth and employment, the EU Member States are also progressing with respect to structural reforms. Reforms of goods and services markets, as well as further efforts in reducing harmful tax competition, are under way. Member States and the Commission have agreed to undertake short, year-end reports on progress to improve the functioning of product and financial service markets. This will help the exchange of best practice. The further completion of the internal market requires additional action by promoting competition, reducing distortions and fostering the implementation of Community rules relating to state aids. Sustainable economic development in the Union should be based on respect for the environment. In order to minimize negative externalities, pro-

tection of the environment should be integrated in practice into the definition and implementation of economic policies.

The EU has also embarked on the project of enlargement. The Union has formally opened accession negotiations with the five CEECs (Poland, Hungary, the Czech Republic, Estonia, Slovenia) most advanced in their transition, plus Cyprus. They and the five other applicant countries are supported within a comprehensive pre-accession framework.

The enlargement process creates enormous opportunities. The EU is providing key support for the CEECs' transformation into fully-fledged market economies and for their further integration into the world economy. An enlarged Union opens new dynamic markets and business opportunities, and will eventually lead to a single integrated market of more than 500 million people. Such a perspective is not only good for Europe itself, but for global trade and the global economy as a whole.

Preparing for EU enlargement is, however, not only a matter for the candidate countries. The EU itself has to adapt its institutional and decision-making structure as well as some of its policies. All this within the framework of stringent budgetary discipline.

The advent of the euro will be a major event for the international monetary system. The economic size of the euro area, the depth and liquidity of an integrated European financial market, and the pursuit of stability-oriented policies, notably fiscal and monetary policies will, over time, lead to the emergence of the euro as a major international currency. This development will, however, be neither sudden nor disruptive. As a stable international currency, the euro will be able to contribute to the smooth functioning of the international monetary system.

During their informal meeting in Vienna, European Economics and Finance Ministers have launched a discussion on the means to strengthen their contribution to the stabilization of the international financial situation. We have come to the conclusion that:

- we should strive to put in place effective representation arrangements for the euro area on the international stage, with due respect to the Treaty provisions and to competencies that remain at the national level;
- we shall continue to participate actively in the process of answering the challenges posed by the current instability. Solutions would include the following actions and reforms:

The IMF should be endorsed as the centerpiece of the global financial system and it should be endowed with sufficient means to meet its responsibilities. More thorough consultation between industrial countries and emerging countries is needed, as the role of the latter in the world economy is growing and more especially as they have been affected by each recent financial crisis.

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

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

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

In this context, the co-operation and division of labor between all international financial institutions (IFIs) become increasingly important. Their collective efforts to contribute towards the development of sound financial and corporate sectors are particularly welcome. Effective communication and collaboration between the IMF and the World Bank will be an important element in this respect. The World Bank and the Regional Development Banks will have to step up their efforts in supporting structural reforms, especially addressing the structural problems behind poverty. However, in their involvement in financial crises, their respective mandates should be fully respected. The leadership role of the IMF in financial crises is vital and lessons from the Asian crises will have to be incorporated into its future strategy and operational activities. In particular, this holds for the need to avoid moral hazard problems as much as possible. More IMF financing is never a substitute for necessary adjustment in the program countries.

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

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

It is regrettable that financing of the international financial institutions—and related activities like HIPC and the concessional funds of MDBs—is increasingly being imposed on only part of the international donor community. Recognition of the importance of a coordinated, common approach to various crises should lead us to a fair burden sharing among those involved. We urge all countries to make a strong effort to meet their responsibilities in this respect according to their weight and importance in global affairs. We

welcome that countries that have not been traditional contributors intend to participate in the NAB and also have contributed to the solution of the financing of the response to the Asian crisis. This should, however, not lead other traditional contributors not to accept their fair burden.

Regarding the World Bank Group, the EU Member States welcome the strengthening of its operational capacity. This will reinforce the Bank's capacity to fight poverty effectively, to support structural reforms and to provide assistance to developing countries in achieving socially and environmentally sustainable growth. We welcome all efforts to safeguard the World Bank's financial integrity. To make world-wide development efforts more effective and to compensate for decreasing flows of ODA, stronger and more effective co-operation among bilateral and multilateral donors is of greatest importance. In this respect we welcome the Bank Group's attention to fostering private sector development. We welcome the approach of the World Bank Group to enhance national ownership and to include all major stakeholders in the formulation of development strategies.

The EU Member States welcome the Bank's support of the transition countries of Central and Eastern Europe. We appreciate especially the co-operation of the Bank group with EBRD and EU institutions in assisting those countries which prepare themselves to join the European Union. The focus of the Bank on structural issues in the public sector and governance issues is particularly useful to countries on the verge of EU membership.

The Member States of the European Union taken together, are by far the largest contributor of the IDA, and proved thereby its involvement in the ODA. This year we are focusing on its twelfth replenishment. EU Member States are participating in the negotiations very actively and are doing their utmost to successfully conclude the process within the next six months. As resources for concessional assistance and ODA in general are decreasing, it is even more important today that all donors take up their fair share in the replenishment and ensure that the IDA has a sufficient amount of funds available to help the world's 80 poorest nations to reduce poverty by means of achieving economically and environmentally-sustainable growth, in particular in those countries with strong policy performance.

BANGLADESH: SHAH A.M.S. KIBRIA

Governor of the Bank

Honorable Chair, the President of the Bank, the Managing Director of the Fund, Fellow Governors, Distinguished Delegates, It is a great privilege for me to address 1998 Annual Meetings of the Board of Governors of the Bank and the Fund. I take this opportunity to extend to you, Mr. Chairperson, my warmest felicitations on your election to the Chair of this August Body. Let me also congratulate the Managing Director and the President for the leadership they

have provided to these two important institutions since they assumed office. We have noted with appreciation the policies outlined by President Clinton for a growing world economy free from volatility.

Since we met last in Hong Kong, it has not been an easy time. The high performing economies of Asia plunged into a crisis which stalled the course of their rapid development. The contagion effect was apprehended but no one knew for certain the depth and extent of its effect. It appears now that the contagion has spread far and wide—and threatens to engulf the world economy. Some economists even apprehend that the world may experience a deep depression unless corrective measures are taken quickly.

The threat to the world economy comes at a time when liberalization was generally accepted and most of the developing countries had made significant progress in terms of policies for structural reforms and adjustment. The volatility of currency and capital market especially speculation or predatory raid on the economies with vulnerability has generated skepticism about the benefit of liberalization. The Bank and the Fund will have to take adequate measures to stem the tide of growing skepticism and any likelihood of reversal towards more insular policies. In this context, let me put on record my delegation's appreciation of the initiatives taken by the International Monetary Fund, the World Bank, and the Regional Banks. We listened with great interest the opening statements made by Mr. Michel Camdessus and Mr. James Wolfensohn which gave an excellent analysis of the origins of the current financial crisis and guidelines for its solution. I congratulate Mr. Camdessus and Mr. Wolfensohn for their statements.

The contagion effect of the Asian crisis has put the developing countries particularly the least developed countries in a difficult situation. First, the resources necessary for supporting development efforts and balance of payments have not increased relative to the enlarged needs. Second, as part of liberalization, we have adopted export-led growth strategies. The prospect of global recession dampens our export efforts. Third, the structural reforms and adjustment policies implemented so far clearly indicate that we should continue to pursue that strategy. The success of the strategy is contingent on adequate external support and expansion of the world economy.

Let me turn to my own country Bangladesh now. Since the present Government took office in 1996, it has achieved remarkable success in a number of key areas; for want of time, let me touch on only a few of them. The present government under the leadership of Prime Minister Sheikh Hasina has established a representative local self-government system at the grass-root level. More importantly, the local self-government institutions are structured in such a way as to secure effective representation of women to ensure their empowerment. The ethnic conflict which plagued Chittagong Hill Tracts for the last two decades has been brought to an end through peaceful negotiation. It is a unique case in the world where peace has been established by the parties themselves without external intermediation. Within six months of assuming office

our government signed a 30 year Treaty for a long-term Water-sharing arrangement with the upper riparian country India. This has created conditions for more efficient use of the water resource and construction of water management structures. We have achieved economic growth at close to 6 percent in the last two financial years. In order to improve the quality of governance, we have taken up an ambitious program of reforms. Financial sector reforms and administrative reforms are two critical areas where we have focused our attention. Privatization has also been taken up in right earnest.

Unfortunately, the consolidation of our economic efforts is threatened by the floods that we had since July. This is the worst flood that the country has experienced in recorded history. This not only affected the normal life of the people but also adversely affected agricultural output, industrial production, and exports. The Government has undertaken a large relief operation and rehabilitation programme, thanks to the assistance of all our friendly countries and international and multilateral agencies. We would need significant assistance for rehabilitation and regeneration of the economy to recoup the output loss and sustain the high rate of growth achieved in the recent years.

Our basic strategy to cope with the exogenous shock is to stimulate economic activities and maintain the rate of growth while containing inflation. In particular, this includes: maintaining fiscal balance and containing deficits; controlling public expenditure and improving its quality; maintaining adequate international reserve; recoup output losses in agriculture and industry, especially in the exports sector; and allowing adequate import so that an upward pressure on prices generated by a supply shock can be averted. The success of the strategy requires adequate external resource support.

It takes strong leadership, deep commitment and courage to pursue an economic strategy based on liberalization and export-led growth in such times of crisis. Fortunately for us, Prime Minister Sheikh Hasina provides such leadership and is a beacon light for all of us. Under her leadership, the economic policies and institutional development for a strong democratic system of governance has remained on course.

Let me conclude, Mr. Chairperson, with thanks to you, the Fellow Governors and the Distinguished Delegates for their patient hearing.

BARBADOS: OWEN S. ARTHUR
Governor of the Fund and the Bank
(on behalf of the Joint Caribbean Group)

Mr. Chairman, I have the honor to speak on behalf of the Caribbean Community countries.

I join my colleagues in expressing appreciation for the excellent arrangements, which have been made for these meetings by our institutions.

Mr. Chairman, living conditions for a significant portion of the population of East Asia and Eastern Europe have worsened significantly since we last met in Hong Kong; and actions in a number of the major economies in Latin America to defend against the worst effects of capital movements raise the prospect of similar involuntary adverse effects on living standards in the central and southern parts of our hemisphere.

There is nothing that gives hope for short or medium-term optimism, except that we know in general what steps need to be taken in order to prevent this continuing crisis from turning into catastrophe.

What we do not yet have is a clear sense that an appropriate program has been prepared and is being implemented.

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

We will also support the extension of such rescue efforts to other economies which, in the immediate future, will face major liquidity difficulties. For this reason our region is concerned about the lack of progress towards agreement on an increase in IMF quotas, and join others in urging the United States and other members to agree to the increased quota so that the IMF's ability to respond to renewed crisis is not jeopardized by its own precariously low liquidity position.

Commendable as these actions are, there are however a number of issues which we regard as critically important.

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

There are sufficient parts of the World economy that are still strong enough that concerted action at expansion and reflation will prevent a slide into a global recession with its dire consequences for all of us, but especially those who trustingly followed the technical advice we have consistently been offered.

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

In this age of truly global interdependence, manner matters as much as measures.

The practice and the politics of exclusion and dictation must cease. The notion of partnerships which is now being promoted so strongly by the Bank and the Fund must become a reality.

Mr. Chairman, we who live in very small states have a particular concern over this issue. We feel very strongly that there has been a tendency for the staff in the institutions to analyze our circumstances as if they are no different from those of large countries, with the same endowment range, production flexibility, institutional depth and adjustment options.

We feel also that we have especially been victims of a one size fits all” approach to policy specification, implementation and evaluation.

We feel that the time is ripe for a major review of the rigid eligibility criteria for assistance and the almost theological approach to program design by the institutions; and for a greater sensitivity to the multi-dimensional and complicated aspects of the social and economic transformations, tradeoffs and adjustments required to translate programs into sustainable development.

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

The attention of the global community has necessarily been riveted on solving the extraordinary financial crises in Asia, Russia and now Brazil.

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

It is therefore crucial that the IMF continues to successfully perform its core function of meeting the short term liquidity requirements of countries affected by the normal and expected volatility in the international markets for goods and services, and that the World Bank stay focused on providing development finance to eradicate poverty and to uplift global economic development.

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

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

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

I will use this occasion to reiterate the Caribbean’s conviction that the liberalization of capital movements must be well planned and supported by a strong banking system and supervisory framework. Related to this, we welcome the initiatives by the Fund in the areas of improved surveillance, improving transparency and developing international standards in the areas of monetary and fiscal policy. As far as possible we will attempt to adhere to these standards, and consider the guidelines useful as we develop institutional capacity in these important areas.

We especially welcome the newly formed unit of the Bank the Disaster Management Facility.

Even as I speak to you the special vulnerability of some of our very small states continues to be a matter of enduring financial and economic distress to these countries on a scale that is not dissimilar to that arising from damage done by volatile capital flows to some economies in Asia.

I wish to highlight in this regard the plight facing St. Kitts and Nevis and Antigua and Barbuda arising out of the passage of the recent hurricane through the Northern Caribbean. Both of these countries were still repairing damage done by the last hurricane, using loan funds from our regional development bank, when they were hit three weeks ago.

I had the honor of chairing a Commonwealth Small States Ministerial Group, which met at the highest level with officials of the Bank and Fund. Out of those meetings it was agreed that the two institutions together with the Commonwealth Secretariat will support a Task Force to undertake a detailed examination of the special circumstances facing very small economies with a view to devising a universally acceptable vulnerability index and designing more appropriate and implementable programs that fit our special circumstances.

This for us represents a very significant step. We have been for sometime been articulating the need for this work and such an approach by the Fund and the Bank. We have every expectation that on this occasion the Bank and the Fund will deliver on their promise.

The state of the world economy does not allow me to end this statement on a happy note, Mr. Chairman. We in CARICOM are heavily dependent on sustained good economic performance in the rest of the world. Even before the start of the current world crisis, many of our own economies were already in crisis because of the changes to the rules of the trading game. Mr. Chairman, those economies are still in crisis, and are facing the prospect of being engulfed in the larger problem. More than ever now there is urgent need for those who regard themselves as leaders of the world economy to demonstrate that leadership.

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

In the final analysis this will be the standard by which the Caribbean will judge the outcomes of this meeting.

BELGIUM: JEAN-JACQUES VISEUR
Governor of the Bank

We have been struck by the breadth, the contagion, and the effects of the current crisis. A concerted and cooperative strategy is therefore urgently needed. Only a forceful and expeditious strategy can calm global financial markets and improve the outlook for the global economy. Moreover, we have

sound reasons for seeking to introduce a number of basic improvements into the functioning of the international monetary and financial system.

What I want to do today is to discuss some essential components of the new international architecture that the world requires in order to get back on the path to sustainable growth.

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

Recent events have belied the notion that the financial markets could readily take the IMF's place in ensuring that those countries facing a serious financial crisis can be provided with the funds necessary to support their adjustment efforts and prevent the collapse of their currencies. What the recent crises have shown is that financial markets react indiscriminately. Herding behavior in the markets and the contagion effects it produces tend to exacerbate crises rather than resolve them.

Thus we see how essential it is for the international community to have an organization the International Monetary Fund to provide sufficient financial assistance to countries seeking to correct their macroeconomic and structural imbalances. Only forceful intervention by the IMF can restore the confidence needed to overcome the crisis.

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

Necessary reform of the international monetary and financial system

I would now like to make a number of suggestions concerning the direction we should take to minimize the exposure of our economies to market fluctuations and help prevent financial crises and their effects on people.

I have identified six courses of action.

Strengthening national financial systems

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

countries. Governments must seek appropriate means to promote these standards and, if necessary, to enforce them.

The international community must also cooperate in developing standards in other areas, such as accounting, advertising, asset valuation, bankruptcy, and corporate governance. Indeed, one of the lessons of the Asian crisis is that the Bretton Woods institutions underestimated the role of private financial institutions and business in general in the economy. There was insufficient awareness of the fact that the economic soundness of a country can be jeopardized by the speculative activities of its banks, the development of ill-conceived investment programs, and the spread of organized crime. Henceforth, the Bretton Woods institutions will not be able to ignore the risks of unfettered and uncontrolled capitalism. They will also have to encourage the adoption of standards aimed at undergirding sustainable economic activity.

Strengthening financial market surveillance

It is now recognized that financial markets have become a force in their own right and go their own way in reacting to economic data and, all too often, to a country's noneconomic data. Appropriate surveillance is therefore in order. Some months ago, this view was not shared by the entire international community. Indeed, in spite of the warning that the Mexican crisis of 1995 provided, many countries continued to ignore the negative consequences of financial globalization and the growing helplessness of nation-states overtaken by an expanding, deregulated global financial market.

The Asian crisis has helped convince the international community of the need to face the challenges of financial globalization. This is a major step forward because the risks of globalization can only be minimized in the context of a global reform strategy implemented by the organizations established for this purpose by the international community the IMF and the World Bank.

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

Promoting orderly liberalization of capital movements

The Asian crisis underscores the importance of orderly and well sequenced liberalization of movements of capital, and particularly short-term capital. Today, decision makers are increasingly realizing the need to act cautiously and sensibly. No country should be forced into immediate liberalization or made to

abolish controls that are warranted. That is not a retrograde step but an acknowledgment of the need to take account of the economic, human, political, and cultural characteristics of each of the countries involved. It is also my opinion that the IMF ought not to rule out, in principle, any future possibility of proposing certain forms of capital control, such as accompanying measures for its programs. The purpose of these controls should not be to replace stabilization measures and reforms but to enhance their effectiveness by safeguarding the financial stability necessary for the success of IMF programs. They should also help to conserve the Fund's financial resources. Recent experience has shown the limits of the effectiveness of the financial assistance which the IMF can provide to countries that are completely open to capital movements: if confidence in the financial markets is not quickly restored, this assistance serves to fuel capital flight and vanishes into thin air in just a few days. This is what happened in Russia in August. The IMF does not have unlimited resources. Market confidence is not necessarily restored as soon as an arrangement is reached with the IMF. Accordingly, it would appear that under certain circumstances, some temporary capital controls, approved by the IMF as a condition for its intervention, could help to reduce the risks posed by a sudden reversal of short-term capital flows.

Retooling the Fund

The pursuit of sound monetary, fiscal, and structural policies is no longer sufficient, in and of itself, for laying the foundations of sustainable growth. The current crisis has in fact confirmed the need for governments to be able to mobilize, at short notice, the financial resources needed to resist the contagion and withstand the pressures they may have to face in today's globalized economy. In light of this changing environment, the international community, and the IMF in particular, must make every effort to find new instruments to provide effective assistance to countries that follow sound policies and are suddenly placed in a difficult situation because of the financial markets. The fire department needs a wide range of resources: fire engines suitable for large-scale fire fighting and all the equipment necessary to fight the blaze.

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

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

The need for strengthened international monetary cooperation

Even though most of us recognize how difficult it is to address the challenges posed by financial globalization, my impression is that a broad consensus

is rapidly emerging as to how we should proceed in order to strengthen the architecture of the international financial system.

However, I am surprised to see that the plans for the new architecture currently being discussed have not carved out a role for international monetary cooperation. In my view, it is essential to ensure that the monetary union, scheduled for January 1, 1999, will strengthen mechanisms for exchange rate surveillance, multilateral consultation, and monetary cooperation at the international level. It is thanks to these methods that monetary union is now achievable. It is an important approach to a framework for world growth. For this task, we must be able to count on assistance from the IMF. As Michel Camdessus emphasized during his opening address: “[this] will be a core task for which the Fund must prepare itself.”

I also hope that, once monetary union has reached cruising speed, it will be possible to begin the debate on reforming the international monetary system. In preparation for this debate, I call upon the IMF to give serious consideration to “target zones” for the dollar, euro, and yen exchange rates. I believe that an agreement on this issue would bring more stability to the system as the markets would know what is judged to be a desirable rate.

Adoption of a social action strategy

“We must go beyond financial stabilization. (...) We must focus on the social issues.” James Wolfensohn, President of the World Bank, made this appeal to us in his opening address, and rightly so, because the social impact of the crisis is much more serious than we could ever imagine.

To prevent implosion in the most seriously affected countries, the World Bank must take the lead in proposing an action strategy designed, in the short term, to shield the poorest population groups from the repercussions of the crisis and, in the long run, to strengthen safety nets with a view to increasing the capacity of these countries to safeguard their peoples against economic shocks.

The Bank should also participate more actively in this strategy. To strengthen the impact of its own financial support, it must help crisis-stricken countries to reallocate their public expenditure in favor of programs that provide social support and generally improve economic and social productivity. To help set economies on these more stable foundations, the World Bank could also move toward the adoption of a code of conduct in the area of social policy which, once implemented, would more effectively protect the inhabitants of poor countries from the risks resulting from globalization.

Reaffirming the legitimacy of the IMF

The task of promoting economic and financial stability worldwide calls for an increase in the IMF’s financial resources, a strengthening of its surveillance role, and the extension of its jurisdiction to include capital movements. If the IMF is to truly fulfill the strengthened central role it is expected to play, the principles legitimizing its actions must also be reaffirmed.

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

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

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

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

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

Here again, the experience of the euro zone and the respective roles of the Council, Commission, and ECB in Europe, is a useful example. There are situations in which management, no matter how good it may be, cannot single-handedly be accountable for the political legitimacy of the decisions it makes. With the political influence it would carry, the Council could, under specific circumstances, enhance the political credibility of decisions, since it is true that the economic sphere is not totally separate from the affairs of state and society that politics should be primarily concerned with.

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

It was the prospect of nuclear power that led governments to form the UN, and the UN Security Council, in the aftermath of the war.

Any such attempt to transform the Interim Committee into a Council of world economic security, would be a momentous undertaking. However, I feel that it is important to envision this possibility, given that one of the important lessons of globalization is that only strong and concerted cooperation and intervention can stop or curb the domino effect of the current crises. This brings us to the realization that the reasons leading the UN Security Council to perform its current role in political and military affairs, are the same reasons that have led us to entrust the Interim Committee with this fundamental role in economic and monetary affairs.

Conclusion

The uncontrolled development of financial markets facilitated by the liberalization of capital movements and new communication technologies is partly responsible for the magnitude of the financial crisis the world is experiencing today. However, I believe that the roots of the current crisis are not to be found solely in the financial sphere. This crisis is also a reflection of the weakness of the “political pillar” of the world economy vis-à-vis the financial markets. The weakened decision-making capacity of some governments creates systemic risks for the world’s economic fortunes. It also underscores the objective limits of IMF action. When the IMF is not dealing with governments capable of shouldering their responsibilities and tackling the deep-seated problems of their economies, its recommendations, forecasts, and assistance are less effective. Thus, globalization does not only require that IMF policies be adapted to reflect the changing international environment, it also gives us a much keener sense of the responsibilities of governments. This realization is essential if the advantages to be gained from globalization are to be maximized and the attendant risks reduced.

The strengthening of “economic democracy” acts as a necessary counterweight to the market. It is clear today that there is no “invisible hand” too long constrained by policy which, if set free, would guarantee the rapid and lasting development of the world economy. The crisis bears witness to the need to “return to policy” and to the “government’s regulatory role” at the national, continental, and international levels.

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

The “European model” that we are building, without arrogance or triumphalism, is predicated upon a common economic and social framework, cooperation among states, inclusion of the social partners in economic responsibilities, burden-sharing among all members of society, and multilateral surveillance. For a long time this had been viewed as a relic of economic history. Today, this market economy that couples freedom with a strengthened capacity to include the government as strategic planner and regulator, can serve as a model for the entire world and as a guide for the reforms that

enhance the role and effectiveness of the Bretton Woods institutions. This will help us to overcome the current crisis and get firmly back on the path to world growth.

BOSNIA AND HERZEGOVINA: MIRSAĐ KURTOVIĆ

Governor of the Bank

Mr. Chairman, Ladies and Gentlemen, Dear friends, allow me to greet you on behalf of the delegation of Bosnia and Herzegovina and to express our gratitude for the assistance which has so far been extended to our country for its reconstruction, recovery and speedier overcoming of the harsh results of the past war. The aid you have extended has not been wasted, instead it has served as one of the major pillars for the stabilization of the conditions in the country.

The role of the World Bank and the International Monetary Fund, headed by President Wolfensohn and Director Camdessus in the reconstruction and in the stabilization of the economic situation were of decisive importance in reestablishment of macroeconomic stability in BiH. We are very pleased that the planned reforms of the World Bank are proceeding successfully, and in our view the decentralization of the Bank is key to their success. We welcome the new initiatives such as the Cultural Heritage Project and we are very pleased that the World Bank will take part in the reconstruction of the Old Bridge in Mostar.

The magnitude of changes occurring in the world over the past ten years might be compared only to the changes that took place after the Second World War. It was expected that the last years of this century would go by in peace, but, sadly, it is instead ending in bloody local conflicts causing widespread human suffering and major political and economic restructuring, not only on the level of states, but also of entire regions. A new balance of power and interests is developing.

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

Both sets of issues are derived from former or current political problems and global political divisions. Resolving these problems requires additional efforts and determined involvement of a large number of countries and financial institutions. Long years of the cold war and divisions left deep marks and sowed the seed of adverse consequences not only for our generation, but also for those who will come after us.

The people of my country had suffered the very worst of those consequences: the war and its killings, maimings and devastation. But the horrors that befell Bosnia and Herzegovina can not, and must not be seen as an isolated, exceptional case, but as a phenomenon that will reoccur elsewhere in this troubled age.

Therefore the present political and economic situation must be viewed integrally and as a dynamically evolving model, prone to varying degrees of radical distortion. A new economic globalization is emerging, with new, unforeseen consequences. The international community needs to be prepared for facing the changes, some of them benign, but others radically adverse, which must be realistically assessed, with their effects rendered limited and countered effectively. Crisis spots are valves where political and economic failures are vented. The end of this and the start of the next century will be marked by the struggle to anticipate and transcend crisis situations. Economically powerful countries, the World Bank and IMF can act in coordination to prevent crises from deepening and open perspectives of a more prosperous future, with the goal of reducing poverty worldwide. In this regard we strongly support the new initiative on creation of a Post-Conflict Fund, which will provide a crucial facility to violence-torn countries in their hard transition to peace.

Bosnia and Herzegovina is one of the countries that continues to need such assistance from the international community. That assistance has been forthcoming and it has given very significant results. After four donor conferences, with credits from the World Bank and numerous other financial institutions and with the considerable support of friendly countries, BiH has come a long way on the path of its post-war recovery. Our major joint achievements include: restoration of a minimum of economic infrastructure; repairs of the large number of the housing stock; establishment of key institutions of the state and entities; adoption of basic elements of the legal framework; determination of macroeconomic guidelines for development until the Year 2000; introduction of the new common currency; fulfillment of conditions and conclusion of the IMF Stand-by' Arrangement; re-scheduling of the debt to the London Club; reduction of unemployment from post-war 90 percent to present 40-50 percent.

These significant positive results have been achieved with the assistance and support of the World Bank, IMF, EU, Office of the High Representative, SFOR, UN, U. S. Treasury and numerous other friends of Bosnia and Herzegovina, which has earned them our gratitude and profound respect.

However, alongside these positive results, we continue to face a series of difficulties. Our greatest problem is that the economic growth has been significantly below the planned level. The actual GDP per capita in BiH in 1997 was somewhat over US\$ 600, while the current trends reveal that no major improvements can be expected in 1998.

The number of the unemployed this year not only has stopped falling, but instead in some areas it has risen due to major refugee returns. The bulk of the international aid is directed to infrastructural and non-producing investments, which do not lead to creation of new jobs, production of new commodities and addition of new value. Our state borders lack most of features of those in other countries, they are unregulated and porous to illegal transit of goods. Regard-

less of the laws on customs and tax policy that were passed, the forecast budget revenues can not be collected. In order to cover budget expenditures and secure funds for debt servicing, we are still forced to borrow. This results in the increase, instead of reduction of net obligations of the country.

These issues and dilemmas have led us to temporarily halt our talks with the Paris Club of creditors this summer. In our view, previously developed bureaucratically formalized models of debtor relations are not automatically applicable to all cases. If such a slow economic recovery in BiH persists, the country will become unable to repay its rescheduled obligations and to take new credits, which may lead to new talks on a new round of rescheduling. We want to resume Paris Club talks as soon as possible, but we are hoping for greater understanding on the part of our creditors. Our conditions and our case are atypical and require an appropriately tailored approach. The future steps must be carefully conceived, as all positive results achieved so far may be at risk. The implementation of our crucial economic reforms and repayment of foreign debt have not enjoyed sufficient support this year, while our own capacities are nearly exhausted. A more significant allocation of IDA 12 funds is a vital precondition for implementation of our structural adjustment process and achievement of sustainable growth.

Despite these problems, we remain determined to take all necessary measures in line with the spirit of the Dayton Agreement and to insist on its speedy and integral implementation. In the economic domain we shall focus on the following tasks: privatization of enterprises and banks; increasing foreign investment in production and creation of industrial jobs; preservation of stability of the domestic currency through strict adherence to the Currency Board arrangement of the Central Bank of BiH; settlement of all outstanding pre-war obligations of BiH within the economic capacities of the country; regulation of border controls and collection of essential budget revenues; preparation for joining the European integrative processes; planning for the next donor conference, with the onus on channeling the funds into productive job-creation, and also speedier implementation of earlier pledges; speedy implementation of economic reforms, with the assistance of the World Bank and IMF, securing additional funding and with the view of opening ESAF talks as soon as possible, as the implementation of the Stand-by Arrangement has proceeded with great success.

In our work we seek to ensure full transparency and create mechanisms for prevention of corruption in Bosnia and Herzegovina. Technical assistance provided in this area by the World Bank and IMF through their resident offices in BiH, as well as by the Office of the High Representative and other institutions and donors is for us of utmost importance.

Bosnia and Herzegovina is located in the region where political and economic stability has not yet been established. Events in Kosovo have two negative consequences for our country: a large number of refugees (estimated 20,000) found a temporary shelter in BiH, which creates additional problems

for the country, which lacks the resources to support them, vicinity of the conflict area averts foreign investors from investing in BiH, as they fear for safety of their investments.

The presence of the multinational force in BiH is important for us not only as a factor of implementation of the military part of the Dayton Agreement, but also as a factor of risk-reduction for foreign investors.

I wish to conclude by stressing one more time that the Council of Ministers and all citizens of BiH base our long-term economic development on our own efforts and with ever decreasing reliance on international aid. We will continue to demonstrate the firmness of our determination in this regard, but the volume of damage inflicted by the war still requires significant foreign aid and considerable reduction of all debts.

CAMBODIA: KEAT CHHON

Governor of the Bank

I send to you all warm greetings from Cambodia. I regret that I am unable to be present and participate in this historic session due to pressing preoccupations in the country. My colleague from the National Bank, Mr. Chea Chanto would be attending the meeting. However, through this statement, I wish to share with you some important information about Cambodia and also my thoughts on some subjects of immediate concern to all of us.

The most important landmark event in Cambodia was the general elections held on 26 July this year. This was the first time in nearly four decades that such elections have been organized by Cambodians themselves under our own constitution to choose their representatives and government leaders for the next five years. This was indeed a unique and mammoth event. The entire process was ably handled by an independent and totally neutral body set up for this purpose, the National Election Committee. I am glad to report to you, and as you no doubt have heard and followed, the massive preparations for the elections took place in an orderly, fully transparent and efficient manner with remarkable speed and success in a very short period of time. These included: voter registration and verification; computerization of voter lists containing over 5.4 million voters; setting up over 11,000 polling stations; training a large number of personnel to conduct the elections; distribution of polling materials to all corners of the country using many novel and appropriate means of communications like bullock-carts boats, elephants, besides aircraft and automobiles; setting up a media center to provide full access to all information to the media; organizing the logistical support and security for over 300 international and 20,000 national observers.

In all 39 political parties registered for the elections. They had full and unfettered freedom for campaigning all over the country. In spite of the very divisive and disruptive nature of all such elections, especially in the context of the con-

flict-ridden past of Cambodia, the pre-election and campaign periods were inordinately and exceptionally peaceful, even the normal crime levels registering significantly lower levels. Indeed, for over 6 months preceding the elections, Cambodia witnessed a calm and stability not known for a long time in recent history.

The elections were held in a most peaceful atmosphere commented upon in glowing terms by all international and national observers; over 90 percent of the electorate cast their votes, an unprecedented turnout, itself a testimony to the freedom of expression and confidence in the secrecy of the process. The subsequent counting of votes was done in an open and transparent manner. These led to the international and national observers groups unequivocally declaring that the elections were held in a "free and fair manner" and that the results "credibly" reflected the will of the Cambodian people. Even a long term critic of Cambodia was overwhelmed by what he saw and observed that a "miracle on the Mekong" had taken place!

But, alas, after the elections were held in such a peaceful and orderly manner, the two main opposition parties which together could not gain a majority of seats in the 122 member National Assembly, started protesting with fabricated and far-fetched complaints about non-existent fraud and irregularities. Instead of following legally established procedures for pressing their complaints, they also started street based demonstrations and agitations in some parts of the capital city, Phnom Penh, adding each day to their list of imaginary complaints and raising the level of fiery rhetoric. When these led to the capital city witnessing the brink of anarchy and racist attacks on innocent people, the government had to intervene to stop the demonstrations. Interestingly, the head of the Joint International Observers Group declared recently that the NEC could have looked into the opposition complaints in a more transparent manner, but noted that such inquiries would not have resulted in any different conclusions.

After the demonstrations were put down, the opposition heeded the advice of the King and agreed to negotiations for the future of the country. Now the new members of the National Assembly have been sworn in and serious negotiations are under way for the formation of a new government. Meanwhile, the previous government continues as a care-taker government.

On behalf of the Royal Government of Cambodia, and indeed on behalf of all Cambodians, I would like to take this opportunity to thank all the countries and organizations which gave us immense financial and technical assistance as well as moral support in conducting these unprecedented general elections in the country and in being open-minded and fair in assessing the processes and results in a neutral manner. I have taken considerable space in mentioning these details since the elections were the most important watershed in Cambodia's progress towards peace and reconciliation; it is also necessary to set right the many distorted views parlayed on various sections of the media. With the elections, Cambodia has taken a bold and decisive step in its long journey towards democratization of its polity, from bullets to ballots and away from the long drawn conflicts of the past.

I would now like to turn to the economic situation in the country. As is well known and recorded, we had taken very important, determined and strategic measures to re-orient our economic systems to be led by private-driven growth based on market openness. We also revamped our budget systems and procedures and deliberately withstood pressures for bank-financing. We set in place institutions and systems to actively and aggressively promote private investment and to divest the state gradually of the production and distribution work it was doing earlier. We were assisted significantly by large and generous external assistance, both financial and technical. All these factors, led to notable positive results. For three years in succession, 1994–96, the economy registered impressive growth of about 7 percent per year; inflation was contained at single digit level; the national currency enjoyed stability vis-à-vis US\$ under clear market conditions of trading; and our per capita income doubled from \$130 in 1990 to \$292 in 1996 in spite of about 3 percent population growth per year.

However, in 1997, while we were poised for a further growth of nearly 7 percent, we were subjected to the combined effects of two coincidentally concurrent shocks in July 1997; one was the internal instability imposed on us of which I had spoken in the last annual meeting; the other was the financial cataclysm enveloping the entire South East Asia like an uncontrolled forest fire, and now becoming contagious to other parts of the world. Still, in 1997, our growth was positive at 2 percent, inflation was kept at one digit and our currency did not depreciate as deeply as other nearby currencies. We managed not only not resort to bank financing of our budget but indeed also to show a small surplus on the current side of the budget for the first time in decades! Driven by a growing export oriented garment manufacturing industry we also added to our net foreign reserves. Otherwise during this period, our tourism revenues declined significantly, actual private investment slowed down, and employment generation was sluggish.

In 1998, the prospects were bright in the beginning but the effects of the regional crisis are beginning to take their toll. We do not expect a very healthy growth this year although our decline will be far less than being felt by neighboring countries. With the conduct of the elections in July this year and the expected formation of the new government soon, the internal factors responsible for our economic woes have all but disappeared and investor confidence is increasing. But, we are not and cannot remain immune from the regional crisis sweeping thorough our entire neighborhood.

I would like to take this opportunity to commend and congratulate the IMF and the World Bank in rushing with massive funds and technical assistance to the rescue of the countries in East Asia which were affected by the financial cataclysm beginning last year. It is clear to everyone now that this cataclysm is still to fully bottom out, although there are already incipient signs of stabilization and possible recovery in some countries. Cambodia has only been indirectly affected by the cataclysm and will continue to adjust itself.

The regional crisis has given us an unique opportunity to re-examine the core, contours and contents of the established development paradigm. Already, important voices have been raised that the relevance of some of our assumptions and standard remedial measures for such crisis need to re-examined and that new institutional mechanisms should be devised to better regulate capricious short term capital flows which destabilize economies to the detriment of the people at large who are the target of all our developmental efforts. I would like to add my voice to these calls for radical rethinking of development priorities and mechanisms. Past theories and strategies have helped us a great deal but progress poses new problems and challenges calling for new or redesigned tools. The globalized economy needs global thinking and responses. However in doing so we have to take into consideration the fact that we are living the real world of diversity. My sense is that the free market capitalism is not just an economic system. It is also conditioned by perceptions and cultural values that shape the forms of competition and of conducting business as well as emphasizes the legitimacy of profit and the values of freedom. These matters are not universally shared. Countries over the world have organized their economic systems around different values and politics.

Therefore, I would also ask that the World Bank which is fast transforming itself into an institution for "Knowledge for Development" should take the lead in this debate and organize think groups. As we step into the new uncharted century in the next less than 15 months, we do undoubtedly need a fresh road map for development, with clearer markers, signposts, and pointers that take into account all differences and specificities of all countries and regions. Fresh and innovative thinking and ideas, branching away from past notions, are imminently necessary. Established international institutions should be prepared for metamorphoses for an orderly world in the 21st century. Let us all ask the World Bank to do an in-depth study on this matter. Let us decide now to make this subject our centerpiece of discussions next year.

Both the IMF and the World Bank have been of great assistance to Cambodia in the past few years. Sadly, IMF withdrew its program of assistance and, in our view in somewhat of an inordinate rush, even closed down its field presence in Cambodia last year. But, we have continued to receive full support and assistance from the World Bank including an able field representation. With the formation of the new government in Cambodia in the coming weeks, we look forward to the IMF returning to help us and to the World Bank enhancing and increasing its continuing support. I would urge and plead, through this August assembly to the leadership and staff of the two institutions, that they consider Cambodia as being in its infant stage of growth in economic terms and they provide nurture and nourishment, not adult doses of inhibiting and sometimes infeasible conditions.

Last but not least, I would like to congratulate Mr. Wolfensohn for his bold and clear call last year for better public governance in all countries and for his transparent efforts to remove suspicion of wrongdoing on the part of his own

staff. I have brought to the Bank's attention some cases where we witnessed lack of transparency on the part of the Bank staff and will continue to do so.

In conclusion, let me once again thank the international institutions and bilateral partners of Cambodia for their continued support and assistance in our efforts to ameliorate the social and economic lives of our people. I do look forward to substantive debate in the coming months over reshaping our instruments for international economic cooperation for the 21st century based on valuable lessons arising from the crisis seen in East Asia and elsewhere in the past year. Thank you

CANADA: JIM PETERSON
*(Temporary Alternate Governor
for the Fund and the Bank)*

The current crisis in emerging markets has touched each and every one of our economies, and the risks facing the world economy are real and imminent. However, the situation can be managed if we act appropriately. In this regard, it is clear that the first line of defense against market turmoil has to be a strong macroeconomic and structural policy foundation.

The Canadian Picture

Canada has adopted a policy framework that has put public finances on a sound basis and kept inflation low. In doing so, we have laid the foundation for sustained economic growth and improved job creation, while at the same time limiting the disruptive effects of international financial turbulence.

Only five years ago, the fiscal deficit stood at \$42 billion. The government said it would bring this deficit down steadily each and every year. And it did not only meeting, but improving upon every target that was set. The deficit has now been eliminated.

Equally important, the debt-to-GDP ratio is now on a clear downward track. The government's Debt Reduction Plan will ensure that it will continue to fall. Under the Plan, the government is committed to balanced budget targets, backed by prudent economic assumptions and a \$3 billion Contingency Reserve. In the years when the Contingency Reserve is not required, it will be applied to reducing the debt.

The Prime Minister has recently announced that for the current year (1998-99), any surplus that would accrue on the basis of existing programs and policies will be fully applied to the debt in other words, the government will not be undertaking any new expenditures, beyond what has already been budgeted for. This will allow us to accelerate the reduction in our debt-to-GDP ratio.

The improvement in the fiscal situation that has been achieved contributed to stronger economic growth by reducing uncertainty and boosting confi-

dence. The Canadian economy put in a solid performance heading into early 1998, growing by 3.7 percent in 1997 and expanding at a similarly strong pace in the first quarter of 1998. Growth slowed to 1.8 percent in the second quarter; although, as in the U.S., much of the decline reflected reduced inventory investment rather than lower final demand. Moreover, part of this weakness is explained by the G.M. strike, which had a major impact on automotive production in Canada and the U.S.

Nevertheless, by managing our affairs consistently and prudently, Canada's policy plan has, and will continue, to provide a strong basis for continued healthy growth.

But there is little doubt that the unsettled international environment has increased the downside risks to the Canadian economic outlook.

Indeed, Canada has been hit by the shock wave emanating from the emerging markets. The Canadian dollar fell from US\$0.72 last September to about US\$65 at the end of September—1998—in part, because foreign exchange markets apparently perceive us to be much more dependent on commodity exports than in fact we are. Whatever the reason, the impact of the recent global financial turmoil would surely have been much greater if we were still running massive deficits, if our reliance on foreign lenders were still increasing, or if our interest rates were sky high and rising.

The World Economy and Canada's Six Point Plan

In the current global economic environment, there are a number of urgent policy priorities. These include helping to sustain global growth in the current crisis, responding to the needs of the poorest and most vulnerable, and reducing the risk of and improving our capacity to manage future financial crises. In this regard, Canada has put forward a six-point program that addresses both the short-term problems raised by the current financial crisis, as well as the longer-term, underlying issues associated with open capital markets. The program includes:

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

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

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

With respect to the first component of the plan, global growth prospects clearly have worsened, and the balance of risks now lies firmly on the downside. G-7 central banks need to recognize this important fact. Indeed, the presumption should be that central banks will reduce interest rates now if they can; if they cannot, they should be prepared to act quickly if the risks start to be realized and economic activity slows.

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

While we have all felt the effects of the financial turmoil, the fragile economies of the world's poorest countries have been particularly hard hit, through the indirect effects of lower commodity prices and falling export demand. It is clear that we cannot ignore the real consequences for people in any crisis assistance or response package. The social implications have to be recognized up front and on a par with the economic response. The Bank, and particularly IDA, with its strong focus on poverty reduction, must lead in directly addressing concerns about the social impacts of financial crises. IDA's assistance at this time, particularly in such areas as primary health and education, is critical especially in light of the widely shared international consensus to reduce poverty by one half by the year 2015. Now, more than ever, it is important to ensure that IDA can fulfil its mandate to assist the world's most disadvantaged. To do so, sufficient resources must be available to carry out this challenge.

The fourth and fifth components of the plan aim to reduce the likelihood of future crises, while the goal of the sixth component is to make it easier to deal with crises that do arise.

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

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

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

Fund-Bank Collaboration

Achieving the goals of this plan will require greater and more effective collaboration between the Bank and the Fund. In this regard, recent experience suggests four key areas for particular emphasis:

- Cooperation between the Bank and the Fund needs to be strengthened at all levels. It is not enough for the heads of the two institutions to meet together periodically—staff across the institutions must also be engaged in this effort. Better sharing of data and analysis, joint preparation of policy papers and more missions representing both institutions are a good start to making this happen. Better cooperation and coordination between the two institutions is particularly important in crisis response situations in order to ensure that shorter term emergency financing does not undermine longer term development work.
- Policy advice to member countries must be effectively coordinated. This does not mean that debate on policy issues should be discouraged, in fact I would argue the opposite. However, discussions between the two institutions

must begin earlier, as programs are being developed, not when they are completed. And, a genuine effort must be made to work out any differences in advance. In effect, it means the IMF and World Bank must be open and transparent partners in the policy-making processes. We have to “walk the talk” of transparency and good governance in our own institutions.

- A clearer delineation of the roles and responsibilities of each institution is helpful. Generally speaking, the Fund will exercise surveillance over macroeconomic and stabilization policies, while the Bank will promote overall economic development, structural and sectoral reforms. But we know that, in practice, overlap is sometimes unavoidable. In this respect, the proposed Liaison Committee, drawing on expertise from both the Bank and the Fund, is a step in the right direction. The challenge will be for the Committee to provide open and objective guidance, based on what is in the best interest of the country, rather than in the interests of any one institution.
- Collaboration on financial sector reforms should be a priority. Strengthening surveillance of financial sector regulatory and supervisory regimes is a key area where the Bank and the Fund have indicated they will work together. Canada strongly welcomes these actions.

Partnership

Of course, the Bretton Woods Institutions can not work in isolation. They must co-operate more broadly with other international organizations, including the regional banks and the World Trade Organization, as well as the private sector, bilateral donors and with developing country partners. The strong emphasis by the Bank on the theme of partnership is particularly welcome; the trick will be to put partnerships into action on as broad a front as possible.

Let me conclude by noting that the global nature of the current crisis requires global solutions. Only by working together can we bring a degree of stability to international financial markets and aspire to return the world economy to a buoyant and sustainable growth path. While the outlook may look daunting, I am confident that, through imagination and flexibility, we will ultimately be able to meet this challenge.

CHINA: DAI XIANGLONG *Governor of the Fund*

Distinguished Chairman, Ladies and Gentlemen,

This Annual Meeting is conducted at a most critical moment when the global economy and financial markets are facing enormous challenges which could affect world economic growth and financial development. In many crisis-hit countries in Asia, while they are making progress in economic adjust-

ments, the severe economic recessions experienced by these countries have, unfortunately, been far beyond our initial expectations. The recent Russian crisis has aggravated the turbulence in global financial markets, and Latin America is now also under financial strain. These financial crises, and the economic depression in some developed countries, are increasingly affecting North America and Europe. A global recession threatens. We must take the opportunity of this meeting to call on concerted actions to stem the crisis from further enlarging or spreading, and to assist the affected countries in reviving their economies. It should be the top priority of this meeting to consider how to strengthen the architecture of the international monetary system to effectively prevent and solve financial crises. It is our view that the main cause of the crisis is that international cooperation and the evolution of the international financial system lag far behind the economic globalization and financial integration process, and the speed of their liberalization exceeded the pace of enhancing the economic management abilities of the crisis-hit countries. Since the early 1990s, the faster pace of globalization has led to substantially increased capital flows which have been beneficial to the world economy. Nevertheless, more and more capital flows and foreign exchange transactions have become dissociated from production and trade activities. Speculators with huge sums of capital are able to take large leveraged positions to control and manipulate markets for profit, accentuating market volatility. However, the international community has not come to a consensus on effective mechanisms for the monitoring and containment of risks brought about by volatile capital flows. As the developed countries push forward the liberalization of trade and capital flows, they aim at achieving a superior position in the world capital markets for themselves, thus failing to consider the impact of premature liberalization on the economic security and social stability of the countries concerned.

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

The major industrial countries should take primary responsibility for maintaining the stability of the international financial system and the steady growth of the world economy. Under the current circumstances, the fiscal and monetary policy stance of the major industrial countries should be conducive to maintaining world economic growth. They should strengthen the coordination of interest rate and exchange rate policies to stabilize international financial

markets. In addition, they should significantly increase their financial assistance to crisis-affected countries, expand their imports from those countries, and guard against trade protectionism. At the same time, those huge speculative funds should be well regulated by the authorities. The involvement of the private sector in preventing and resolving financial crises is necessary. International financial institutions and developed countries should encourage and support the private sector debt restructuring until debt relief is attained. It is our firm belief that by strengthening coordination and mutual support within the Asian region, the economic and financial development in Asia is bound to stabilize gradually.

The Fund and the Bank have made great efforts in preventing and solving financial crises in some regions and countries, maintaining the stability of the international monetary system, and assisting member countries to develop in a sustainable manner. We hope that the Fund and other international financial institutions can play a more effective role in resolving financial crises. By encouraging the deregulation and liberalization of domestic markets, they should be vigilant to the risks posed by international capital flows; and when designing and implementing assistance programs, they should pay more attention to the specific circumstances of the countries concerned. The Fund should formulate and establish a mechanism for monitoring short-term capital flows, and the movements of speculative capital. We support the strengthening of the Fund's early warning system on the basis of enhanced information disclosure and transparency. We hope that the Eleventh General Quota increase and the NAB can take effect as soon as possible. We think that, if necessary, the GAB should be reactivated.

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

In the face of the Asian crisis and the turbulence in international financial markets, the Chinese Government has taken a highly responsible stance. First, China has sustained its rapid economic growth. Against the backdrop of a substantial slowdown of exports to some Asian countries and the severe flooding, we have adopted a vigorous fiscal policy and increased money supply appropriately to expand infrastructure investment. We are confident that the annual growth rate in 1998 will reach 8 percent. Secondly, China has maintained the stability of the RMB exchange rate. Since the foreign exchange system reform in 1994, China has adopted a managed floating exchange rate regime. We have provided financial assistance to crisis-stricken countries through IMF programs and bilateral arrangements since the eruption of the Asian crisis. In the interests of regional stability and growth, we have maintained the stability of RMB and pursued a non-devaluation policy. Although the pressures and risks are still increasing, there remains a solid ground for the stability of the RMB.

Thirdly, China has taken measures to expedite structural reforms and to prevent and reduce financial risks. The Chinese Government has resolutely pressed ahead with the administrative structural reform, and successfully

achieved the target of retrenching 50 percent of employees in the ministries of the State Council. The state-owned enterprise reform is proceeding progressively as planned. Breakthroughs have been achieved in financial reform. The provincial branches of the central bank will be phased out and a number of inter-provincial branches will be set up by the end of this year, with the aim of increasing the central bank's independence in carrying out its functions. The Ministry of Finance has issued Special State Bonds of RMB 270 billion and the funds raised have been used to recapitalize the state-owned commercial banks. An internationally accepted loan classification system is being implemented throughout the country. The central bank has shut down some small and medium-sized financial institutions that had been noncompliant or insolvent. China's financial industry has been developing steadily in the process of reform.

It has been 15 months since Hong Kong returned to China. Over the period, the Hong Kong Special Administrative Region (SAR) authorities have made great efforts in facilitating the economic adjustment and maintaining the prosperity in Hong Kong SAR. Facing the challenges posed by the East Asian financial crisis, the Hong Kong SAR Government has successfully maintained the stability of the financial markets. According to the principles of "one country, two systems" and "Hong Kong people ruling Hong Kong, high degree of autonomy," the central government of China supports the Hong Kong SAR's efforts in maintaining the prosperity and stability of Hong Kong and their measures to safeguard the linked exchange rate regime.

Lastly, on the Bank's pricing policy, it is highly regrettable that at a time of substantial reductions in capital inflows to developing countries, the Bank management has increased the price of IBRD loans against the will of all borrowing members. This departs from the Bank's long-standing principle of pricing loans according to the development purpose, thus sending the wrong signal to international capital markets, harming its good relations with borrowing members, and eventually hurting its own reputation. We urge that the Bank management take measures to offset the negative effects caused by the price increase.

To conclude, I believe that the international community is able to cope with the challenges in the process of globalization and that the crisis-hit regions and countries will overcome the temporary difficulties they now face and achieve a solid and sustainable growth.

I look forward to the constructive fruits of this meeting.

CROATIA: BORISLAV SKEGRO
Governor of the Bank

Mr. Chairman, Governors and Distinguished Guests,

It is a great pleasure and privilege to address the 1998 Annual Meetings of the Boards of Governors of the World Bank and the IMF. I would like to take

the opportunity of this Annual Meeting to warmly thank Mr. Wolfensohn and Mr. Camdessus for the past year.

Mr. Chairman, allow me first to refer briefly about the economic developments and achievements in the Republic of Croatia. Since the introduction of the stabilization program in October 1993, the Republic of Croatia has achieved remarkable fundamental macroeconomic stability and has increased GDP growth with low inflation—one of the lowest levels in the region. Economic recovery continued from 1994 and consumer spending stimulated growth with import expansion. The post-war reconstruction took off as real GDP grew to 6 percent. Croatia has become one of the successful cases among the transition economies in Emerging Europe, with inflation between 3–4 percent and above-average GDP growth.

Turning briefly to the fiscal performance I am happy to report that in 1998 Croatia is expected to be one of the few Emerging European countries to achieve a balanced budget. Budget revenues doubled in the first half of 1998 with the introduction of a 22 percent VAT on all products and services. The new tax system has also improved collection, especially by introducing heavy fines for delays in tax payment. The statistics on the government budget indicate a surplus of 2,5 percent of the total budget, which will be used for the financing of reconstruction needs, major infrastructure projects and the covering of social expenditures.

A few words about monetary policy. Croatia's domestic currency, the Croatian kuna, has been floating and it has shown remarkable stability both in nominal and in real terms. Monetary policy remains tight and the first half of 1998 was marked by a decrease in the money supply (M1) and high growth of total bank credits. At the end of 1997, net foreign assets of the central bank amounted to more than 95 percent of its total balance sheet. Presently, the amount of international reserves is about 2,55 billions USD, which surpasses the money supply. The current level of Croatian National Bank foreign exchange reserves covers 2.7 months of imports of goods and services. It is expected that the foreign exchange reserves will continue to grow in the future.

I would briefly like to touch more upon one issue—balance of payments. The 1997 current account deficit of around 12,6 percent of the estimated GDP has been the main topic of numerous discussions. However, it is important to note that this deficit was a result of the increase of both imports and exports. Nevertheless, we should keep in mind that in conditions of relatively low domestic savings, real growth could be financed only from foreign sources.

At the end of the short overview of Croatian achievements it is worth mentioning that Croatia has regularized all its relations with foreign creditors, including the Paris and the London Club and that the foreign debt remained at about 28 percent of GDP at the end of 1997. Since the beginning of 1997 the Republic of Croatia received an investment grade rating (from Moody's, S&P and IBCA) which was instrumental for a successful approach to the international financial markets. By mid of 1998, all agencies confirmed the credit rat-

ing. Internationalization and the drive to the foreign capital markets can also be seen at the corporate level.

After 6,5 percent GDP growth in real terms in 1997, economic activity in Croatia in 1998 is estimated to be 7 percent by the end of the year. While progress with structural reform has been made in several areas, further efforts are needed in key areas (notably improving banking system operations, privatization of state-owned banks and large public enterprises, and completing trade reform consistent with the requirements for accession to the WTO).

How do we see future developments? The Croatian industry and tourism is picking up and also export industries are becoming a driving force of economic growth. Still we are well aware of the challenges facing the Croatian economy. There is much yet to be done in the restructuring and privatization of large public sector economy, as well as in the banking sector. The Croatian economy is small and future development is possible through the adjustments of an open and export-oriented policy. Longer term, the potential of the Croatian economy lies in its integration into the European Union and other institutions such as the World Trade Organization and NATO.

I would emphasize the importance of foreign market access and the process of integration into the international economy. But, the high level of financial integration in the world today—and extremely dynamic capital flows—means that all countries have to be much more careful. Over the last 18 months, events in Asia and elsewhere (including most recently Russia) have vividly illustrated the consequences of the combination of a weak financial system and inadequate macroeconomics policies.

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

I feel that one of the major challenges that faces the Fund and the Bank today is to ensure that the allocation of funds and the modalities of their facilities are constantly aligned to the real needs of member countries. This would go a long way to lifting the effectiveness of the twin institutions and improving the economic well being of its members. The special needs of member countries like those in transition and the heavily indebted call for bold and innovative approaches. I am therefore pleased to support the continuation of the Enhanced Structural Adjustment Facility (ESAF) as a permanent feature of the

Fund's facilities. In my view, the temporary and monetary features of the Fund's mandate are not being compromised by ESAF. The Fund's role is constantly being frustrated by the lack of adjustment and reforms that are prerequisites to the achievement of the Fund's wider and, I believe, more strategic objectives of growth and prosperity. I therefore propose the Bank and the Fund to work very closely together to address the special structural needs of member countries.

There is also a need to expand the flow of resources from the World Bank. The level of the World Bank lending remains almost unchanged and this despite the fact that a large number of new members have joined the Bank in the past few years. The Bank has the headroom necessary for new lending. There is a case for increasing the flow of lending from the World Bank to support critical areas, including especially infrastructure. Private sector and commercial banks have to take a larger share as well. This is an area in which we are trying to increase both public and private investment. I believe the World Bank can help support this effort through a combination of direct lending and play a catalytic role in using its other instruments to facilitate new investments (e.g., partial guarantees, etc.).

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

The IMF initiative to strengthen the architecture of the international monetary system has been perceived as the right response to current challenges. In this regard, let me emphasize that Croatia, although being a small country, has been determined to become a productive participant/player in the global economy. It's not just about its support to the XI Increase of Quota as to ensure resources for proper functioning of the IMF or acceptance of the Amendment of the IMF Articles of Agreement regarding SDR allocation as to achieve greater equity, or regular provision of the data to the Fund.

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

Let me just mention close collaboration on improving the quality of a database in view of our commitment to SDDS (Special Data Dissemination Standard). Recognizing the key importance of transparency, Croatian authorities also have consented to publishing the Press Information Notice for Croatia this year. We are also carefully following other IMF initiatives as for example its work on liberalization of capital movements. In this respect, we welcome the IMF approach to orderly liberalization.

Allow me at the end to make a final comment that the co-operation between the Bank, as well as the Fund with the Republic of Croatia is good

and supportive and we are sure that further Bank and Fund activities in the Republic of Croatia would be performed in accordance with our positive and co-operative achievements. I conclude by wishing the Bank and the Fund well in their next year of operation.

CYPRUS: CHRISTODOULOS CHRISTODOULOU

Governor of the Bank

It is again an honor for me to address these Annual Meetings of the Governors of the International Monetary Fund and the World Bank Group.

At this time last year in Hong Kong, most Governors said that they were encouraged by the world economic outlook, despite the financial crises affecting a number of south-east Asian countries. Even though the global economy has recorded modest economic growth and relatively low inflation over the past twelve months, many more economies have displayed weaknesses and have been afflicted by financial crises. Moreover, the real and contagious negative effects of financial crises in south-east Asia have intensified and spread and have affected many other emerging and neighboring markets. Thus, we are far more concerned about prospects for the world economy and now worry that we may be in the midst of a sharp global economic slowdown.

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

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

Although the focus of financial market participants and the media have been on the problems of the so-called emerging market countries and their implications for the global economy, we must continue to assess whether the

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

In Cyprus, the economy to date seems to have been little affected by the Asian financial crisis and its repercussions. Real GDP has been increasing at an annual rate of around 4,5 percent and the rate of inflation is in the 2,0 percent to 2,5 percent range. The economic fundamentals of Cyprus are relatively strong and Cyprus is meeting four of the five convergence criteria of the Maastricht Treaty.

However, the unfavorable experiences of a number of countries in liberalizing their external capital accounts and financial markets too quickly have made the Cyprus authorities cautious in freeing up our markets to harmonize our policies with those of European Union Countries. In this connection, we have welcomed the advice of the IMF staff and Executive Directors at the recent consultation discussions, that have urged a carefully-sequenced approach in liberalizing our external capital account. Successful liberalization of interest rates and the domestic and external financial markets requires also that the macroeconomic balances are in place. Accordingly, in the coming weeks a package of taxation and government expenditure-restraint measures aimed at fiscal consolidation will be considered by our House of Representatives, while a bill proposing the removal of the interest rate ceiling will also be tabled at the House.

In concluding, I would stress that Cyprus will continue to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic and financial environment conducive to growth and development. Also, I would like to take this opportunity to thank the management and staff of the Fund and the Bank for the constructive advice they have rendered to Cyprus.

ESTONIA: MART OPMANN

Governor of the Bank

(on behalf of the Baltic Group)

I have the honor of addressing this meeting on behalf of the three Baltic countries Latvia, Lithuania and Estonia. I also would like to extend our welcome to the new member of the World Bank the Republic of Palau.

Current Annual Meetings take place in the midst of widespread economic and financial crisis and many ideas and proposals about the future of the Bank and the Fund have been presented. Three Baltic economies, also touched by the global processes, look of course forward to the quickly restored stability

in the global financial system. But we also hope that the specific concerns of the small countries would not be left unnoticed because of global problems.

I would like to stress, however, that the present crisis has not affected macroeconomic stability of the Baltic countries, owing to the tight fiscal policies of our Governments. All three countries have experienced high growth rates during the last two years. Particularly, in Estonia's GDP grew by 11,4 percent in 1997. Concerned by these signs of overheating, the Estonian Government and the Central Bank have implemented strong measures to reduce public expenditures. Estonian Government has targeted fiscal surpluses in 1997 and 1998 and transferred the surplus to the Stabilization Reserve, which is expected to grow up to 3 percent of GDP by the end of this year. Implemented measures have reduced the current account deficit, lowered credit expansion and decreased inflation.

Latvia is planning a financially balanced Government budget for the third consecutive year. Lithuania's deficit has been reduced and the country will balance its budget in 1999. Latvia's and Lithuania's inflation rates have reached the annual level of 4 to 5 percent. All Baltic countries target 5–7 percent level sustainable growth over the medium term.

Baltic countries have followed with concern the crisis in Russia. We believe that the World Bank and IMF could play a significant role in supporting Russia to overcome instability and keep the country on the track of democratic reforms. We believe that the experience of the Central and Eastern European countries in transition could be utilized by the Bank in this process. We welcome the intended closer cooperation between the World Bank and IMF to fulfil their important mission to strengthen financial and economical stability in the world.

Estonia was included in the list of countries to start the EU membership negotiations this spring. We hope and predict that Latvia and Lithuania will also join these negotiations in the nearest future. In this context, we welcome the Memorandum of Understanding between the World Bank, European Commission and European Bank for Reconstruction and Development. Memorandum aims at enhancing the effectiveness of assistance to the EU applicant countries, and we are now looking forward to practical implementation of this document.

The challenges of the EU accession process also influence our borrowing priorities from the World Bank and other IFIs, particularly for the infrastructure and environment sectors, even though the Estonian Government has not borrowed for two years. Latvia and Lithuania are also intending to borrow for social sector and rural development projects, in support of respective Government reform programs.

In this context, I would like to comment on the Bank's new income policies. The approved package for short and long term improvement of income dynamics will increase the costs for the Bank's borrowers. To relieve the Bank's operational costs, the Baltic countries are ready to support various

ways to contribute for non-lending services. At the same time, we share the view that emergency lending should neither impair borrowing terms for the Bank's "ordinary" borrowers nor should affect the institution's creditworthiness. It appears to us that emergency lending is more of a responsibility of IDA and IMF than of IBRD. We encourage the Board and the Management to look for balanced solutions meeting the Bank's development goals as well as its clients' interests.

ETHIOPIA: SUFIAN AHMED

Governor of the Bank

(on behalf of the African Group)

It is my privilege to address this meeting on behalf of my fellow governors in the African Caucus. It is my hope that the spirit of cooperation that has been exercised by the international community during the recent past will help us during the deliberations in arriving at solutions to many of the challenges confronting the world economy. Since I have already circulated my detailed statement, I shall restrict myself to a few comments on the global economy, and on issues relating to Africa, highlighting the progress we have made and outlining an agenda for the future in the context of a new partnership with the international community, particularly the Bretton Woods Institutions.

In the past year, the world economy has been characterized mainly by a succession of financial crises in South East Asia and in a number of other emerging markets. However, Africa has not escaped the contagion effects. Countries in the region have experienced a sharp decline in commodity prices, a reversal in net capital inflows, and a deterioration in international competitiveness, among others. The present circumstances complicate the task of economic reform and adjustment in Africa, especially the large number of countries facing an unsustainable debt burden.

These current developments have sounded a wake-up call to the risks of rapid globalization of financial markets and the importance of concerted action by the international community to contain the crisis. For the immediate future, the countries directly affected as well as other emerging economies must continue the process of deep-rooted reforms, focusing on stabilizing the financial sector together with credible fiscal and monetary policies. At the same time, the advanced economies must focus on implementing policies that are supportive of global economic growth. On our part, our countries are continuing the process of structural reform, and remain committed to the pursuit of sound and transparent economic management. However, we need increased support from the Bretton Woods institutions and the donor community to reinforce our efforts to combat poverty.

The international community must take decisive action to strengthen the architecture of the international monetary system. In this connection, we wel-

come the efforts being undertaken by the IMF and others to reduce the risk of disruptive shifts in market sentiment, as well as the risk of contagion. We also support the emerging consensus that private financial institutions must play a more active role in helping to ensure the stability of the international financial system, through orderly debt work-outs based on the principle of equitable burden sharing. Meanwhile, efforts to promote international capital flows should proceed cautiously, taking into account the specific circumstances of each country, and ensuring that weaknesses in specific areas of an economy are not exacerbated when capital controls are removed.

Mr. Chairman, Africa is a continent of many opportunities. The commitment of countries in the region to economic reform is now firmly rooted. Sound fiscal and monetary policies, economic liberalization, and good governance, are the pillars on which the new African economy is being constructed. According to the Fund's March World Economic Outlook, there is evidence that we are making progress: 36 countries recorded growth of 3 percent or more in 1997 compared with 18 in 1992, and there is cautious optimism for the medium term; average inflation has fallen sharply from 36 percent in 1994 to almost 11 percent in 1997 and is projected to fall below the average for developing countries as a whole; public sector finances are much improved in most countries; monetary aggregates generally reflected a conservative policy stance; and reserves have more than doubled in the past five years. However, since we are starting from a low base, many of our countries continue to face widespread poverty. In this connection, the role of the Private Sector can not be over emphasized. In addition every effort must be made to improve Africa's share of foreign direct investment

Mr. Chairman, Macroeconomic stability, is a necessary condition to making Africa an attractive place for investment. However, looking forward also requires emphasis on a more robust strategy with a longer-term horizon. Such strategy must contain the following elements, among others:

- Increased investment in basic infrastructure and human resource development must be a priority. Both the public and private sectors should play their respective roles in this endeavor.
- Taking into account the regional economic integration strategy of the Abuja Treaty establishing the African Economic Community (AEC), we pledge for stronger efforts towards regional integration in order to increase market size and promote Africa's integration into global economy. Africa's declining share in global trade suggests that we are losing the battle. We believe much would be gained if the international community, particularly the Bretton Woods institutions, would undertake cooperative programs with existing regional institutions
- It is crucial that the international community support Africa's Capacity Building Initiative for which a business plan has been completed after

extensive consultations with relevant partners. This would give confidence to investors and ensure greater efficiency in public administration.

- The enhancement of domestic resource mobilization is closely tied to Africa's need for increased investment. In this regard, we need help in developing domestic financial markets, extending financial services to the rural areas, reforming the banking system and improving government revenue.

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

Africa is aware that its economic strategy must be underpinned by a stable sociopolitical environment. The efforts African countries are making to improve transparency in government operations and to encourage political pluralism owe much to this awareness. The progress being made, in this regard, would benefit from adjustment programs that are more carefully tailored to the environment in which they are to be implemented, paying particular attention to well-designed social safety nets. The burden of adjustment and reform cannot be ignored if countries are to sustain the social consensus during periods of major adjustment. An important step toward making reform programs more acceptable to the local constituency is to have a new partnership among donors, the multilateral institutions and the countries in need of assistance that supports increased domestic ownership of such programs.

Mr. Chairman, the new partnership must also seek to match the level of development assistance to Africa with the strengthening of the reform effort that is evident in many countries. It is disappointing that net official development assistance to Africa in 1997, was negative and this trend is expected to continue at least until 1999. Timely and adequate financing from the donor community will help our countries increase investment in infrastructure, in health, and in human resource development; all of which make a direct contribution toward the expansion of the private sector.

The inadequacy of concessional financing for African countries is also an issue requiring the attention of the Fund and the World Bank. We must express our profound disappointment that, as of now, financing for the Interim ESAF and the HIPC Initiative has not been secured. We urge the International Community and the Executive Board of the Fund to consider all options to bring this matter to a successful conclusion, including the sale of a portion of the Fund's gold. With regard to the World Bank Group, we welcome the on-going negotiations for the twelfth replenishment of IDA resources and, as in the case of ESAF, look forward to their successful completion.

Mr. Chairman, the issue of Debt Relief. For a large number of African countries, there is an urgency for significant debt relief A heavy external debt

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

While there are good reasons to require a solid track record of reform in order to qualify for debt relief under the HIPC Initiative, it is important to approach the matter with pragmatism, bearing in mind the differing circumstances that influence both a country's adjustment strategy as well as the speed of adjustment and reform. We urge the Bretton Woods institutions to continue their efforts to persuade other creditors to meet their equitable burden sharing responsibilities in terms of the HIPC Initiative. In addition, the international community should continue to make efforts to address the debt problem facing all African countries. In conclusion, Mr. Chairman, we in Africa believe that we have reached a new threshold in our development experience. Since our social and political systems are changing to facilitate better governance and ownership of programs, we believe there is now a stronger basis for promoting accelerated growth and development. We invite the international community, especially the Bretton Woods institutions, to join us in implementing Africa's economic agenda in the spirit of an enhanced partnership.

FIJI: JAMES AH KOY
Governor of the Bank

It is an honor to attend the fifty-third joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group. May I take this opportunity to congratulate you Mr. Wolfgang Ruttensdorfer on your selection as Chairman for this year's meetings. I join other Governors in welcoming the Republic of Palau to the membership of the Fund and the Bank. I also wish to congratulate the President of the United States, Mr. Bill Clinton, for his excellent address, which has provided us with an appropriate backdrop to our discussions at these Annual Meetings.

When we last met in Hong Kong, the lessons from the Mexican crisis were still being consolidated and the turmoil in South East Asia was considered by many analysts, including those in the Bretton Woods Institutions, to be short-lived and its effects mainly confined to the region. However, the Asian

crisis, contrary to earlier estimates, continued to deepen and its impact is now global. In recent months, the market reforms in Eastern Europe, particularly in Russia, have reached a critical phase. The Japanese economy remains in recession. A few countries in South America are showing signs of serious weaknesses. World trade is beginning to fall. In summary, the prospects for the world economy have worsened significantly over the last year and there is a real danger of a global economic crisis.

Mr. Chairman, at this critical juncture of the global economy, the world desperately needs economic leadership and direction. Who can and should take up this role? We all recognize that the problems that we now face are different from those that the world faced at the post war period and at the time that the Bretton Woods Institutions were established. At the heart of these modern-day problems are the cyclical effects of large outflows of capital resulting in the contraction of domestic liquidity and immense pressures on exchange rates. The severe instabilities of international financial markets have led to sharp deterioration in real incomes, heavy loss of jobs and unbearable strains on domestic financial systems. Moreover, there has been a dismal failure to localize the impact of these turmoils and a gross underestimation of their ramifications and their intensity. While market integration and liberalization have created opportunities for growth and development, they have also created risks that need to be understood and carefully managed. Inevitably, the developed countries must lead the world out of this difficult period. On a country basis, the world will no doubt continue to look to the United States for support given its well-balanced economic performance without inflationary pressures and low unemployment. It is also encouraging to see the strong growth prospects in Europe. The fundamental strength in the economies of industrial countries, particularly the United States and Europe, will provide the much-needed foundation for changing the present gloomy world economic prospects.

The continuing economic leadership of the industrial countries hinges critically on their keeping inflation in-check. While the global efforts to keep inflation low are commendable, we collectively, of course, need to persevere with policies aimed at achieving fiscal and monetary stability. These policies must continue to be primarily aimed at reducing budget deficits to allow world interest rates to come down and help resuscitate economic growth in member countries around the world. In addition, the role of the World Trade Organization in compliance and problem resolution is important to keep world trade at an even keel. Lastly, the developing countries must show leadership in their individual economies and continue to press on with country-specific reforms that encourage trade creation through greater competitiveness. Under this unstable and unpredictable environment, it is crucial that the Fund and the Bank provide the strong leadership required at the multilateral level to restore confidence and stability. These modern-day problems require a new approach. We are, of course, encouraged by the momentum to find a new world financial

architecture. However, in our search for the fit-outs of this new architecture, I urge the Fund and the Bank to give adequate consideration to pragmatism and sovereign ownership of reforms to help minimize, in an optimal fashion, the risks that are associated with their programs of integration and liberalization.

The traditional roles of the Bank and the Fund are obviously under scrutiny in this new global environment and I support the call for a review of these roles particularly those aimed at strengthening the supervision and monitoring of the international financial system. I am, however, not convinced that there are fundamental flaws in the policies *per se*. What is more obvious to me is that we must find solutions in the implementation of these policies to adequately address, in a timely fashion, market sentiments that do not truly reflect the economic fundamentals of member countries. Mr. Chairman, while we must search for a solution and do it very quickly, one aspect is clear—we must provide the Fund and the Bank with adequate resources to enable them to effectively undertake their responsibilities under the new architecture. The need for these financial resources is urgent and immediate. Indeed, the confidence of the market place on the ability of the Fund and the Bank to adequately deal with financial crisis hinges on the availability of these resources. The Managing Director of the Fund and the President of the Bank have clearly emphasized the serious constraint that tight liquidity has on their ability to meet the challenges of an integrated global economy. We, therefore, support the increase in the Fund's quota and call on member countries, that may not have done so, to meet their obligations on the replenishment of the International Development Association resources. In this regard, Mr. Chairman, I am extremely encouraged by the commitment of the President of the United States to obtain the approval of Congress to the funding of the Fund and the Bank.

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

The solution to maintaining stability is not to avoid reforms but rather to better synchronize them to the absorptive capacity of individual member countries. In my view, the best way to minimize the associated risks of capital flows in developing countries is to foster an orderly liberalization of capital movements

in line with the strength and reforms of domestic financial markets. For many developing countries like Fiji, exchange controls have served us well, although this protection has not been without costs. For us, it is a question of balance weighing the costs of financial stability against the possibility of lower investment and growth. Under conditions that are currently prevailing in the world market place, it appears prudent that these existing controls are cautiously reviewed as the domestic financial markets grow in depth and sophistication.

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

Mr. Chairman, it is obvious that the costs of the crisis have been particularly heavy on the most vulnerable members of the Bank and the Fund. Most of these countries are already burdened by debt. Their poverty levels are some of the highest in the world. Many of these countries are undertaking reforms to free themselves from the vicious circle of debt and lack of growth. The current crisis means they have to double their efforts if they are to go back on to a sustainable path of recovery. I, therefore, support the sentiments expressed in support of the continuation of ESAF and urge the speedy implementation of the HIPC initiative. On this point Mr. Chairman, let me reiterate our continuing call for some incentives to be granted to small developing countries like Fiji which have been prudent and responsible in fulfilling their debt obligations through proper economic and financial management.

We, in small island economies, clearly appreciate that the only way to survive the pressures of globalization and liberalization is to be competitive. I am happy to report that Fiji is taking the necessary steps to pursue this objective. We are transforming our policies and structures to support more market based, outward-oriented and private-sector-led growth. With the assistance of the Bank and the Fund, we are developing the capital market and strengthening our regulation and supervisory skills and systems. Of course, we realize that much more needs to be done to guarantee Fiji’s future in this new and fragile environment. In this difficult endeavor, Fiji will continue to look to the Fund and the Bank for assistance in developing our infrastructure, training our human capital, strengthening the capacities of our key institutions and formulating prudent and proactive economic policies.

I conclude by thanking the Bank and the Fund for their past and ongoing assistance and support for Fiji and the Region. I wish the Bank and the Fund well in their next year of operation.

FINLAND: MATTI VANHALA

Governor of the Fund

(on behalf of the Fund Nordic and Baltic Countries)

I am honored to address this meeting on behalf of the Baltic countries: Estonia, Latvia and Lithuania; the Nordic countries: Denmark, Iceland, Norway, Sweden—including of course my own country Finland.

First of all, I wish to join my colleagues in welcoming the Republic of Palau as a new member.

We have, in recent months, encountered increasing economic uncertainty, and market turmoil, that we did not foresee a year ago. What started out as a local financial crisis in Southeast Asia turned into a contagion, shaking investor confidence, not only in Asia, but in all emerging markets, and brought elements of uncertainty into the robust economies of Europe and the US. The outlook for the world economy in 1999 has weakened, as the potential for broader and deeper downturn is being recognized. Even in the best of scenarios, we shall have to live with tension in the global economy and in particular in world financial markets.

This meeting provides a well-timed opportunity for the international community to review the challenges, and the strategies to meet them.

One of the most significant institutional changes in international monetary arrangements ever—the launch of Europe's single currency—will coincide with the current period of turbulence and uncertainty in the world. The European Central Bank will assume responsibility for the euro. It will define its policies, and its international role, including its relationships with multilateral institutions, among them the IMF. The emergence of the euro zone as an area of monetary stability, with the euro as a key international currency, will make a major contribution to the international economy.

Crisis and contagion during the last 12 months have demonstrated how interdependent economies have become. Economic prospects for Asian countries at the center of the crisis will depend critically on the external environment; in particular on Japan as the second largest economy in the world. A resumption of solid growth in domestic demand in Japan is the key to recovery in Southeast Asia. Persistent stagnation in Japan will increase the ultimate real costs for Japan, and for the rest of the world. There is a need for Japan to succeed in breaking the prevailing impasse, rebuilding confidence and reflating the economy. A resolute restructuring of the banking sector is necessary.

The situation in Russia is of a different nature, but equally serious. Persistent difficulties in the implementation of fiscal consolidation and market reform progressively undermined what had been achieved, namely a stable ruble and low inflation. The current Russian situation is an illustration of what happens when confidence in economic policy and in money collapses altogether. We see a dangerous, rapid deterioration of economic conditions.

The overwhelming priority for the Russian authorities now is to halt the destructive downward spiral. The first requirement is that the Russian government gain the political backing, and the credibility needed to enact legislation

and to devise and implement programs. Close, continuous contact between the Fund and the Russian authorities is needed, but the key to stabilization lies with the Russian authorities. There is a role for the international community to consider financial support for Russia, once the necessary steps for sustained stabilization and reform have been taken.

The Russian crisis, with its turbulence and spillover effects, will no doubt put pressure on the neighboring Baltic markets. The Baltic states, seeking integration into the European economic community, as well as a diversification of their economic relations, have weathered recent turbulence quite well. This must be attributed in large part to their prudent fiscal and monetary policies, their focus on strengthening the banking system and developing the private sector. They will continue to follow the solid and strict macroeconomic policies which now shield them against contagion.

Mr. Chairman. There is a debate on the mandate and the role of the IMF. Work is progressing, in the Fund and elsewhere, on blueprints for a strengthened architecture of the international monetary system. If there is an early lesson from the crises, it is the need for preventive safeguards in the global financial system. There is a need for improved surveillance techniques, with the focus broadened to capital flows and the health of the financial systems in member countries. In a strategy for fostering stronger financial systems, international principles and good practices for sound banking are necessary.

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

Transparency on the part of the Fund should involve greater openness on its own policy advice to members. This is a sensitive aspect of the bilateral relationship between the Fund and its members, but, today, in any serious preventive approach to crisis management, such a change must be considered.

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

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

Nevertheless, the IMF cannot perform a central role in the prevention and management of crises unless it has adequate resources. It is a matter of grave

concern that the IMF's usable funds have dropped to a level that leaves little room to respond to systemic risks in the world economy. It is critical that the increased level of Fund quotas agreed under the Eleventh Review becomes effective as soon as possible. Completion of the adherence process for the NAB would be a complement.

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

Before concluding, Mr. Chairman. Capital flows are straining the international monetary system. The topic of capital account liberalization is on our agenda. The current world economic situation has brought forward arguments for temporary controls on short-term capital movements as a remedy in times of crisis. It has been argued that controls provide breathing space.

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

Finally, Mr. Chairman. The search for a new global financial architecture should not be pursued by individual international organizations in isolation. In this respect, and taking into account the respective roles of the two Bretton Woods Institutions, I welcome the review of the collaborative experience between the World Bank and the Fund in strengthening financial systems.

FRANCE: JEAN-CLAUDE TRICHET

Alternate Governor of the Fund

Mr. Chairman, Managing Director of the IMF, Mr. President of the World Bank, Governors, Ladies and Gentlemen, this meeting comes at a time when the economic and financial context is worrisome.

Since our last meeting in Hong Kong one year ago, financial instability has spread throughout a large part of Asia and beyond, striking many regions around the world in one way or another.

The crisis took on a new dimension this summer. The difficulties facing a number of emerging countries and the exposure of financial institutions in the industrial countries to market risk or to the risks of hedge funds, for example, have led to a heightened sense of financial insecurity.

This situation cannot be blamed solely on economic policy errors, although there is no denying that errors have been made in some cases. Nor can it be blamed on the actions of the international financial institutions. Rather, we need to take a look at the international financial and monetary system as a whole, with a clear head and setting aside dogma. We must face the reality of a world economy that is more diverse, more open, and far more complex than it was fifty years ago when the Bretton Woods institutions were created. This crisis does not call into question the usefulness of these institutions quite the contrary. It is the dialogue between the industrial and emerging countries that is inadequate. It is market infrastructures and their regulation that are visibly dysfunctional. The international community must assume more responsibility for organizing the system. In this, the Bretton Woods institutions are the tool of choice, and therefore their role should be expanded.

An event of far-reaching scope for the international monetary system will take place at year-end, namely the introduction of the single European currency, the euro. Meeting the prerequisites for the euro's complete success will make the euro zone a pole of stability and prosperity. As such, the euro should contribute to a more balanced international environment.

Indeed, given the globalized nature of the economic and financial world, Europe ought not to give the impression that it is solely concerned about its own internal integration process. It is paying close attention to developments in the world economy and the international financial markets. This is even more valid in the current situation.

We must take care not to let this troubling economic and financial situation distract us from providing assistance to the poorest countries. It is our responsibility to continue to support the developing countries steadfastly and purposefully. Above all, this support should translate into backing for the International Monetary Fund by financing the Enhanced Structural Adjustment Facility, and for the World Bank and regional development banks by adequately replenishing the African Development Fund and the International Development Association. Steadfastness in the continued implementation of the debt initiative for the heavily indebted poor countries is also crucial. Last, France welcomes the initial steps taken to enhance our capacity to respond to the problems of the post-conflict countries, which should enable us to take better account of their individual situations on a case-by-case basis.

France is convinced that Europe can contribute to the improvement of the monetary and financial system. For this reason, we have recently put forward twelve proposals, which we felt we should discuss first with our European

partners. We found that our views were widely shared and that the proposals gave rise to constructive debate at the international level, as evidenced by the meetings of the past few days, especially those of the Interim Committee. I will not go over here all the ideas that France has put forward, but I do wish to underscore certain points.

Strengthen institutional management. The legitimacy of the IMF cornerstone of the system is conferred solely by the support of its shareholders, the member countries, which alone are accountable for the general policy of the institution in the face of public opinion. This is why the IMF's resources and political legitimacy must be strengthened. Therefore, it seems that strengthening the "government" of the international financial institutions is essential. The Governors must play a more active and consistent role in a body that represents the diversity of countries involved in international financial trade. This is why France defends the principle of changing the Interim Committee into a Council, as the Fund's Articles of Agreement in fact provide for.

Of course, in France's view, it would be wholly beneficial if the Development Committee were to move in the same direction. The World Bank President must submit proposals to us so that the ministers can take decisions on all development issues. In fact, I believe that we can improve the coordination between the Interim Committee and the Development Committee to reflect the complementarity between the Fund and the Bank.

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

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

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

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

Clearly, these proposals by no means answer all the questions facing us. For example, we must also consider the international monetary system in order to determine how the coexistence of large, integrated monetary groupings and smaller, more open economies with diversified trading structures can best be organized, in a context of stability.

In this new international environment in the making, European monetary union must be a stable pole. Last year I assured you that I was certain that monetary union would move forward in accordance with the criteria and timetable established in the Maastricht Treaty. Looking back, it is difficult to understand why there was still so much skepticism one year ago. Today, the unswerving determination of European authorities to implement the single currency and the progress made toward convergence have prepared us for this historic moment.

However, five prerequisites must continue to be met in order for the euro to be a complete success and for that success to contribute toward greater international equilibrium.

What are these five prerequisites that must be met to assure the success of the euro?

First, a serious and credible monetary policy underpinned by an independent European System of Central Banks. If the euro is to be an effective monetary instrument, it must inspire confidence in the 290 million Europeans in the euro zone and in non-Europeans as well. It must be at least as good a store of value as the franc and the other leading European currencies. In this way, the European economy will be given the best financial environment possible for sound growth that generates lasting employment.

Second, adherence to the provisions of the Treaty and the fiscal guidelines of the Stability and Growth Pact. Closer coordination of fiscal policies and vigilant peer surveillance in the informal Council of Eleven the Euro-11 and the ECOFIN Council, comprising finance ministers of all 15 member states, will be essential if there is to be a balanced policy mix in the zone as a whole. In addition, meeting the medium-term objective of fiscal quasi-equilibrium or fiscal surplus holds the key to achieving a collective approach to "lean-cow" economic cycles and enabling individual countries to withstand any asymmetric shocks.

Third, the implementation of structural reforms throughout Europe. Some outside observers have recently criticized the Europeans for moving ahead

with the euro when, according to these observers, the more important priority would have been to complete the structural reforms necessary to achieve more vigorous job creation. Far from being incompatible with structural reform, however, the euro actually complements such reform, because, in the first instance, the euro per se represents a major structural reform for all goods, services, and capital markets. It will also encourage greater coordination among the structural policies of member states (education, training, etc.): the Luxembourg European Council explicitly referred to structural policies as one of the areas requiring enhanced coordination of the economic policies of the 11 and of the 15 European states.

Fourth, the emphasis which Europe's economic decision makers will be placing upon competitiveness in their analysis of national performance. Each economy will have to be especially vigilant in monitoring such indicators of competitiveness as changes in the unit costs of production, the regulatory and fiscal environment, and, more generally, in ensuring a climate conducive to dynamic business performance.

Last but not least, the ownership of the euro by all economic transactors. For this reason, our message to economic transactors and businesses in particular can be summed up quite simply as follows: "The introduction of the euro is not a tactical move but a strategic requirement." It is not simply a question of replacing one currency with another and rewriting some software; all corporate behaviors and functions in industry, commerce, finance, etc. must be reexamined to determine what strategic changes they may need to undergo.

Under these conditions, the economy of the euro zone will be able to fully contribute to greater monetary and financial stability and, thereby, to world growth. We are seeing encouraging developments as regards domestic demand growth in continental Europe. A flexible and well-organized transition to the euro over the next three months is one means of building the confidence necessary for the expansion of domestic demand and specifically of investment, and hence for growth and efforts to combat unemployment.

This smooth transition to the euro also requires the convergence of interest rates in the zone with the prevailing rates in the economies with the strongest and most creditable domestic currencies, particularly the franc. This will lead to substantially lower short-term rates in a number of European countries. These interest-rate reductions have already begun and the economies in question together represent just over one third of the gross domestic product of the euro zone.

The present state of international financial instability should not make us lose sight of development and aid issues critical to the poorest countries.

Some poor countries are experiencing high growth despite the sharp downturn in the international environment. This is particularly the case with sub-Saharan Africa, whose growth rates are currently the highest in the world. This is the result of their efforts and justifies our support, but poverty remains endemic and the recovery of real economic activity is still all too uncertain.

The developed countries must steadfastly support the development of poor countries. They have a human, social, and political responsibility toward the poor countries, to enable as many of them as possible to attain an acceptable standard of living. They also have an economic interest in doing so, because world growth cannot be sustained unless the developing countries experience real progress.

To that end, the developed countries must support a number of different measures.

It is essential to concentrate official assistance on key development priorities and provide development banks with resources for their work.

Official assistance should meet basic needs in developing countries: consolidating the role of government in creating the conditions for private sector development; facilitating the population's access to credit; helping diversify economies; and developing infrastructure and basic services, especially in the areas of health and education.

The World Bank and regional development banks play a central role in poor countries. Adequate replenishment of the concessional resources of the African Development Fund and IDA is therefore key to providing them with the means for continuing their work.

The borders of the industrial countries must be opened to the products exported by developing countries, and regional integration among developing countries must be facilitated.

These two prerequisites for stability and prosperity are insufficiently recognized as essential development assistance resources. France and the European Union do maintain this approach with the African, Caribbean, and Pacific countries under the Lomé Convention. We urge all the developed countries to take similar measures with regard to poor countries.

Efforts must be continued to relieve the debt burden, which in and of itself can sometimes jeopardize development prospects.

The initiative to relieve the debt of the heavily indebted poor countries (HIPC) has now been launched, thanks to close cooperation between the IMF, World Bank, and Paris Club. Now, we must continue our efforts to ensure that the initiative is fully implemented. I hope that all the poor countries, whose debt is deemed to be unsustainable and who have implemented the necessary adjustment measures, may be able to benefit from it.

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

Remove the obstacles to assistance for post-conflict countries.

France is pleased that the World Bank and IMF have submitted to us an initial review of the issue. To those who have been excluded from the international community by war, we must now propose innovative solutions to enable them to reenter that community as they make their own efforts to do so.

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

This message of support to all developing countries, and calling for sufficient official assistance for the poorest countries, is a message that comes from France, but it also comes from Europe. In 1997, the members of the European Union alone provided 57 percent of the world's ODA resources. This shows the importance of the contribution made by Europe, which, in France's opinion, should be fully taken into account by the Bretton Woods institutions. France is in favor of strong, legitimate, and effective international institutions; moreover, France is concerned that the rich nations should continue to show solidarity with those countries facing difficulties. It is in this way that, together, we will overcome all the current problems.

GEORGIA: VLADIMER PAPA

Alternate Governor of the Bank

Dear Chairman, Ladies and Gentlemen, Distinguished delegates, after restoration of its independence in 1992 Georgia became a member state of the International Monetary Fund and the World Bank. By that time the country was going through the most turbulent times of its modern history—ethnic conflicts, civil war and rampant crime. That is why the reforms started only in the spring of 1994. They were initiated and based upon the anti-crisis program signed by the President of Georgia Eduard Shevardnadze.

At the outset of the reforms the socioeconomic situation in the country was extremely difficult. Inflation reached 8,000 percent annually and the Gross Domestic Product (GDP) was 3 times less the index of 1990. 80 percent of the population lived beyond the official line of poverty. The reforms bore the first tangible results even in the end of 1995 when annual inflation rate maintained at 57 percent and the downward tendency of GDP was stopped.

By the fall of 1995 these measures laid down the basis for the monetary reform which to some extent was extraordinary and unprecedented. Three currencies altogether—Georgian coupon, Russian rouble and US dollar—were replaced by the National currency “lari,” which has become the real legal tender and has been stable since its very introduction. In 1996 the Georgian Government in cooperation with the IMF and the World Bank prepared a stabilization and structural reforms program which was supported by a three year ESAF and Structural Adjustment Credits. This program focused on three strategic goals:

- Support economic growth;
- Acceleration of the process of the transition to a market economy and safeguarding the stabilization achievements with constant improvement of the social conditions of the population;
- Deeper reforms in the sphere of education and health care.

The results of the implementation of this program in figures can be identified as follows. If in 1995 inflation stood at 57 percent, in 1996 it fell down to 13,7 percent and in 1997 it reached 7.3 percent. This year inflation has not taken place at all. In 1995 the falling of the GDP was stopped, 1996 marked the 11 percent growth and in 1997 the growth rate amounted to 11.3 percent. In the 8—month period of the current year the growth rate stood at 9 percent.

It should be mentioned that with the purpose of acceleration of the economic development, irreversibility of reforms and deeper transformation, on the basis of close cooperation with international financial institutions, in winter of 1997 President of Georgia issued the Decree on Main Guidelines for the deepening of Economic Reforms. This Decree covers all the necessary measures that the Georgian Government should implement in the next two years.

Although in the course of reforms we encountered numerous obstacles and hardships the Georgian Government is firm in its determination to continue democratic and market-oriented transformations. But recently the reforms have been nearly thwarted by the immense difficulties caused by Russian financial crisis. It is not unnatural whereas Russia remains the largest foreign trade partner of Georgia. A drastic fall in Georgian export sales to Russia was observed after the crisis.

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

GERMANY: HANS TIETMEYER

Governor of the Fund

The situation in the world economy, without doubt, has turned out to be more difficult than we expected a year ago in Hong Kong. In some regions, growth has slowed down and global financial markets have become more volatile. It must be recognized, however, that the existing international economic and monetary system has brought advantages to all of us in the past. Particularly those countries that are at present undergoing temporary setbacks have benefited from the inflow of foreign investment. This has been reflected by impressive and—until last year—sustained economic growth in the emerging markets.

It is true that globalization is bringing several new challenges but, overall, the advantages for people throughout the world are clearly prevailing. The response to today's problems should, therefore, not be to question international integration, which would jeopardize the progress in development that has been achieved so far. Rather, the international economic and monetary system should be developed further in such a way that it will be ready for the challenges of the 21st century.

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

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

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

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

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

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

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

On January 1, 1999, for eleven countries of the European Union, the single European currency will become a reality. This will create a currency area with a population of almost 300 million. The euro, the future European currency, will start on an—all in all—positive economic basis, notwithstanding that unemployment is still too high. The commitment of the EU-countries to a stability-oriented fiscal policy and continuing structural reform is a key to the long-term success of the European Monetary Union and also for continued improvement of prospects for growth and employment.

Also, the incoming euro must inherit the stability of the D-Mark. For this purpose, it is important that the European Central Bank is committed to the primary objective of price stability and enjoys genuine independence, secured under international law. A stable and strong euro is a major contribution by Europe to the stability of the global monetary system and to ongoing economic prosperity.

The involvement of the World Bank in overcoming the financial crises in South-East Asia and in Russia is of great importance. The World Bank has unique expertise in addressing the underlying structural problems. At the same time, its main task, to fight poverty, should not be neglected.

We should not forget that many countries, including the poorest ones, have been implementing structural measures with great effort and commitment for a number of years. IDA is the largest concessionary aid fund in the world. Countries trust its advice and welcome its financial support which lays the foundation for sustained growth and fighting poverty.

It will be very difficult to fully integrate these countries into the world economy without efficient institutions in the financial sector, without a coherent development-oriented government strategy and without a reliable legal framework. This has been demonstrated again by recent crises.

IDA's development policy mandate and its success in implementing reform programs encourage us to successfully conclude the current negotiations for the 12th replenishment by the end of the year. Also against the backdrop of the current negotiations, we note with great concern that armed conflicts jeopardize the first fruits of structural reforms and arduous reconstruction measures.

In the wake of the financial crises, structural shortcomings have also surfaced in the World Bank's income development. The negative trend in the World Bank's profitability must be tackled quickly so that it can regain its

former scope for action. The recently adopted measures for improving the profitability of the Bank are a major step in the right direction.

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

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

I would like to take this opportunity to thank management and staff of the IMF and the World Bank for their sometimes extremely difficult work during the past months. You may rest assured that Germany will continue to attach great importance to the work of the IMF and the World Bank.

Finally, I am pleased to join my fellow governors in welcoming the Republic of Palau as a new member.

GREECE: YANNOS PAPANTONIOU

Governor of the Bank

The current turmoil in world financial markets was to a large extent unanticipated and initially underestimated. The chain reaction that followed the financial disturbance in Thailand a year ago revealed certain important negative aspects of globalization. The rules concerning the prudential supervision of financial institutions, including mutual and hedge funds, and the transparency of their operations proved to be insufficient in either predicting or preventing the coming financial turmoil. The spread of financial contagion that followed the massive devaluation of several Asian countries' currencies indicates the difficulty of the international monetary system to cope with global capital flows of an increasing scale. At the same time, our limited experience in dealing with a less traditional' turmoil which is not related with current account problems, led us to an initial underestimation of its effects on the world economy. There are some important lessons to be drawn from the recent instability of the international economic system:

- We must confront with the fact that since the international economic system is vulnerable to crises, domestic policies should take into account the uncertainty and volatility of the economic environment. Coping with the instability of the global economy requires credible and consistent policies. In this context, greater transparency is a prerequisite, especially for all financial institutions.
- The domino effect of financial disturbances tends to become stronger as a result of the growing interdependence of national economies, the increase in cross-border capital flows and the rapid technological progress. As the cost of a financial disturbance increases, so does the benefit of preventing it. In that respect, we must carefully reflect on ways to strengthen and reform the prudential supervision of the international financial system, including the imposition of new international legislation if this is deemed necessary.
- Not all countries affected by a financial turmoil necessarily follow bad economic policies. Good economic fundamentals and sound policies is a necessary but not a sufficient condition for protecting an economy from a financial contagion effect.
- In most cases, however, the economies that suffered from the current financial disturbances were facing deep structural weaknesses that need time to be cured. In the short term, it is the task of the international monetary system to alleviate the effects and the spread of the crisis. To that end, more resources for the IMF are essential. This is a matter of utmost urgency.
- According to many commentators, the rather limited success of the IMF in managing the current crisis has created certain credibility problems that weaken the impact of its intervention on risk perception. In order to reinforce the central role of the IMF in the smooth functioning of the international monetary system, we should carefully reflect on whether it is adequately designed in order to cope with the current economic environment. Apart from enhancing its resources, strengthening its political governance by transforming the Interim Committee into a Council would significantly improve the credibility and efficiency of the Fund.
- The stability of the international monetary system is a public good and, as such, it cannot be established by market forces alone. Better coordination among governments, international financial institutions and the private sector are essential. The launch of the single currency in Europe, the Euro, will improve the stability of the economic environment for Member States. On the one hand, the convergence process of Member States led to an improvement of their fundamentals. On the other hand, the size and compactness of the euro area will limit the Member States exposure to

financial turmoil. Economic policy coordination within the framework of the Stability and Growth Pact, combined with the price stability objective of the ECB, will further reinforce the euro. The emergence of a new strong international currency will contribute to the stability of the international monetary system. The increased responsibility of the EU for the smooth functioning of the international monetary system requires that its role in crisis management is enhanced. The impact of the international crisis on the Greek economy is limited. Greek exports to all those countries hit by the crisis account for just 0.2 percent of GDP and there is virtually no exposure of our banking system. Moreover, any loss in external demand is being compensated by domestic demand which is driven by the high level of investment growth. The more or less symmetric effects of the current crisis on Greece compared to the rest of the EU countries indicate the upgrading of Greece from an emerging to a pre-euro economy. The markets' perception is based on the substantial progress made towards convergence with the EU as well as on the successful participation of the Drachma in the ERM since March 16. As it was announced in the September Informal ECOFIN Council, the Greek Drachma will also participate in ERM2 as from 1st January 1999.

The performance of the Greek economy over the 1994-98 period indicates rapid convergence toward the European Union average economic performance in both nominal and real terms. Greece aims at joining Economic and Monetary Union by 1.1.2001.

The fiscal consolidation effort which begun in 1994 resulted in gradually reducing the size of the general government's deficit by almost 11 percentage units of GDP by 1998. The size of fiscal consolidation achieved is almost three times larger to that accomplished by the rest of the EU member countries over the same period. The general government deficit in Greece is estimated at 2.4 percent of GDP in 1998.

At the public debt front, the generation of large primary surpluses in the state budget since 1994 enabled the debt ratio to decline from 111.6 percent of GDP in 1993 to 106.7 percent in 1998. The downward trend in the debt ratio is set to accelerate in the coming years.

The progress achieved so far in combating inflation has also proved remarkable. Inflation has been reduced by 9.6 percentage points from 14.4 percent in 1993 to an estimated 4.8 percent in 1998.

The overall economic policy stance in 1999 will remain tight. In particular, fiscal consolidation will continue with the general government deficit set at a lower level than the 2.1 percent of GDP envisaged in the convergence programme. Budget savings will be mainly achieved by containing public expenditure.

The third stage of EMU is not solely about nominal convergence. What matters most over the longer term is real convergence. Over the eighties and

early nineties Greece has experienced stagnant and even negative rates of growth. Starting in 1994, however, this retarding process was reversed and the country has already entered a period of higher growth leading to real convergence with EU. Growth rates of the order of 3.5 percent to 4 percent are projected for the years ahead, based on fiscal discipline, price stability, a high investment ratio and structural reform. In particular, Greece is experiencing very high rates of investment growth with beneficial effects on employment and productivity. Productivity is further reinforced by the introduction of flexibility enhancing labor market reforms, the implementation of an ambitious privatization programme, the restructuring of loss making public enterprises as well as the improvement of public sector's efficiency, especially in health, education and employment policies.

Our Government is committed to continue pursuing policies that favor stability, growth and employment while reinforcing social cohesion. In so doing we prepare Greece to face successfully the challenges of the 21st century in the context of a unified Europe and a dynamic global economy.

ICELAND: HALLDÓR ASGRÍMSSON

Governor of the Bank

(on behalf of the Bank Nordic Countries)

I am honored to speak on behalf of the Nordic Countries, Denmark, Finland, Iceland, Norway and Sweden. At the outset, allow me to extend a warm welcome to the newest member of the World Bank, The Republic of Palau.

The Financial Crisis and the World Economy

During the last 15 months the world economy has experienced serious financial upheavals. Nobody expected events of this magnitude and it is disturbing to note how grave the economic and social consequences are turning out to be. As a consequence of the Asian crisis, world economic growth has been severely weakened.

Output in 1998 is now projected to increase by only 2 percent, followed by a moderate rebound in growth in 1999. While the crisis in East Asia still deepens, emerging markets in other regions experience a growing pressure on their economies. Adverse terms of trade developments have contributed to serious financial market instability in Russia and reduced growth prospects in Latin America. Considerable uncertainty remains about the near-term outlook for the world economy and it is yet to be seen to what extent the crisis will spread to other regions. Western Europe and North America also risk to be more seriously affected.

The Asian crisis can not be solved through financial flows alone. We need to attack the crisis through an integrated approach, addressing both the structural problems and the severe social consequences. To establish conditions for

renewed growth in the regions, investors' confidence must be restored through sound economic policies, firm bank and corporate restructuring, and strong commitment to address governance issues. We expect the international financial institutions to be a trusted partner in this endeavor, while the main responsibility will lie with the countries themselves. We welcome Bank efforts to protect the poor and vulnerable and stress that even further strengthening of Bank involvement is needed to meet the deteriorating social situation in many crisis countries. The economic turmoil in Russia has called for extensive assistance from the international community. To improve the situation in Russia, continued assistance is needed, but more importantly, vital structural changes must be implemented. The initiative is therefore on the Russian side and the Russian government should demonstrate its willingness and ability to take decisive reform action before additional financing from international financial institutions is provided.

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

The Partnership Agenda

Development cooperation has been characterized by a multiplicity of actors, with each actor practicing its own development agenda. Today, development work is increasingly influenced by private sector involvement, participation of the civil society, and the reinforced role of national and sector strategies. Furthermore, the efficiency of development assistance has suffered from a lack of donor coordination. Therefore, strengthened cooperation between actors is needed more urgently than ever and we appreciate that the concept of partnership in development is gaining momentum. The Nordic Countries welcome and strongly support the World Bank's partnership approach. We commit ourselves to be active participants in this effort and urge other actors to do likewise.

One of the cornerstones of the partnership concept is the ability of the developing countries themselves—their public, private and civil institutions—to be at the core of the development process. Institutional capacity building and human development must therefore be essential ingredients of the partnership agenda.

Partnership is an important means to reach goals in our cooperation. If applied on a country-by-country basis, partnership can help us improve the

development effectiveness of our joint work. When entering the new millennium development cooperation should be characterized by more consistency and coherence in the way development cooperation is delivered.

The Strategic Compact

The partnership agenda is an important element of the Bank Group's renewal process. The Nordic Countries continue to be strong supporters of the Strategic Compact and we appreciate the progress already made to fulfil its objectives. The Compact is a central piece in the Bank Group's effort to adapt to the development needs of the 21st century and we will follow the progress closely in the months ahead.

Private Sector Development

Let me use this opportunity to highlight one issue which the Nordic Countries find crucial for this work. That is the World Bank Group's participation in promoting and supporting appropriate partnership between the public and the private sector in developing countries. In this context, each unit of the Bank Group has a special role to play. We are pleased that MIGA has adopted policies that enhance its development impact, and that the resource constraints of MIGA have been removed. But more needs to be done. We have on several occasions expressed our concern about the lack of an overriding private sector policy for the World Bank Group. We expect to see concrete actions on this issue shortly and look forward to seeing the Bank Group apply a holistic private sector approach.

Debt Relief

I would briefly like to touch upon two issues that the Nordic Countries regard as particularly important in the work of the World Bank Group. Firstly, let me reiterate our strong support to the HIPC Initiative. Currently, Nordic countries have contributed more than 40 percent of the funds to the HIPC Trust Fund and we emphasize the need for equitable burden sharing. The Nordic countries welcome the extension of the HIPC entry deadline which can enable more countries to seek to join the Initiative. There is, however, an urgent need to accelerate the pace of the HIPC Initiative. The Nordic countries encourage the Bank, as well as donor countries, to identify means to increase the efficiency of the Initiative. We welcome the work aimed at enhancing assistance to post-conflict countries. The Bank should proceed with this work and the Nordic countries urge other actors to do their part. We expect to see a strategy presented to the Development Committee at its 1999 spring meeting.

IDA 12

Secondly, it is central to World Bank activities to continue the mission of IDA—to improve the lives of the world's poorest people. We must continue to pay full attention to the long-term needs of the poorest countries in spite of the restraints caused by the current financial crisis. The Nordic Countries remain

strong supporters of IDA and we underline the importance of sufficient funding for its Twelfth Replenishment. At the same time we emphasize fair burden sharing.

Development cooperation is most effective in countries that are committed to economic and social reform, and sustain sound development policies. Consideration of such commitments should be an essential element in the allocation process. We also urge IDA to strengthen its focus on improved governance. In this context, a more elaborate strategy is needed to enable IDA to assist poor performers, thus creating a foundation for positive development towards better governance.

Africa

Finally, allow me to mention that during a recent visit to Southern African I was pleased to learn more about growth of democracy and improving economic performance in the region. At the same time I must express my concern over serious setbacks in countries experiencing civil unrest. To prevent this development from spreading and thus threatening economic and social achievements in other countries, the security situation in Africa must be stabilized.

The falling ODA-flows have hit the African countries hard. The Bank Group has a responsibility to assist them to reduce poverty through broad-based and sustainable growth. We call for the Bank and donors alike to increase their focus on Africa. A demonstrated commitment is needed, as well as a better, and more coordinated, use of resources. We also stress the need for increased investment and strengthening of the private sector. Furthermore, stronger emphasis must be given to human development through the provision of basic education and health services. These goals will be difficult to accomplish. But the plight of Africa deserves our special attention, and the Bank Group must continue to be strongly involved in all of these areas central to the resurgence of African economic performance.

Poverty reduction and long-term structural development continue to be at the heart of Bank Group operations. At the same time it must respond strongly to the still evolving financial crisis. The challenge ahead is to overcome the economic turmoil and create a transparent and responsive international financial system, which prevents similar occurrences from happening in the future. The World Bank Group must define its role within this system and clarify how it can best continue to deliver upon its development agenda and improve the effectiveness of its work.

INDIA: YASHWANT SINHA
Governor of the Fund and the Bank

Let me join my fellow Governors in congratulating you on your taking over the chairmanship of the 1998 Annual Meetings.

Let me also take this opportunity to congratulate Michel Camdessus and James Wolfensohn for the tremendous efforts they are making, despite all odds, through the IMF and the World Bank during these trying times for the global economy.

This Annual Meeting of the World Bank Group and the International Monetary Fund is of crucial significance. It provides a timely forum for evolving a strategy to deal with the serious crisis confronting the world economy. Both the Fund and the Bank have responded with commendable speed to the Asian crisis. However, although more than year has now been spent on the struggle to achieve a turn around in the crisis-ridden economies there is, thus far, little ground for optimism. For the crisis-hit East Asian economies real GDP growth rates in 1998 are predicted to be negative, ranging between 5 and 6 percent in some countries to over 15 percent in the case of Indonesia. These economies will continue to incur massive social and economic costs in terms of lost output, rising unemployment and growing poverty. The social and economic stress on these countries is truly awesome. Moreover, entire regions of the world economy now appear vulnerable to significant risks and uncertainty arising from the contagion that seems to be spreading with every passing day. Economies hitherto deemed immune from the spillover of the crisis are no longer projecting reassuring robustness in their medium term economic prospects. In fact, we may be at the edge of a full-blown global recession.

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

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

On the other hand, the present crisis has also highlighted the need to maintain and, indeed strengthen, the capacities of the Fund and Bank to discharge

their normal, traditional functions of temporary balance of payments support and long-term development financing. Much of the financial help mobilized by the Fund and Bank in the present crisis has effectively been by way of liquidity support with the objective of stemming financial panics. Given the unprecedented financial commitments made, economies that are presently outside the envelope of the contagion, have reason for feeling vulnerable if the situation was to take a turn for the worse. This, in itself, may have adverse implications for external confidence in these economies. This must not happen.

In working towards a new financial architecture, we must deal effectively with a wide range of issues. Let me emphasize a few points: First, while greater transparency and disclosure of financial information could clearly be helpful, the responsibility for transparency must be symmetric. Large private financial institutions (including hedge funds) must also follow higher standards of disclosure. Second, the search for international Codes of Conduct or Practice in fiscal, financial and monetary dimensions should eschew one-size-fits all norms, which do not allow for differences among countries in institutional development, legislative framework and stages of development. Third, the resources of multilateral institutions must be augmented quickly so that they can play a more effective role in coping with the new kinds of crisis posed by high levels of mobile private capital. Fourth, the imperative for strengthening domestic supervision and prudential norms must be extended to private lenders in international financial centers. Fifth, the sequencing of capital account liberalization must be carefully predicated on the strengthening of national fiscal and financial systems. Restraints on short term capital flows should be viewed as prudential norms.

We support the HIPC initiative and have noted its progress with satisfaction. We welcome its extension and widening of coverage. We also support the initiative to assist the Post-Conflict countries and the proposal to establish the Trust Fund for this purpose. The increasing cost, however, remains a concern. To ensure optimal use of the facility, tighter eligibility criteria linked to investment in human resources and effective monitoring of the assistance that is provided may be required. We advocate the need for greater role of the bilateral creditors in its funding. The trade-off between the resources devoted to this purpose, and the assistance available to other peace loving countries for their development needs has to be kept in mind.

We reiterate that there is urgent need to evolve guidelines so as to limit the pressure on IBRD's Net Income. Thus far, the emphasis has almost entirely been on imposing higher lending charges to increase revenue. This, of course, increases the cost of borrowing from the Bank by the poorer economies. Therefore, it is important that principles of burden sharing be deployed for financing such initiatives as HIPC and Post Conflict Assistance. We hope that when the decisions regarding funding reached in July on the basis of voting are revisited in a year's time, a consensus based on equitable burden sharing would be reached. This may entail using incremental costs, including those for

new programs for determining the voting strength of contributing member countries.

Let me take this opportunity to apprise this distinguished gathering of the recent developments in the Indian economy. Since the early 1990s, we have made far reaching progress in addressing underlying structural distortions in the economy and encouraging private sector activity. Trade and tariff reforms, financial sector liberalization, and the opening of the investment regime prompted a strong supply response. The real economy grew at an average annual rate of over 6½ percent in the last three years; export growth was buoyant for most of this period; and the share of foreign trade to GDP rose sharply. Concomitantly, the external position continued to remain easily manageable. The current account deficit was modest; foreign direct and portfolio investment inflows increased strongly over much of the period; and external debt parameters continued to improve.

In 1998/99, although the external environment will be decidedly adverse, we are confident that under the circumstances, the Indian economy will perform creditably. Growth is expected to be in the order of 6–6½ percent, the current account deficit is expected to be a little over 2 percent of GDP, the debt service ratio will continue to decline and sound external debt management has meant that short-term liabilities constitute less than 6 percent of our aggregate external debt. Foreign exchange reserves are expected to remain at a comfortable level and will provide for an import cover of about 6 months. However, more recently we have not entirely been spared the spill-over effects emanating from the continuing Asian financial turmoil. Against the backdrop of anemic world trade performance, our export growth has also suffered, in particular because East Asia accounts for about 20 percent of India's exports. Moreover, given the retreat of global stock markets, the impact on financial flows through portfolio investment into India has also been affected. However, thus far the outflow has been modest in comparison to other economies in the region.

We have continued to press ahead with our far-reaching reform agenda. We have strengthened prudential norms and supervision practices of our financial sector. Our foreign trade policies have been liberalized further. Capital market reforms have continued. Policies for foreign investment have been further liberalized. Major reforms have been enacted to promote investment in infrastructure sectors such as power. A new modern law on foreign exchange management has been introduced in Parliament. We have undertaken wide-ranging initiatives to spur investment in housing and information technology. We are pressing ahead with our programs for privatization of and disinvestment from our public enterprises.

Mr. Chairman, all these reforms are aimed at accelerating the growth of output and employment and thus lifting millions of households from the scourge of poverty. The difficult global environment has strengthened our resolve to conquer adversity and press forward with rapid economic growth with equity.

INDONESIA: BAMBANG SUBIANTO

Governor of the Bank

Mr. Chairman, honorable delegates, ladies and gentlemen, it is an honor for me to address for the first time these Annual Meetings of the World Bank and the International Monetary Fund. Let me first touch upon the East Asian crisis. Since the last Annual Meetings, the crisis has become more severe and widespread in ways that no one would have anticipated. While a measure of financial stability has been restored in some Asian countries, the recovery is not in sight yet. On the contrary, the ripple of the crisis has reached far into other corners of the world.

The continuing crisis has raised concerns about the future prospects of some of these Asian countries and their impact on the global economy. Their remarkable past achievements in economic and social development, particularly in alleviating poverty, are now in danger to be wiped out suddenly. These countries are now facing a very challenging task to protect these hard-earned achievements and prevent masses of people from being thrown back into poverty. For Indonesia, the crisis has brought more than adverse economic consequences. In this connection, I would like to reaffirm the strong commitment of my government to continuing the economic reforms despite the difficult social and political environment in the country.

Our economic stabilization and reform program consists of four main elements: to restore confidence and reform financial institutions; restructure private sector debt; improve efficiency and competitiveness; and strengthen public and corporate governance.

To restore the confidence of depositors in the banking system we have provided a comprehensive guarantee to all bank depositors and creditors. Although high interest rates pose a heavy burden for the business sector, they are essential to encourage people to put their money back into the banks in line with our effort to control inflation and bring the exchange rates to a more sustainable level. Liquidity will be relaxed gradually if rupiah strengthens and the inflation rate declines. Banks that no longer meet the standard banking requirements are placed under the control of the IBRA (Indonesian Bank Restructuring Agency). Out of 55 banks placed under IBRA, 10 were suspended, 4 were taken over by IBRA (through recapitalization), and the remaining will be recapitalized. Other banks not placed under IBRA will also be recapitalized.

The second element of our stabilization and economic reform is solving the debt problem of the private sector. In this regard, we have reached a framework for debt agreement with external creditors to restructure corporate and inter-bank debt. Companies that are unable to fulfill their debt obligations are required to enter the bankruptcy process through a special court. In this regard, the House of Representatives has recently approved the new bankruptcy laws which provide a basis for resolving commercial disputes fairly, transparently and rapidly.

More recently we also have formulated the restructuring framework to promote the resolution of private debt, known as Jakarta Initiative. The measures include improvements in the laws and taxation with a view to supporting the restructuring process. With these frameworks, we expect the flows of bank financing will be restored to normalcy, productive activities revived and job opportunities recreated.

The third element of our program concerns the real sector. Here we are removing various elements or procedures that give rise to economic rents and inefficiencies such as by abolishing licenses. Meanwhile the awarding of business licenses, contracts, or procurement of goods and services by the government and State-Owned Enterprises (SOEs) will be carried out openly and competitively. We also strive to create a climate of fair competition to strengthen our productive sector. Furthermore, we expect to complete a competition law this year.

The fourth element is improving corporate and public governance. To improve corporate governance, we need to have better monitoring by both banks and capital markets through improving transparency and disclosure and by adopting stricter accounting practices. The government bureaucracy will be developed into an organization that is capable to carry out efficient conduct of governance and public service provision, free from intervention and political influence.

All of our endeavors to reform and reenergize our economy will not be successful without the assistance from our development partners in economic recovery and social safety net programs that we undertake in order to help the lower income group. In this opportunity, I would like to express our appreciation for the immediate responses of the international community in providing financial support to Indonesia as well as in helping our government address the social consequences of the crisis.

The emergence of financial crisis in Asia has again underscored the importance of close monitoring of the financial system. Improved collaboration through an early sharing of information and close cooperation between the Bank and the IMF remains of vital importance. We encourage the Bank to further strengthen its collaboration with the IMF in the future while maintaining its mandate which is promoting sustainable poverty reduction and economic and social development. In this regard, the Bank's ability to carry out such a mandate would depend on the ability of the resources. Therefore, all shareholders should consider all options including general capital increase in order to strengthen the financial capacity of the Bank.

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

Let me conclude by expressing our appreciation again to the World Bank and the International Monetary Fund for their contribution in our development efforts. We look forward to a closer development partnership in the years to come.

IRAN: HOSSEIN NAMAZI

Governor of the Bank

We are meeting at a time when the risk of a major slowdown of the world economy has increased. It is, therefore, imperative that the Bretton Woods institutions adopt a very coherent and comprehensive approach to prevent the further widening and deepening of the recent crises. It is encouraging that the Bretton Woods institutions are actively examining their policy responses to recent crises, in particular the financial turmoil in Southeast Asia. It is hoped that these reviews will render their assessment of policies for stability and growth less deterministic. Indeed, a review of the doctrine that there is only one unique set of “good” policies that generate stability and growth, is in order. It seems more reasonable and empirically valid that countries—with different economic structures in different stages of development, with varying degrees of constraints on their infrastructure and institutions and with different capacities to respond to external shocks—may adopt different but effective paths to economic stability and growth. The efficiency and consistency of these paths should be assessed against the unique position of each country and the goals it has set for itself rather than forging one-size-fits-all policies.

The Bretton Woods institutions seek to adopt a unique set of “good” or “sound” policies to bring about economic convergence in developing countries. In this context, an essential point is that the behavior of developed countries in the developing world is not being assessed properly. One of the main reasons behind the prevailing financial crises in certain of the developing countries is the unfavorable treatment by the developed countries toward the developing world, once policy reforms recommended by the Bretton Woods institutions are in place.

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

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

that strong safety nets are in place should their economies be subjected to shocks in the process.

We reiterate our support for IDA replenishment and urge rapid approval by the members of the quota increase and the special allocation of Special Drawing Rights . It must be noted, however, that even these additional resources may not prove adequate for the needs of the global economy. The large shareholders should explore all possible ways and means of strengthening the financial resource bases of these institutions to allow them to carry out their mandates. It was, after all, the intent and the purpose behind the creation of these institutions that they would be in a position to prevent and/or resolve crises before they gather enough momentum to pose serious risks to the stability of the international economic and financial systems.

I deem it appropriate here to point out that “economic issues” have been the main focus of the founders of the Bretton Woods institutions. It is, therefore, imperative that these institutions, by adhering to the principles explicitly stipulated in their Articles of Agreements, concentrate their efforts on insuring that those principles materialize. Political considerations that interfere in the decision-making of the Bretton Woods institutions leads to discriminatory treatment against some member countries, which is neither acceptable nor in line with the objectives of these institutions.

The recent crises have led to a collapse of the prices of oil and other commodities. The adverse impact on our economy has been severe at a time when stabilization policies were paying dividends in terms of lower inflation. In response, we have taken steps to adjust to the new market realities. For the medium term, we intend to follow a reform program announced by President Khatami in August 1998. This program provides a comprehensive solution to attain greater social justice and economic recovery. Among the objectives of this program are:

- Greater transparency in the macroeconomic system and regulatory frameworks;
- budget reforms;
- tax reforms;
- downsizing of the government’s role in economic activities and privatization of government enterprises;
- promotion of private investment;
- dismantling of monopolies and promoting of competition;
- price liberalization in all but a handful of products for which the government will subsidize specific quantities; and
- a social safety net to protect those most vulnerable.

Once fully operational , the program will pave the way for the full integration of the Iranian economy in the global system.

IRAQ: HIKMAT M. IBRAHEEM AL-AZZAWI

Governor of the Fund

Mr. Chairman, Governors, ladies and gentlemen, I am honored to greet you on behalf of the Iraqi delegation and to express our wishes for continued success to you, Mr. Chairman, and to the managing director of the IMF, the president of the World Bank, and the governors attending this meeting today, in your efforts to achieve the goals pursued by the international community, and by the Bretton Woods institutions in particular.

Mr. Chairman, over the past eight years, whenever the Iraqi delegation has been able to attend these meetings, it has pointed out the contradiction between the economic sanctions imposed on Iraq, along with the freezing of its assets and bank deposits, and the economic principles advocated by the Fund's Articles of Agreement. We have tried to bring to light the economic and social effects of these sanctions on the lives of the Iraqi people, especially children and the elderly. The sanctions deprive our people of the chance to lead a decent life and prevent them from choosing a path to development that is in keeping with their environment, philosophy, social system, and the independent life they choose to live.

Throughout this period, the Iraqi delegation has called on the Bretton Woods institutions at the annual meetings of IMF governors, finance ministers, and governors of central banks to do their utmost to remove the economic sanctions against Iraq, relieve the suffering of an entire people, and stop the human catastrophe caused by long years of deteriorating conditions with no end in sight. Yet, despite our urgent appeals, economic sanctions against the Iraqi people remain in effect.

The leaders of the Bretton Woods institutions have faced great challenges and, in keeping with the principles of their articles of agreement, have endeavored to overcome the problems besetting the world economy, while at the same time working to strengthen the structure of the international monetary system. They dealt with the problem of indebtedness that emerged in the 1980s by reducing the debt burdens of the poorest countries, and helped prevent the Mexican crisis in 1994 from spreading to nearby countries and other economies. These institutions have persisted in the struggle against world poverty and have continued their efforts to improve living conditions in the poorest countries through improved health and educational services and technical assistance aimed at overcoming the most urgent problems in these countries. They have announced their determination to help achieve sustainable world growth, to fight corruption, promote the transparency and timeliness of information, and to meet the challenge of the Asian economic crisis by providing financial and technical assistance to mitigate its effects.

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

Regardless of our agreement or disagreement concerning the methods for dealing with and resolving these problems, we must surely agree that sanctions against any country are in conflict with the principles adopted by the international community and its institutions, particularly the Bretton Woods institutions. Are economic sanctions and the freezing of bank deposits not in conflict with the call for liberalization, strengthening the international monetary system, convertibility, and integration of the world's financial markets? Are sanctions not in conflict with attempts to improve the living conditions of the poor in developing countries? Ladies and gentlemen, are sanctions not in conflict with the goal we defined during the annual meetings in 1996: working together to achieve sustainable world growth? Are sanctions not in conflict with efforts to reduce the burdens of indebtedness?

Mr. Chairman, Governors, I am speaking not only of the sanctions imposed upon the Iraqi people and their harmful effects upon an entire nation, a nation that had a pivotal role in advancing human civilization, a nation that participated effectively in building its economy, promoting its development, and improving its standard of living from the 1970s until sanctions were imposed, and that even provided financial and technical assistance and concessional loans to a number of developing countries in Africa, Asia, and Latin America. I am speaking here of sanctions that are being used as a political weapon against particular countries, in conflict not only with the articles of agreement of the Bretton Woods institutions, but also with their principles and announced policies, and with the desires of the world community to promote development, fight poverty and hunger, and achieve a world in which justice and peace prevail.

Ladies and gentlemen, I stand before you today, asking the world community and the leaders of the Bretton Woods institutions to announce a bold and straightforward position on economic sanctions, based on their articles of agreement and on the principles and policies aimed at strengthening the international monetary system, fighting poverty, and promoting development.

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

IRELAND: CHARLIE MCCREEVY
Governor of the Fund and the Bank

The past year has been exceptionally difficult and demanding for both the Bank and the Fund with the continuing difficulties due to the East Asian crisis,

and new pressures arising from events in Russia and other emerging market economies. The fallout from these crises threatens the progress which we have made on development and poverty reduction over the past two decades. In an increasingly integrated world the effects of these events have spread beyond the countries and regions concerned. It is imperative therefore that the international financial institutions redouble their efforts to bring stability to the global financial and monetary system, so that producers and investors can be confident of a return to normal trading and investment patterns. Resolving the difficulties in Russia, reviving growth in South East Asia and minimizing contagion effects are all vital ingredients.

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

It is now recognized by all that the key to economic and financial stability, both domestically and internationally, is the pursuit of policies based on price stability and balanced budgets, in an open market economy which favors an efficient allocation of resources. Sound policies will recognize a number of core principles:

- the most vulnerable groups in society must be protected, to the extent possible, in times of economic turmoil and financial turbulence;
- the private sector must bear its fair share of the overall burden of adjustment in support of strong economic reforms for countries in economic difficulty;
- transparency of information and in decision-making is a key element in efficient economic management. The urgent attention which these present crises demand should not deflect us from parallel consideration of the enormity of the challenges facing under-developed countries. The eradication of poverty and the integration of Africa into the world economic, financial and trading systems should remain central to all our concerns.

Policy on Third World Debt

I welcome the emphasis which the Fund and the Bank are continuing to give to the problem of Third World debt. The Irish Government fully supports the efforts to bring the deepest possible level of debt relief to the poorest countries. My Government has recently adopted a set of principles which will

govern Ireland's policy towards Third World debt. In brief, the principles seek to ensure that debt relief measures take full account of the social dimension, embrace widespread consultation in the countries in question, and encourage sustainable economic development.

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

In calling for deeper debt relief and wider and speedier application of the debt initiative my Government has decided to provide £11 million to the World Bank's HIPC Trust, and also to provide £4 million to the IMF's ESAF/HIPC Trust. These resources are additional to £9.5 million that has already been committed by Ireland to Mozambique and Tanzania for debt relief.

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

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

I am heartened by the recent trend in both the Bank and the IMF to involve civil society in the developing countries more fully in the planning, design and implementation phases of IMF/World Bank programmes. Successful implementation of programs will also be facilitated through greater transparency in the workings of the Bretton Woods Institutions.

Summary

We must all recognize that the Bretton Woods Institutions have, since their establishment, served the international community well. Their record of

achievement has been outstanding. Recent crises have raised awareness of how vulnerable emerging economies can be in the face of sudden shocks. The Irish Government looks forward to working with the Fund and the Bank in strengthening the architecture of the international monetary system, and especially, helping to resolve the problems of the most heavily indebted poor countries.

ISRAEL: JACOB A. FRENKEL

Governor of the Bank

Mr. Chairman, distinguished Governors, Mr. Michael Camdessus, Managing Director of the International Monetary Fund, Mr. James Wolfensohn, President of the World Bank Group, delegation members, ladies and gentlemen: it is a great honor to address you once again as Governor for Israel.

The world economy is in a period of increased uncertainty and growing risks. Many emerging markets have experienced storms and crises. Capital markets have dried up and spreads have risen to new heights. The level of uncertainty is evident also from the extraordinary large revisions in forecasts regarding the state of the world economy. The September World Economic Outlook projection of world output growth is 2 percent, and world trade volume is now expected to grow by only 3.7 percent, as compared with the May 1998 projections of world output growth of 3.1 percent and expansion of world trade by 6.4 percent. These downward revisions reflect the rapid changes in the shape of the world economy. Yet, this changing external environment should not affect every economy in a similar manner. We are once again reminded about the critical importance of fundamentals such as sound macroeconomic policies, structural reforms, sound banking and financial institutions, the development of markets for the intermediation process and the trading of risks, while avoiding moral hazard. The increased fluctuations in financial markets around the globe and the high costs of the crisis for those countries involved, underscore once again, the importance of conducting policies that are designed to achieve stability as a necessary condition for sustained growth. Yet, because all countries belong to the "global economic system," good domestic policies do not always provide the guarantee that each and every economy is shielded from storms that originate by systemic difficulties and by foreign misconduct of policies. This interdependence has heightened in recent years by the high degree of integration of capital markets. Many difficulties are systemic and systemic problems require systemic solutions. The multilateral organizations provide the best and most appropriate framework for dealing with such global issues.

We live in a globalized world. Globalization is much broader than that of markets, it is also a conceptual globalization about the institutional structure, the legal structure, knowledge, information, norms, and understanding of what good economics means.

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

Under the leadership of the multilateral organizations, the world has greatly benefited from the removal of protection walls and from adopting the strategy of openness. The test of the commitment to this strategy comes during a period of a slowdown as the one that is prevailing today, and then it is important to remember that it remains very wise and crucial to maintain open markets and resist the temptation for an inward looking approach that breeds protectionism and capital controls. In this era of globalization there is great opportunity for countries to increase investment, improve technological developments, and increase domestic competition by opening their markets to global competition and opportunities. In the global world, capital markets are intolerant to policy mistakes and are generous to good policies. Therefore, the incentive to policy makers to pursue the right policies increases when the economy is open to capital flows. In the old days it used to be said in the capital markets that in the competition big fish beat small fish. Today, fast fish beat the slow ones. The issue is not whether one is big or small, but whether one is fast or slow, and this gives incentives to adopt structural policies that enhance the flexibility of the economic system, and provides opportunities to small countries like my own, Israel, to successfully participate in the world capital market. The new openness also requires a new approach to the supervision of banks and other financial intermediaries (including hedge funds), as well as renewed attention to the operational meaning of the social safety nets.

The globalization of capital markets has changed the thinking about the concept of time. What used to be a distinction between the short and long runs, has become very blurred because the job of well functioning capital markets is to translate the future into the present. Capital markets trade expectations about the future and thus transform it into the present. This conceptual revolution has made the short run indeed very short and much less relevant for policy makers. Policies must be consistent with the long run. One cannot “buy” sustainable growth by accelerating inflation but rather inflation means in the long run less growth. We have all learned, therefore, that economic policy must be cast within a medium-term framework, that “fine tuning” does not help, and that sustainable growth can only be obtained under conditions of stability.

There is also a fundamental change in the relation between policy makers and the markets. In the old days, in order to be successful as a policy maker you had to surprise the market, you had to have your deliberation very secret and to announce it over the weekends, when the markets are closed, and if there was a leak then you failed. This is not the case any more. In the global economy, where markets are so big and strong, one must respect the market

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

In the era of global markets it is important that governments do not provide a sense of insurance to market participants without charging the appropriate insurance premium. In a risky world, agents in the market are operating according to incentives. If the government provides the message, implicit or explicit, that it stands ready to bail out, then of course the private sector will tend to assume risk to a degree that is excessive from the society's perspective. It is true in every area, including the foreign exchange markets. A promise to fix the rate of exchange against market forces which reflect the "fundamentals" can not be sustained but still may induce market participants to take foreign exchange positions that are inconsistent with the "true" risk in the system, just because they assume to be protected by the government. A strong financial system, including a sound system of financial intermediaries, including banks and other intermediaries and developing mechanisms where risk is priced correctly by market forces, are crucial not only for financial stability but also for the real economy. In this context it is important to note that there is great importance to deal with difficulties in a timely manner as to avoid the "too big to fail" syndrome, deal with it appropriately.

In my own country, Israel, we worked to prepare the economy to the changing world and to increase stability in a multi-year setting. In Israel we have adopted a multi year trade liberalization process, a multi year budget-deficit reduction scheme, and a multi year inflation targets. This approach has served us very well. The real budget deficit as a fraction of GDP is being reduced according to the preannounced path, a 2 percent deficit in 1999, as was recently approved by the Cabinet, and 1.5 percent deficit by 2001, and the basic aim is to limit and reduce the tax burden. The inflation target was set at 4 percent for 1999, with further progress towards price stability in subsequent years. Thus, economic anchors were set both in terms of structural policies and macroeconomic policies. These policies are complementary and work together to increase both flexibility and stability to the economy.

In 1997, and the first half of 1998, these important positive developments that are noteworthy: the current account deficit was cut from a critical level of 5.4 percent of GDP to 3.3 percent in 1997 and is continuing to decline in 1998. This improvement in the current account deficit was made possible by fiscal tightening, the budget deficit was reduced from 4.7 percent of GDP in 1996 to 2.8 percent in 1997, and the target for 1998 is 2.4 percent. The inflation rate in Israel was reduced considerably from 10.6 percent in 1996 to 7 percent in 1997 and is likely to be significantly lower percent this year. In parallel to these positive developments the economy is slowing down, growth amounted to 2.2 percent in 1997 and is estimated to be between 1.5 and 2 percent in 1998, unemployment rose to 7.7 percent in 1997 and is estimated to reach 9.3 percent in 1998.

There are several reasons for the slowdown in the economy. The period of rapid growth, of around 6 percent per year in real terms, in the first half of the decade, was made possible by an expansionary impulse of immigration, that came in large numbers primarily from the former Soviet Union. In addition to the end of this expansionary impulse, especially in investment (including housing) and consumption, several factors contributed to the slowdown. Tight macroeconomic policies were needed since 1997 because of the large budget and current account deficits in previous years. The economy is undergoing a structural change from the more traditional industries toward the high-tech markets. In addition, with the restoration of geopolitical stability in our region and with further progress in the peace process we all hope that such stability will be the positive elements of the economic processes and will be reinvigorated.

By making in time the necessary correction in the current account, the budget, and the rate of inflation Israel undertook a strategy of adopting a medium term approach and of preparing itself to the new opportunities of being a player in the global markets. This year on the occasion of the 50th anniversary of the state, the Government of Israel together with the Bank of Israel announced fundamental liberalization of foreign exchange control. This culminated a multi-year effort to remove controls, developed financial markets, while adapting the appropriate regulatory requirements including the evolution of the exchange rate system. Controls were lifted and except for a limited list of restrictions, activities in foreign exchange are freely allowed. This underlines the strategy to increase competition, increase openness, avoid protectionism of all kinds, and conduct policy in a manner consistent with the long term perspective for achieving sustainable growth with stability.

We are not users of Fund resources, but we benefit from the Fund's advice. I would like to express our appreciation to the Managing Director of the Fund, to the President of the World Bank, and to their dedicated staff. I wish them success in addressing the present turmoil and I am confident that under their leadership the battle will be won for the benefit of the entire world economic and financial systems. Finally, I would like to thank the Executive Directors and the Joint Secretariat, and to wish them all continuing success.

ITALY: CARLO AZEGLIO CIAMPI

Governor of the Fund

The slowing down of economic growth, the financial instability sweeping through key areas of the world, and the sense of grave uncertainty that permeates markets pose great and urgent challenges that are putting our institutions under strain. The world is looking to us for direction and solutions. We must provide them, promptly and effectively. The problems we are facing can be solved, but there is no time for hesitation or disagreement.

Albeit slower, growth is still robust in North America, Europe and China. Other parts of Asia, Latin America, and Africa are also showing continued

recovery. It is imperative that economic crises in other parts of the world are not allowed to spread further.

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

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

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

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

In the first place, they should be provided with the necessary resources. I believe that our first priority is to complete the quota increase of the Fund and put the NAB into effect before the end of the year. It is essential for the Fund to be endowed with sufficient resources to support member countries that follow sound economic policies. This is a feasible goal and, most important, it is in the interest of all of us. Analogously, we should strengthen the financial position of the World Bank, allowing it to continue in its essential development tasks and, at the same time, to help members that face crisis situations arising from, or affecting, their financial markets.

In the longer term, learning from past and recent experiences, we must introduce key changes in the architecture of our financial system. Much has been done in areas such as data dissemination, data standards, and codes of good fiscal practices, but much more still needs to be done.

First, we must reconsider the adequacy of some exchange rate regimes in the areas where they are now utilized, in order to reduce rigidities, encourage early adjustments, and decrease foreign exchange market pressures.

Second, our institutions and resources must be used more effectively. Our Bretton Woods institutions and their regional counterparts, while preserving

their specialized functions and characters, must increase the level of coordination of their approaches and responses to member countries' financial problems.

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

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

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

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

These are our tasks. These are our challenges. Let us face them and work together at their solution.

Let me now turn to Italy: in the last decade Italy has gone through profound changes in its economic culture, to reach what I like to call "the culture of stability." Inflation is now firmly under control at below 2 percent; we are running a significant primary budgetary surplus; the debt-to-GDP ratio is declining; and our currency is stable, thanks also to our joining the Economic and Monetary Union.

These results were not easy to reach, and they have been possible only with the understanding and the full support of the Italian people and the active cooperation of unions and entrepreneurs, who came to appreciate the advantages of stability and accepted sometimes painful sacrifices to reach it.

Participation in the EURO is both the result of this quest for stability and an important step to reinforce it, as we are seeing in the present financial turmoil. At the same time, it is also a commitment to consolidate these results; accordingly, we are pursuing a medium-term objective of a close-to-balanced budget, consistent with a faster reduction of the public debt-to-GDP ratio. Reducing the debt burden is indispensable to enlarging the range of our fiscal

policy options and rebalancing growth and equity objectives in a framework of fiscal stability.

The deterioration of the world economic outlook, combined with some domestic uncertainties, has dampened the Italian economic cycle. The forecast for real GDP growth has been reduced to 1.8 percent in 1998. We still expect substantially higher growth in 1999, about 2.5 percent. More crucially, we are confident that sound macroeconomic policies and pervasive structural reforms will boost the long-run growth perspectives of the Italian economy. In this way, therefore, Italy will contribute to the momentum of the European economy and play its role in world recovery.

However, this is not time for complacency. We must now focus our efforts on addressing Italy's most serious problem: the high level of unemployment. Unemployment, as its territorial distribution reveals, is the result of a deep regional imbalance.

Fighting unemployment, therefore, demands bridging regional differences and harmonizing still distant economic realities. This requires encouraging the south in its effort to grow, removing bureaucratic obstacles, fostering the development of human capital, increasing the skills of the labor force, and providing an adequate infrastructural network. Italian economic development in the past decades has been based on a process of pervasive diffusion of economic activity and new entrepreneurship from West to East, from North to South. Continuation of this positive process will not only guarantee the development of the South, but also represent the foundations of a sustained and prolonged growth for the country as a whole.

Doing this is not simple. There is no single, ready-made solution. Instead, our development strategy has to be based on a variety of policy instruments: a more active and high quality program of public investments; an enlarged financing program to encourage the birth of new firms; an improved coordination among central government, local authorities and the private sector in designing programs and selecting projects. As in the past, it must be anchored to a solid social contract.

The 1999 budget assumes particular relevance in this context. More resources will be devoted to employment growth and solidarity goals by lowering fiscal burdens, stimulating investments, and supporting the poorest.

Increasing market confidence in our policies has reduced the interest rate premia paid on government securities. This process will find its natural conclusion also in the short term segment of the interest rate curve with the birth of the EURO in January 1999. Reduction of tax evasion and tax erosion—which is one of the effects of the recent fiscal reform—has already allowed a lightening of the burden of taxpayers, including the corporate sector, in 1998. The wide-ranging benefits of tax reform will become even more evident in the subsequent years. Public administration reforms, privatization of state enterprises, deregulation, and liberalization will continue to make our markets for goods, services, and credit more competitive.

To conclude, Mr. Chairman, economic policy in Italy will continue to follow the “new policy course” based on social dialogue, macroeconomic stability, and deep-rooted reforms that have helped reshape the role of the State in the Italian economy and set the basis for sustainable economic growth. In Italy, as everywhere else in the world, economic development must be the means to unite peoples and regions. Therefore, we all have the responsibility, political and moral, to insure that growth is not only stable, but that it is shared by all.

JAPAN: KIICHI MIYAZAWA
Governor of the Fund and the Bank

May I begin by saying what a pleasure it is for me to address the 53rd Annual Meetings of the World Bank Group and the International Monetary Fund.

Before moving to my remarks on policy, I would like to extend a warm welcome to the Republic of Palau, which has joined both the Fund and the Bank since last year’s meeting.

State of the World Economy and Policy Coordination

Let me begin by reviewing the state of the global economy.

Today the world economy is faced with major risks and challenges. In Asia, a region that has experienced a period of great pain since last year, convincing signs of recovery are yet to appear.

In the meantime, another currency crisis started to unfold in Russia this past summer, triggering turbulence in the foreign exchange and financial markets elsewhere, such as the Latin-American economies.

The economic turmoil in emerging as well as transition economies since last year has indeed demonstrated the risk of a serious deflationary spiral of the entire world economy.

At home, the steep downturn of the Japanese economy became obvious last fall. Despite steady implementation of the latest economic policy package, the largest ever, and other measures, our economic situation is still extremely severe.

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

With regard to foreign exchange, we are of the view that the excessively undervalued yen will do no good, not only to the Japanese economy but to the world economy as a whole. Let me make it clear that the government of Japan will not accept the excessively undervalued yen.

*Aiming at the Rebirth of the International Financial System
Reviewing the IMF-World Bank system*

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

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

The world today is vastly different from what its leaders, who gathered at Bretton Woods in 1944, anticipated. The whole idea of free trade and foreign exchange transaction under the fixed exchange rate regime was indeed instrumental in postwar restoration and progress of the world economy. What confronts us today, however, is a different reality. A reality in which markets can fall prey to large-scale capital movements that are abrupt and flowing across national boundaries.

Expanding the public-sector investments in developing countries by mobilizing public funds, which is one of our missions, has been dwarfed in the wake of the unstable yet increasingly large volume of private capital flows and continued poverty.

Over half a century after the historic conference at Bretton Woods, we all must recognize that the world economy has a totally new landscape. Thus, I believe it is time we returned to basics and reviewed the purpose of the Fund and the Bank, and it is time for the rebirth of the international financial system.

Abrupt capital movements on a large scale

Before reviewing what the Fund should be, however, I must point this out. I believe that economic management and development strategy that makes the most use of the market mechanism, which has long been promoted by the Fund, is still essentially valid. Ensuring greater exposure to a market mechanism, thus increasing economic efficiency, will continue to be a major policy priority for many of the developing and transition economies. As the basis of a market system, they must improve regulatory and accounting systems, maintain sound financial systems, and strengthen supervision of financial institutions for appropriate risk control.

However, given the fact that the latest turmoil in the monetary and financial markets in the emerging economies since last year is due in large part to the abrupt flows of short-term funds, we need to consider how to respond to the short-term or the speculative movements of capital.

Ever since December 1994, when the Mexican crisis began, we have been keenly aware of the risks associated with the modern market economy, where instant, large-scale capital movement can take place. That is why the Fund has

initiated its effort to improve transparency to help markets make rational judgments, and has strengthened surveillance with the aim of helping prevent crises.

While such an effort is of course needed, it is far from sufficient. No matter how transparency is improved, and no matter how surveillance is strengthened, crises can still occur. To address the challenge, the Fund must face up to the reality that there are cases where the benefits of short-term capital movements can be surpassed by their risk and cost. I believe the Fund should then make further efforts in four areas.

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

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

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

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

Among the so-called capital controls, there are some that might lead to hampering useful capital inflows, such as direct investment, by eroding investor confidence. Some are either so discretionary or arbitrary that they might undermine the efficiency of the national economy. So, while taking all this into account, I request that the Fund make further study on what sort of measures should be taken.

Reconsideration of the Fund-supported adjustment programs

Economic adjustment programs, the core of the IMF system, also require a thorough review.

IMF-supported adjustment programs have played a significant role in promoting appropriate macroeconomic policies and structural reforms in each country, while underpinning the country's effort with financial assistance. But, we must not forget that the international environment in which the Fund operates has changed dramatically. While limited capital movements and fixed exchange rates were the norm when the institution was conceived, they are now giving way to free capital movements and flexible exchange rates.

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

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

Asking a country with a fiscal surplus to tighten further, or asking a country to take a high interest rate policy for the sake of exchange rate protection, could end up with more negatives than positives—inviting a downturn in the economy, and further eroding confidence.

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

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

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

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

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

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

The new mission of the World Bank

Now to the World Bank. Traditionally, its mission has been to provide developing countries that could not readily raise funds in the market, with the long-term capital necessary for their economic development.

However, as the flow of private capital from industrial countries to a number of Asian and Latin-American countries expanded in the 1990s, the focus of the World Bank operations also shifted from development assistance through infrastructure provision to other areas, such as education, insurance, population, and the environment.

The economic turmoil triggered by the Asian currency crisis last year has made it all the more difficult for us to help developing countries achieve economic growth and to reduce poverty. For the countries in East Asia, this meant a major turnaround. For the twenty years that preceded the crisis, these countries enjoyed high and steady economic growth, accomplished fairer distribution of wealth, and succeeded in reducing poverty. Now, their economic performance has started plummeting, the unemployment rate has kept climbing, prices have risen, and public spending has dropped. All this means a serious impact on the people, particularly those in poverty.

Take Indonesia, where the poverty rate had dropped to 11 percent of the total population, or 22.5 million in number, by 1996. The economic crisis has affected the lives of people, first in urban areas and then in rural areas. As a result, the number of people who live in poverty now is said to be 3.5 times as many as two years ago.

Against such a backdrop, reformulating the Bank's mission and the way it provides assistance is now one of the most urgent tasks.

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

In such a case, close collaboration with the Fund is of course essential. But, since the World Bank Group is equipped with functions of its own to raise funds from the market and to guarantee private capital mobilization, I request that the Bank consider a new scheme of assistance that will capitalize on these functions.

Furthermore, to address a range of new problems associated with a crisis, the Bank must promote social stability and the fight against poverty by implementing appropriate structural programs.

For that, it is essential for the Bank to collaborate with the Fund in dealing with structural problems in the financial and corporate sectors. Alongside this, it is even more essential for the Bank to secure basic social spending, for

example, on education and hygiene, and to protect the most vulnerable group in society, thus contributing to social stability.

The social investment project which the Bank has recently approved for Thailand is an exemplary case, and Japan stands ready to support such an effort by the Bank in various ways.

In dealing with poverty and other emerging social problems, the role of the International Development Association (IDA) is extremely important. I would like to make a strong request that IDA address these issues in the Asian region in a prompt and proactive manner, and reflect it in its Twelfth Replenishment.

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

Role of the Fund and the Bank and the responsibility of the international community

For the international economic community faced with mounting problems and challenges, the roles of the IMF and its sister institution, the World Bank, are absolutely vital, and can never be replaced by others. Thus, to make further improvements in their functions is, I believe, the responsibility of the international community as a whole.

While I welcome the reform effort of these institutions to strengthen their coordination and to increase transparency, a fundamental review of the IMF-World Bank system, including the points I have made earlier, is necessary in order to breathe new life into the international financial system.

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

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

A New Scheme to Support the Asian Currency Crisis and Internationalization of the Yen

Announcement of the new scheme

May I draw your attention to our response to the Asian currency crisis that started to unfold in Thailand in July of last year.

To address the problem under the international framework of the IMF, the World Bank, the Asian Development Bank, and the countries concerned, Japan has committed to the largest bilateral support, and has steadily implemented it. As a result, exchange rates are more or less stabilized in these countries, and

one might say that many of them, if not all, have gone through the immediate impact of the crisis. Turning to real economies, however, these countries are still faced with difficulties: corporate performance that is dramatically deteriorating, an unemployment rate that keeps climbing, and prices that continue to increase.

Yet, the Asian strengths are still there. Even the latest currency crisis has failed to shatter their strong fundamentals, such as high savings rates, abundant human resources, priority in education, or their firm commitment to economic development. So, once they have overcome the difficulties that now exist, I believe the Asian countries will be back on the road again to the further growth and well-being of the people

We all must help these countries overcome economic difficulties and, in doing so, contribute to the stability of the international financial and capital markets.

In this context, I would like to present a new scheme of financial assistance totaling some 30 billion US dollars to be provided as Japan's bilateral support. Under the scheme, as I will detail in a minute, 15 billion US dollars will be provided as mid- to long-term financial assistance for the recovery of the real economy of these Asian countries; another 15 billion US dollars will be reserved as provision against short-term capital needs that might emerge in the course of promoting economic reform.

Mid- to long-term financial assistance for Asian countries

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

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

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

Guarantee functions must then be fully drawn upon in order to facilitate fund-raising by the Asian countries in international financial and capital markets. For that, the guarantee functions of our Export-Import Bank will be utilized. I request, at the same time, that the World Bank and the Asian Development Bank provide aggressive guarantees for the Asian countries' borrowing as well as fund-raising through bond issue. It is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered.

Japan will also establish an Asian currency crisis support facility. By providing an interest subsidy, for example, the facility will allow borrowers to

raise funds at a smaller cost. This facility will feature a framework which is open to the other countries in Asia, so should any country agree with this cause, and wish to take part, that would be most welcome.

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

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

For its part, Japan stands ready to provide technical assistance, according to the circumstances of each country.

Short-term financial assistance for Asian countries

Should a need arise for short-term capital in the Asian countries to facilitate trade financing during the process of steady implementation of economic reform, Japan will have short-term capital ready for the need. This will include a method of increasing the recipient country's foreign exchange reserve by using swap transactions.

Collaboration with multilateral development banks and other countries

To implement all these measures, Japan intends to collaborate closely with multilateral development banks and other countries, particularly the countries in the Asia-Pacific region.

Internationalization of the yen

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

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

Three months from now the euro will be introduced. A greater role for the Japanese yen, as an international currency together with the US dollar and the euro, should contribute to the stability of the international monetary system.

Faced with major risks and challenges, the world economy is now at a turning point. It is about time we made a new step forward to build a new system in response to the new reality, while fully drawing upon the wisdom the international financial community has accumulated over the years.

Like my fellow Governors, I will play my part in aiming at the rebirth of the Bretton Woods institutions.

In my statement, I made it clear that Japan is determined to make further contributions to its neighbors.

In the future, too, Japan will continue to join hands with all the countries that are represented here today, and in particular with the Fund and the Bank, to find our way out of the difficulties that lie ahead, and to regain growth momentum for the world economy.

KOREA: KYU-SUNG LEE
Governor of the Fund and Bank

Allow me first to extend my warmest welcome to the Republic of Palau as a new member to the Fund and the Bank. I would also like to express my appreciation for all the assistance extended to Korea by the IMF, World Bank, and member countries.

Ten months or so into the IMF program, Korea has made remarkable progress in economic reform, and will continue to do so. Our reform strategy is to establish soundness with economic restructuring, and to enhance efficiency with economic liberalization and market discipline.

Most recently, Korea completed the first major round of financial sector restructuring. Korean banks cleaned up their balance sheets and were recapitalized to obtain a sound bank status, with BIS ratios of 10 to 13 percent. The Korean government has supported these rehabilitation efforts by means of fiscal resources of approximately US\$ 27 billion.

The capital market, including foreign direct investment, has been dramatically liberalized. Also, foreign exchange transactions will be progressively deregulated starting in April of next year, and full liberalization will be completed by the year 2000.

As to the corporate sector, firms are taking steps to reduce debt leverage, and are working with their creditor banks to devise corporate workouts, most of which will be completed by the end of this year. Internationally accepted standards in corporate governance, transparency, and accountability have already been instituted.

On the labor front, labor market flexibility was legally enacted, while the social safety net was correspondingly expanded. A tripartite dialogue among labor, business, and government has enhanced business-labor relations and ensured fair burden sharing.

All of this reform progress will help mitigate the severe credit crunch and economic contraction, which have been our greatest challenges. The greatly improved soundness of the banking sector and the ongoing corporate restructuring will help normalize credit flows. Korea's current flexible interest rate policy and fiscal expansion will cushion economic contraction. In light of this,

the Korean economy is expected to bottom out next year with mild positive growth, and from the year 2000, will have restored growth potential.

Governors, Ladies and Gentlemen:

Simply listing our recent accomplishments belies the difficulties we may have to face up ahead. The current financial turmoil threatens not only the health of financially sound nations but world economic growth as well, potentially making it even more difficult to contain the crisis at hand.

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

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

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

In the medium term, the international financial architecture must be updated for greater global stability and soundness. Enhanced surveillance, improved standards in transparency, and an effective early warning system will all go far toward warding off risks of contagion. We must also address the intrinsic instability associated with short-term capital flows.

Korea fully supports the efforts made by the IMF along these lines, and endorses the current discussions by diverse fora on such issues of global concern. It is imperative though, that relevant policy decisions are balanced so as to reflect the experiences of crisis-hit nations.

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

Let us now put our best efforts together not only to quickly overcome the current crisis but also to enter the new millenium with a healthier and more stable global financial system.

LAO: CHEUANG SOMBOUNKHANH
Governor of the Fund

This 53rd Annual Meeting of the World Bank and the International Monetary Fund is convened at the juncture where the economic and financial crisis, which started in Asia more than one year ago and spread in a chain reaction

manner to other regions of the world, is in the process of being addressed in order to restore stability. This meeting is therefore considered a very significant forum for members of the two institutions to gain more insight on the crisis and to learn how the problems have been tackled by the affected countries. It also provides an appropriate opportunity to assess the effectiveness of the assistance given by the Bank and the Fund to the crisis affected countries during the past year. Members can also bring forward viewpoints and recommendations on how to strengthen the role of the two institutions in the era of globalization, to ensure a stable environment conducive to sustainable growth of the world economy upon entering into the twenty first century.

Regarding the performance of the Lao economy in 1997, growth was registered at 6.7 percent, which falls within the 68 percent annual target range, attributed mainly to the marked growth in the agricultural and service sectors. The former grew by 5.8 percent, 3 percent higher than in 1996, mainly in rice production; while the latter grew by about 10 percent, 2 percent higher than in the previous year, largely due to the strong growth in telecommunication and tourism areas.

However, the strong economic growth performance was accompanied by rising inflation, particularly in the latter part of 1997. This was partially due to the large depreciation of the kip vis-a-vis the dollar, as a result of the regional crisis erupting during mid-1997, which led to large increases in the prices of imported goods. Furthermore, internal factors need to be recognized, namely the rapid credit expansion to the private sector (79.1 percent); and the increased public investment to develop the infrastructure needed for the agricultural sector. The latter is necessary for the attainment of self-sufficiency in rice and food supply, and also in creating conditions conducive to the sustainable growth of the economy in the future. Furthermore, the regional crisis also has adversely impacted the country's export performance and the flow of foreign direct investment capital. The resulting foreign exchange scarcity therefore adds pressures on the exchange rate and inflation.

To address the problems of high inflation and exchange rate depreciation, corrective measures have been taken during the early months of 1998. These include the use of such indirect instruments as the issuance of central bank securities and treasury bills with higher interest to draw excess liquidity into the central bank; and the issuance of a guideline by the central bank on the increase of the minimum deposit rate by banks to encourage commercial banks to raise their interest rates, aiming at promoting deposits while discouraging borrowing. In addition, credit ceilings have been reintroduced to restrict credit expansion, while steps have been taken to address the problems of bad debt and operational weaknesses of the financial institutions to increase soundness and efficiency thereof. On the fiscal front, measures have also been taken to accelerate revenue collection, while restricting spending.

In view of creating the environment conducive to sustaining high growth with macroeconomic stability, thus improving the quality of life for our people

over the medium and longer term, the Lao government resolves to continue investing in the development of the country's economic infrastructure. Emphasis is placed primarily on agriculture to ensure sufficiency in agricultural products for consumption, agroprocessing and also for exports. This will help create a firm base for our national economy, through linking agriculture to industry and services. As a consequence, the agrarians, which represent over 80 percent of the total population, will have higher income; the trade and current account balances will be improved; the economy will be able to accumulate more domestic savings, thus enabling the Lao People's Democratic Republic to gradually become autosufficient in financial resources.

Our country is well endowed with water resources which in the past was used mainly for hydropower production. In order to further enhance the exploitation of this economic potential to bring greater benefits to our people, the government will pursue the policy of comprehensive development of the said resources. In this connection, the exploitation of water resources for hydropower production will be linked to the development of irrigation and other productive purposes, as well as for the improvement of the quality of life of the population, while preserving the environment. This will help ensure the sustainable development of our economy.

At this point, I would like to emphasize the important role that the World Bank and the International Monetary Fund play in helping the least developed countries of the world to build their economic base to enable them to be part of globalization. Presently, great disparities continue to exist in the levels of development among countries of the world. In order to help place the least developed countries on the path of fast development, we maintain the view that the Bank and the Fund should further broaden their important role. In this connection, their assistance to least developed countries should be focused on doing research, giving advice, providing financial support and creating conditions for marketing to enable those countries to effectively exploit their various economic potentials in order to expedite the process of development.

In so doing, the least developed countries will be able to grow and exit from poverty more expeditiously, while also being able to take part more actively in the process of international cooperation and development. Furthermore, we are also of the view that the two institutions should support the least developed countries in creating quality human resources, through offering more scholarships for higher education, organizing training courses in various areas, and also through the process of production technology transfer. We believe that if assistance to the least developed countries given by the Bank and the Fund could focus more on the development of the countries' economic potentials and human resources, the role of the two multilateral institutions will become more prominent, while further enhancing the cooperation for the mutual benefits of the parties concerned.

In closing, I would like to express sincere thanks and appreciation to the President of the World Bank and the Managing Director of the International

Monetary Fund for the support and assistance accorded to our country in the recent years. In addition, we would like to extend to the President and the Managing Director, as well as the entire management and staff of the Bank and the Fund, our best wishes of health and success in accomplishing the very important and highly honored mandate of each respective institution.

LIBYA: MOHAMED A. BAIT ELMAL
Governor of the Bank

On behalf of my country, Mr. Chairman, I am honored to offer congratulations on your selection to chair this year's meetings of the Board of Governors, which I hope will meet with great success under your leadership.

Mr. Chairman, the negative trends in the world economy have engendered the lowest performance level in many years, with growth at only about 2 percent and the collapse of financial markets in a number of countries. This has had an adverse effect on capital flows and investment in many countries, particularly the developing countries.

The state of the world economy reflects the financial crisis that has devastated the countries of southeast Asia since the end of last year, the negative effects of which have spread to other countries. The international financial institutions and their member countries, particularly the industrial states, must work together to contain this crisis and keep it from spreading to other countries, so as to prevent the collapse of the international financial and monetary systems. The countries suffering from financial and monetary crises must also shoulder their responsibilities and take the necessary actions to treat the causes of these crises.

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

Despite the efforts of the Bretton Woods institutions to correct trade imbalances, promote development, and reduce debt burdens through the HIPC initiative, especially in the least developed countries, today we find that the gap between rich and poor countries is wider than ever. This has led to an increase in the number of the world's poor and a steady deterioration in the level of social services, particularly health and educational services.

Mr. Chairman, Libya continues to suffer from the sanctions imposed by the Security Council's resolutions, including the prohibition of flights to and from Libya and the sale of equipment and spare parts for the oil industry, the freezing of Libyan assets in foreign banks, and limitations on financial facilities. These sanctions are in conflict with the spirit and principles of the Bretton Woods institutions and other international organizations. They are also in con-

flict with the requirements of trade liberalization, free capital movement, and the trend toward globalization that we are witnessing today.

Mr. Chairman, these sanctions have had an adverse effect on both the economic and social development of Libya. In addition to the social and human losses, which cannot be valued in monetary terms, sanctions have imposed material losses on the Libyan people of at least US\$23 billion to date.

My country is determined to find a just and rapid solution to the Lockerby issue, within the framework of international law and conventions. I stand before you today, asking the international community and its various organizations—and foremost among them the Bretton Woods institutions—to try to understand our position and endeavor to relieve the suffering of the Libyan people by reviewing these sanctions and eventually eliminating them.

MALAYSIA: DATO MUSTAPA MOHAMED

Governor of the Fund and the Bank

More than a year has passed since the financial crisis unfolded in East Asia. Recent trends in global financial markets indicate that the international financial environment has further deteriorated. There is now a growing concern of the risk of a global financial meltdown. When it first unfolded, the Asian crisis was not recognized as a global problem requiring a global approach. While there is a general recognition of the risks in the global financial markets, the international consensus reached at these meetings for a rapid response to restore stability in the world financial system now needs to be translated into concrete outcomes. During last year's IMF/World Bank Annual meetings in Hong Kong, my Prime Minister had raised many of the issues that have been the focus of the discussions at this year's meetings. In particular, this relates to the need for the reform of the architecture of the international monetary system to deal with the mounting destabilizing flows that are having a devastating effect on countries. These cautions are only receiving urgent attention after inflicting high costs to the global economy.

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

In the region, we have witnessed the devastating effects of destabilizing capital flows. Thailand, Korea, Indonesia, Malaysia, and other Asian economies have all fallen victims to the onslaught of speculative capital flows in search of higher returns. The crisis has spread to Russia and more recently to Latin America. The collapse of the mother of all hedge funds, the Long Term Capital Management Fund is a strong indication that no country is spared from

the contagion effect of the present crisis. But for the fact that it could destroy the financial system of the very rich, the activities of the fund would have been overlooked. As it is, the possibilities of it causing havoc in the world's capital markets are finally receiving attention.

As more and more countries succumb to the contagion effects, the risk of a global financial meltdown has increased. The world economic situation has deteriorated considerably and the near-term outlook is more uncertain than ever. The IMF has revised global growth downward four times since December 1997. As we gather here today, the prospects do not look promising and the contagion effects show no sign of abating.

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

The international community's response to the crisis has been to call for reforms including improving transparency and governance. The argument is that lack of transparency and accountability makes it difficult for markets to function well. Various committees and working groups have been duly formed to study these issues as part of the move towards a modern architecture for the international monetary system. At this stage however, we need to chart the steps that need to be taken for the implementation to achieve this end.

Now after more than a year into the world's worst economic crisis, many prominent economists from the West have voiced concern on the approach that has been taken. There is a growing skepticism over the effectiveness and appropriateness of traditional ideas and orthodox policy prescriptions. There are also rising concerns on the destabilizing activities of hedge funds and other institutional investors and the lack of regulation over their activities. Of course, the reasons for the shift in stance has not been so much concern over the plight of the impoverished millions in Asia as much as alarm over the increased risks of global contagion, deflation and loss of markets. Instead of reviving confidence, the IMF approach has inadvertently made a bad situation worse. The combination of sustained high interest rates and tight liquidity has led to a severe contraction in the real economy and a vast overhang of bad debt throughout Asia.

The traditional prescriptions backfired because the severe economic contraction that was precipitated by massive capital outflows was exacerbated by contractionary monetary and fiscal policies. In such an environment, foreign creditors became increasingly concerned that debtor firms would default on their loans. In addition, the actual official foreign financing fell short of expectations. Banks also came under extreme stress and amidst concerns over the health of their balance sheets began to slow down disbursement of new loans. Despite contractionary policies, flight to quality continued whilst regional currencies continued to depreciate.

The present framework of the global financial system was designed more than 50 years ago and is clearly inadequate to deal effectively with the risks and challenges of volatile capital flows. The framework, including the role and functions of the Bretton Woods institutions needs to be reviewed urgently to keep pace with changing times. Closer co-operation between the World Bank and the IMF is needed to further strengthen their capacity to respond to the growing demands for assistance in the three key areas of financial, corporate and social safety net programmes. As had been pointed out by several speakers, particular attention must be paid to the social dimensions of adjustment measures by strengthening social safety nets programs and protecting budget allocations aimed at helping the poor.

In such times of crisis, large resources are required by Fund and Bank members to refinance their economies. In this regard, the World Bank must fulfill the role mandated to it. Given that sourcing funds from the market would be extremely costly, I urge the Bank to fulfill this financing role and provide the much needed assistance to preserve the socioeconomic gains made by these countries and to restore investor confidence. I am concerned that inadequate financial support from the World Bank would undermine reform efforts and aggravate human suffering.

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

Proposals for reform

At last year's Annual Meetings in Hong Kong, Malaysia called for changes in the way the international financial system operates, suggesting the need to formulate international parameters for currency trading as a first step towards a review of the entire system. Our suggestion was dismissed as an attempt at "denial" and "blaming others" for our own problems and weaknesses. The failure to recognize that the crisis is in fact due to both external and internal factors has delayed efforts to deal comprehensively with all the issues that emerged from the crisis. More recently, as the crisis continued to engulf more countries, awareness is increasing of the need for the reform of the world financial system. We will risk a global meltdown if we continue with ad hoc and incremental measures. A complete overhaul of the international monetary system is required and required soon. Allow me at this juncture to propose that at a minimum, the reform of the system should include the following key elements.

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

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

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

Finally, there must be a review of the role of International Financial Institutions. The role of the IMF, World Bank, and other International Financial Institutions must be reviewed to ensure that they remain relevant to the changing needs of their members. In particular, closer collaboration among the IFIs, notably the IMF, World Bank, and the BIS are essential to ensure that the world's financial system continues to function smoothly. We should also consider the establishment of a global system for the exchange of information among the IFIs, international regulatory bodies, and home-authorities. Such a

system of global information sharing would provide important early warning signals of impending crisis and enable the affected countries and the international community to undertake appropriate policy responses.

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

In the interim, what are the options available to developing countries like Malaysia? Malaysia like other affected economies have persevered since the crisis began one year ago to undertake macroeconomic adjustment policies and implement financial reforms to reduce the risks and vulnerabilities arising from external developments. These measures were aimed at achieving macroeconomic stability and increasing the resilience of the financial system. As the economy slows down, strains are increasingly being felt in the financial system.

Malaysia's exchange control measures

In the past one year, Malaysia has suffered considerable loss in income and wealth. No country which has experienced a 40 percent depreciation in its exchange rate and a 65 percent decline in stock prices can withstand the dislocation in its economy and the social costs it entails. In an effort to ensure prospects for stability, Malaysia has introduced selective administrative controls to allow for orderly capital flows and insulate the domestic economy from such external risks. It is emphasized that the new controls are not a substitute for sound macroeconomic and financial policies. The measures will provide some breathing space to ensure that the ongoing structural adjustment measures could continue uninhibited by external developments. The Government is in fact on course in its efforts to restructure the financial sector, in particular, the recapitalization of the financial institutions. The measures are also aimed at preserving the gains that have been made in terms of strengthening of the balance of payments position and in terms of containing inflation to create a positive environment to support economic recovery.

These measures are by no means radical. The measures are not even unique. Indeed, a large number of both developed and developing countries have imposed capital controls. It was only by mid-1995 that all industrial countries removed exchange controls on both inflows and outflows of capital. Countries such as Germany, Switzerland and the United States re-imposed capital controls when they faced difficulties in achieving domestic and external balance in the post-war years. Even as recently as 1992, Spain taxed certain short-term transactions and temporarily tightened controls on onward short-term capital movements, arising from the aftermath of market disturbances within the exchange rate mechanism (ERM) of the European Union.

Capital controls played an important part in the defense of the Irish pound, the Portuguese escudo, and the Spanish peseta in the 1992 ERM crisis. And among the developing countries, Argentina, Chile, Mexico, Venezuela, and China have also used capital controls.

I would like to assure the international financial community that the imposition of these exchange control measures will not affect the business operations of traders and investors or the normal conduct of economic activity. We continue to guarantee general convertibility of current account transactions and the free flows of foreign direct investment, repatriation of interest, profits, dividends, and capital. Indeed, the changes are intended to contain the potential for speculation on the ringgit and preventing excessive cross-border flows of short-term capital.

As the changes in the exchange control rules are directed at containing speculation on the ringgit and at minimizing the impact of short-term capital flows on the domestic economy, they will not affect the normal conduct of economic activity. More importantly, the measures continue to guarantee: the general convertibility of current account transactions; the free flows of foreign direct investment; and the free repatriation of interest, profits and dividends and commissions.

As the new rules were aimed at containing speculation on the ringgit, they will have no impact on non-residents who are Malaysian individuals with permanent resident status residing abroad, foreigners studying and working in Malaysia, embassies, high commissions, consulates, central banks international organizations and missions of foreign countries in Malaysia.

To reiterate, Malaysia is not closing its doors to the foreign investor community, much less to the international economy. Malaysia still maintains general current account convertibility and is not resorting to any rationing of foreign exchange. Beyond that, Malaysia has not changed its policy on foreign direct investment and repatriation of profits and dividends from foreign investment. We also wish to emphasize that we remain fully committed to making all external debt payments, in full and on time, and that foreign exchange is freely available for such payments. The Malaysian economy is a very open economy. Trade as a percent of GNP will remain high, exceeding 170 percent, foreign direct investment of more than 20 percent of total private investment and foreign market share in total assets of the banking system of about 30 percent.

The recent measures are aimed at creating stable domestic conditions to promote economic recovery with price stability. In the interim period, the measures will strengthen Malaysia's economic fundamentals in order that we can better manage the challenges of the globalized financial markets. Towards this end, Malaysia remains committed to pursuing structural adjustments in the economy in general, and the financial sector in particular. These adjustments are necessary and important to protect long-term investments in Malaysia. Reflective of the commitment to direct foreign investments, existing measures will continue to guarantee free flows of long-term capital.

These selective administrative controls were implemented to insulate Malaysia from adverse external developments. These measures will remain in place for as long as there is no regulatory framework for financial flows. In the absence of such a framework, it is unlikely that financial stability will be restored.

In conclusion, we hope that the international community will evaluate Malaysia's measures fairly. Malaysia remains committed to the open market, trade-oriented that has served us so well for over thirty years. However, extraordinary circumstances have led us to implement these measures to insulate Malaysia from contagion developments in the global financial markets. The more fundamental issues of the global system, however, remain. A solution to these issues can only be achieved through the concerted efforts of the international community. These efforts would increase the prospects for a permanent solution to restore stability in the international financial system.

MALTA: JOHN DALLI
Governor of the Bank

It is certainly an honour for me to address the Annual Meetings of the International Monetary Fund and the World Bank. Before I express my views on some of the current economic and financial issues I would like, to join other Governors in extending a warm welcome to the Republic of Palau as a new member of the Bretton Woods institutions.

Since last year's Annual Meetings the prospects for world economic growth have weakened considerably in the wake of the Asia financial crisis which continues to have negative reverberations for both industrial and developing countries. Forecasts for world economic growth in 1998 have been revised downwards, to around the 2% level and there is a possibility that next year's economic expansion could fall as low as 1%. Unfortunately it appears that the contagion effects of the Asian crisis have not been sufficiently contained and so their dampening impact on global economic growth could be much stronger than originally anticipated. From my country's perspective, that of a small island in the Mediterranean, the global economic slowdown is viewed with concern given the openness of our economy and its vulnerability to external forces. Economic activity in Malta is heavily dependent on external demand particularly its export markets in Western Europe. Our main preoccupation is the fact that while the risk of a sharp economic contraction in Western Europe is unlikely to materialise there is a strong possibility that fiscal and monetary policies in that region will be maintained on a tight rein. This may prevent domestic demand in the Euro area countries from expanding sufficiently to offset the adverse impact of a protracted slowdown in other regions of the world.

One of the implications of the financial turmoil in East Asian has been a review of the role of the IMF and the World Bank in the international financial

system and the ability of these two institutions to address the current financial crisis which threatens to destabilise the system. We do believe that in the difficult circumstances of the past year both the Fund and the Bank have shown effectiveness in dealing with the crisis and the necessary flexibility to deal with the internal problems of the countries concerned. However in the light of the global repercussions of the crisis and the ongoing contagion effects, we feel, as has already been acknowledged in international fora, that there are shortcomings in the architecture of the international monetary system and these have to be addressed on the lines suggested by the IMF's Executive Board and endorsed by the Interim Committee last April. The novelty of the proposed measures is that they will involve the co-operative efforts of the entire international community including the private sector.

The measures in fact highlight a number of important aspects notably the need for a strengthening of domestic financial systems. No doubt the weakness of the financial system in a number of countries has been one of the factors that has contributed to the international financial crisis. In today's global market which is characterised by the rapid movement of short term capital flows it is very difficult for a country to avoid a disruption in its macroeconomic performance if it does not have a sound financial system. Consequently the emphasis that the Fund will be giving together with other organisations to help members design better their financial sector and supervisory and regulatory systems is certainly warranted.

In Malta we have over the past decade strengthened the institutional structure of our financial sector with the aim of establishing the island as a sound and efficient international financial centre. At the same time we have allocated substantial resources to the development of a strong supervisory system which closely monitors the financial sector as a whole in order to ensure its stability and its compliance with international standards and practices. We have set up a separate regulatory authority to supervise all financial sector activities except banking which remains the responsibility of the Central Bank. The Bank in fact has ensured that almost all core principles recommended by the Bank for International Settlements for effective bank supervision have been implemented over the last year. Here I would like to mention that an IMF Mission on banking supervision which visited Malta less than two years ago expressed its satisfaction with the high standards of our regulatory regime. I am therefore happy to say that so far our system of financial sector supervision has worked satisfactorily and the volume of international financial business undertaken by the sector has been increasing steadily.

The importance of strengthening Fund surveillance has also been stressed. All member countries have the responsibility to pursue prudent macroeconomic policies but this responsibility assumes even greater importance when those countries that have a significant impact on the international monetary system are involved. This notwithstanding I believe that a strengthening of the surveillance role of the Fund should apply to all countries, regardless of size,

with consultations between member countries and the Fund taking place more frequently possibly on a more informal basis during the period between the visit of one Article IV Consultation mission and another. My country had requested such an arrangement and recently experienced these informal consultation meetings with Fund officials. These meetings proved to be very useful for economic policy decision makers at the national level. As regards to the proposal by the Fund that more information should be released after Article IV Consultation Missions, while we have no objection to the issue of Press Information Notices we still believe that staff reports should only be published at the discretion of the member country. As has been apparent from discussions on this issue, there is a possibility that officials in many countries may be discouraged from co-operating fully with Fund Missions for fear that their confidential remarks and statements on the state of their economy will be disclosed publicly.

On the other hand I would like to emphasise that my country fully supports the Fund in its efforts to enhance the standards of economic and financial data published by members especially where this is related to the core indicators. Malta is presently adhering to the General Data Dissemination System (GDDS) to ensure that high quality standards are achieved for the full range of economic, financial and socio-demographic data. As we continue to reform and upgrade our statistical resources at the national level, we intend using our participation in the GDDS as a step toward subscription to the more demanding Special Data Dissemination System (SDDS).

Another important initiative taken by the Fund concerns government transparency and accountability. The Code of Good Practices on Fiscal Transparency adopted by the Interim Committee in April serves as an effective guide for members on fiscal management. In countries where the public sector looms large the provisions of the Code are all the more relevant. In Malta as well the impact of the public sector on the economy is quite significant and it is our intention to gradually reduce its size through where possible the transfer of certain economic activities to the private sector and co-operative schemes and also through a privatisation programme. Within the public sector itself we will be introducing measures to streamline resources and improve efficiency. Where fiscal matters are concerned we will introduce proper budgetary planning techniques and better financial management to ensure that the fiscal deficit as a percentage of GDP does not exceed internationally accepted levels. In coming years we hope as much as possible to implement all the provisions of the Code and would certainly welcome technical assistance from the Fund to achieve this objective.

Another important issue is capital account liberalisation. The Fund has over the last year remained committed to capital account liberalisation notwithstanding the fact that massive capital flows have been a major factor contributing to the Asian crisis. At the IMF seminar on this subject earlier this year however there was general consensus that policies aimed at the liberalisation of capital

movements had to be orderly and well-sequenced. In addition they had to be implemented only when the appropriate macroeconomic and exchange rate policies were in place and when the financial system was sound. More significantly it was recognised that the pace of liberalisation had to be adapted to the circumstances of individual countries. This is certainly our view on the issue although we do not object to an extension of the IMF's jurisdiction on capital movements as long as this is expressed in general terms. My country is fully aware of the benefits of an open and liberal system and its decision to accept Article VIII status almost four years ago was taken with this objective in mind. In subsequent years we gradually removed a number of restrictions on both inward and outward capital flows and it is our ultimate goal to remove them completely over the next few years. This strategy course will in fact be consistent with our desire to join the European Union as soon as possible since an important condition of membership of the EU is the full liberalisation of the capital account.

With its strong commitment to EU membership and its desire to participate in the next phase of EU enlargement Malta will continue to pursue, vigorously, policies aimed at further reforming and liberalising the economy. At the same time we are monitoring closely all developments that are taking place in the EU particularly those that are related to European Monetary Union and the single currency. Apart from our membership objectives the establishment of EMU is expected to have important implications for our economy given our very close financial and trade links with the countries that will be participating in the Union. EMU is certainly a historical event and is expected not only to have a profound impact on international financial markets but also to have important implications for the way the Fund carries out its operations and conducts its surveillance.

Here, I would like to reiterate my country's strong support for the valid work undertaken by the Fund and the Bank at a time of serious financial problems in the global economy. We believe that Bank/Fund collaboration particularly in the field of second generation reforms has to be maintained and strengthened to enable the two institutions to respond effectively to crises that threaten the stability of the international financial system. In this regard it is important that both institutions have the financial capacity to carry out their operations. In the case of the Fund the potential resources available under the Eleventh Quota Review will substantially strengthen the Fund's liquidity position. It is necessary therefore for members to approve the Eleventh Quota Review as soon as possible so that this will come into effect before January of next year. I am happy to say that despite its limited resources my country has completed all procedures in connection with the quota increase and has also approved the Fourth Amendment of the Articles of Agreement that will enable the Fund to effect a special one-time allocation of SDRs that would ensure that all participants in the SDR Department will receive an equitable share of cumulative allocations. Malta also gives a modest contribution to the resources of the ESAF facility and the HIPC Initiative.

In conclusion I would like to thank the management and staff of the Fund and Bank for their continued support and wish them all success in their operations. Through Fund technical assistance in recent years we have been able to implement important reforms in our financial markets and in our banking system. Recently Fund assistance has also been forthcoming in the important area of government finance statistics. Finally I would like to express my country's appreciation of the assistance and advice that is provided throughout the year by the Executive Directors who represent Malta on the Boards of the Bank and the Fund.

MARSHALL ISLANDS: TONY DE BRUM

Governor of the Bank

I wish to thank the people and the government of the United States for hosting this year's Annual Meetings. Unlike last year's meetings, where cautious optimism prevailed, this year great fears have arisen. These fears encompass both the future of global capitalism and indeed the future of the World Bank itself. The Marshall Islands also shares these fears.

Micronesia's Status

The countries of Micronesia constitute a very small percentage of the world's economy. However, our unique location in the center of the Pacific Ocean, provides us with an excellent vantage point to observe and maintain a partnership with both Asian countries and the Americas. We are in the middle of nowhere, yet we are also in the middle of everything.

Our current economy was initially formed based upon grants and reparations from the United States. More recently, we have received loans and grants from the Asian Development Bank. This has not been a pain free structuring. Our past dependence upon government employment has led to reductions and increased unemployment. However, in the past decade, the value of our fishery industry has been recognized by Asia, North America, and Europe. It is our goal to see that this resource is not plundered or under-sold. With the help of our friends in Australia, the South Pacific Forum, and North America, we are succeeding in this goal. We believe that our fishery industry will provide sustainable economic growth and related employment for our citizens.

The Marshall Islands is in a unique situation. Our economic development is at the stage of a developing nation, yet we have unfettered access to the United States. Our currency, by treaty, is the U.S. dollar, and we do not suffer the fear of massive currency devaluation. The access to the United States has allowed a number of our citizens to enjoy the benefits of education and employment within the United States. This creates an abnormality; our resident citizens can see the benefits of successful capitalism, yet live in what is perceived as a third-world environment.

The economic benefits of living in a developed nation, once enjoyed, cannot be dismissed. It is with this in mind that we share the deep concern of our cousins in Malaysia and Indonesia. Seemingly overnight, their prosperity has vanished, replaced with fear and suffering. While a macroeconomist can analytically describe a negative growth rate, the suffering of the people in the affected nations cannot be adequately described.

Observations

Looking to the East and to the West, we have great concerns. We see the potential for instability and uncontrolled nationalism. Being a small country, we are continually amazed at the lack of understanding and bureaucracy of the world's economic organizations. Currently, everyone agrees that a "contagion" exists, yet no one seems to have answers. The remedies that historically worked for western nations are not working in an Asian environment. The World Bank meets and makes fine tuning adjustments, the Group of Seven meets and announces its optimism, and the United States announces new reforms and goals. Yet, the "contagion" continues, with Russia in default and South America unstable. Furthermore, the greatest minds in economics cannot seem to agree on a proper and achievable solution.

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

Frankly, in my week here, I've witnessed a variety of speakers expound on theories that only create so much hot air. I fear that many of our experts on economic theory have become so enamored with the past successes of the economy that they are empty shells when dealing with adversity. It is surprising that in my week here the most interesting article I've read describing the economic situation and possible solutions was not from a noted staff member of the World Bank, but from the former U.S. Secretary of State, Henry Kissinger. He eloquently stated that the role of politics in economic reform cannot be overstated and has been seemingly overlooked in the past year. We urge our colleagues not to confuse capitalism with democracy.

We live in a time of instant communications, making us truly global in the delivery of bad news. What the world needs is not technical discussions of stock indexes, capital flows, or projected GNP but reassurance. In short, if the "contagion" is to be controlled, decisive leadership must be shown. The question I raise with the Bank and to my fellow Governors is, "are we capable of providing that leadership?" If not, then who is, and how can we assist them.

Thank you for this opportunity and honor to address this assembly.

MONGOLIA: BAT-ERDENE BATBAYAR

Governor of the Bank

It is a great pleasure and honor to address the Bretton Woods institutions Annual Meetings representing Mongolia—a country with 2.4 million population, a deep historical heritage and abundant natural resources. Let me bring to you warm greetings from the Government of Mongolia and the Mongolian people.

This year's Annual Meetings is of great importance to the world when almost 40 percent of the global economy is experiencing economic recession and many countries are affected by severe financial crisis and turmoil. This international forum that pools the world elite provides all of us with an opportunity to share thoughts and views on problems and outstanding issues we face and jointly seek ways of their solution.

Today Mongolia is irreversibly undergoing an ambitious agenda to transform the whole political, economic and social institutions into a democratic, humane civil society based on a market economy and the rule of law. The country is relatively successfully weathering the adverse effect of contagion triggered by the financial turmoil in South East Asia and maintaining a momentum to prosper its economy and to improve the well being of the Mongolian people.

Mongolia has successfully been implementing the mid-term ESAF program agreed with the IMF in 1997. For the first eight months of this year annual inflation fell to 7.5 percent down from 55 percent in the same period of 1997 and from 325 percent that of in 1993. Real GDP rose to 3.9 percent in 1997 from 2.6 percent in 1996 and is projected at about 3.5 percent in 1998. International reserves stood at US\$ 118 million by end-June, 1998 equaling 12 weeks of imports against US\$ 102 for the same period last year. The exchange rate is relatively stable for the last 3 years. The unemployment rate has been decreasing compared to that of last year.

I would like to stress the fact that these achievements have been made possible thanks to support and assistance of international financial institutions such as the IMF, World Bank and the Asian Development Bank, as well as our bilateral donor countries. The prescription of policy measures designed by the IMF to overhaul the country's economy has proved its correctness while producing positive outcomes. Today we are negotiating with the IMF the second year program under ESAF.

Notwithstanding, Mongolia still stands at ranking of developing countries with US\$400 annual per capita income with an overgrowing challenge of poverty. The country's economy is very volatile and imbalanced relying mainly on a few manufacturing industries compounded by rapidly worsening external environment. The banking sector is still weak financially, operationally and in terms of skilled human resources. The Government budget is under high pressure triggered by continues decline in international market prices of major

export items such as copper, gold and cashmere, troubled state owned banks, ineffective and fully subsidized social welfare and security institutions, and shortfall in projected privatization receipts. Infrastructure remains underdeveloped and is far to meet basic needs of the population and businesses. Technology is greatly outdated and environmentally unfriendly. The private sector is still weak and nascent. At present, the public sector yet constitutes the large segment of the economy. The country's lack of access to the international markets and shortfall in competitiveness in addition the landlocked and isolated unfavorable geographical location. Unemployment and poverty are challenging to grow unless an appropriate policy measures undertaken and necessary funding secured.

The current global trends and the existing situation in the economy dictate Mongolia to more focus on maintaining momentum and positive developments produced while strengthening economic fundamentals in order to be ready for and prevent from a possible danger associated with regional and global economic crisis and turmoil. Mongolia is not fully immune from their epidemic perverse impact.

The Government of Mongolia is eager to complete transition in a relatively short period of time with less economic and social costs. This will require well-grounded, carefully elaborated policy and implementation tools backed by substantial capital, human and intellectual resources. The constructive cooperation with the international financial institutions including the IMF, WB and ADB will no doubt help to attain this important mission.

We are a witness of growing partnership relations and cooperation with the World Bank Group based on the spirit of mutual understanding, trust and respect to each other since 1991 when Mongolia joined the Bretton Woods institutions.

The World Bank is providing a worthwhile assistance to Mongolia to rehabilitate and sustain its infrastructure, to stabilize its macro-economy, to enhance structural reforms and to alleviate poverty. The Bank has funded 10 development projects that worth about SDR 167 million since 1991. We also greatly commend and highly value the Bank's non-lending program provided to Mongolia. The Bank plays a vital role in coordinating activities in the Mongolia Assistance Group and up to date has contributed to six successful Consultative Group Meetings co-chaired with the Government of Japan. FDI promotion is another important area of the Bank's intervention. Two successful international investment conferences in area of mining, oil and gas, as well as agro-industry and tourism have been convened in last 2 years in Mongolia and the existing legislature related to FDI has been largely improved under the umbrella of these two international forums.

The opening of the World Bank Resident Mission for the first time in Mongolia has opened a new chapter in the history of partnership relations and cooperation between Mongolia and the World Bank. It greatly contributes to growing efficiency of Bank funded projects and an improved policy dialogue and coordination between the Government and the Bank.

The Government of Mongolia is keen to broaden collaboration with IFC, MIGA and other agencies of the World Bank Group in area of private sector development, promotion FDI and enhancing the country's competitiveness. Recently, Mongolia has become a full member of MIGA, which enables Mongolia to extensively work on investment promotion applying tools that MIGA possesses.

Given the progress that has been attained in economic and social development and satisfactory status of the projects funded by the World Bank the Government of Mongolia seeks increase in annual capital allocation for Mongolia from its current level of US\$ 25–30 million within the context of the four major areas such as macroeconomic stabilization, infrastructure development, structural adjustment and poverty alleviation agreed under the Country Assistance Strategy with the Bank. On our part, we will exert every effort to improve efficiency and effectiveness of utilization of development funding.

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

I hope that this Annual Meetings will be a turning point to halt the global financial crisis and rehabilitate those economies in trouble supplemented by restoration of investors confidence and fixing up the ailing banking system.

At the end of my speech, I would like to reassure our Government's commitment to economic reform and strong willingness to take an active part in the important mission of the international community in their efforts to foster a stable environment conducive to global growth and equity development of all nations world-wide toward the new millennium of humanity—the 21st century.

MOROCCO: FATHALLAH WELAALU

Governor of the Bank

(on behalf of the Arab Governors)

It is a pleasure and an honor to deliver this speech in the name of Arab Governors to the World Bank and International Monetary Fund (IMF) meetings. Allow me, at the outset, to extend my heartfelt congratulations to you for being selected to chair the Board of Governors this year, Mr. Chairman.

Today, the global economy is going through a difficult phase, fraught with risks and challenges. The Economic conditions in the Asian crisis countries and Japan have worsened; economic growth in those countries has deteriorated more than was expected. The crisis has spilled over into other countries, including Russia where economic problems have clearly been compounded, and Latin American countries where financial market fluctuations have so intensified that some of them were forced to take protective measures to limit

the adverse effects on their economies. The speed of such developments and the potential worsening of the crisis on a global level have stressed the urgent need for concerted efforts by international financial institutions, member states and the private sector in order to prevent further deterioration of the global economy and avert a spillover of the crisis into other regions of the world.

At this juncture, the world community faces several challenges. First, the need for concerted efforts to boost global demand and increase the growth rate of the global economy. This specifically means that high growth rates of the European and U.S. economies should be maintained, and Japan's economy should be revived expeditiously. The substantial decline in Japan's GNP growth in 1998 suggested the need to take more effective steps to stimulate the economy, proceed with banking system reforms, and solve the problems which prevent restoration of investor and consumer confidence in the possibility of revising the economy in the near future. The world community should also take the steps necessary to prevent a spillover of the crisis into other countries.

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

The third challenge lies in identifying the causes of the recent crisis to determine the steps necessary to resolve them and prevent a recurrence of the crisis in the future. This also involves the need to identify weaknesses in the structure of the global financial system that helped compound the crisis and spread its effects across countries. In this respect, it should be particularly noted that the crisis had shown the danger involved in the growing dependence on short-term capital flows to finance countries' external needs. The growing size of such flows intensifies the impact of their sudden decline on the stability of the banking sector in particular and the overall economy in general. Therefore, it is imperative to watch private sector as well as state indebtedness and take measures to reduce dependence on short-term capital. The crisis has also shown the utmost importance of supervision of the banking and financial sector to ensure its soundness and stability in the face of the problems created by the sudden decline in banking system cash liquidity. The unexpected decline in capital flows to the Asian crisis countries, and the accompanying sharp drop in exchange rates and sharp rise in interest rates, revealed the weakness and fragility of many banking systems there and the lack of adequate supervision

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

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

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

We also welcome the attempt to find appropriate ways to involve the private sector in reducing the possibility of future financial crises and in sharing the burden of resolving them when they occur. In this respect, we would like to stress in particular the importance of creating a mechanism to reschedule the external debt of the private sector in an orderly manner in intractable cases that cannot be solved by market forces. We also stress the need for authorities in capital-exporting countries to strengthen supervision of international operations of their financial institutions and to urge those institutions to publish adequate financial statements pertaining to such operations.

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

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

In the course of dealing with debt problems, we would like to stress the need to find appropriate ways to resolve the debt problems of middle-income countries as well, since the debt burden is hindering development efforts in many of those countries.

Allow me now to move on to welcome the historic step anticipated early next year, namely the establishment of the European monetary Union. While we wholeheartedly welcome this union in view of its expected benefits to the peoples of member states, we think that it is necessary to strengthen the role of the Fund in monitoring and supervising the economic and financial policies of the European community in view of the projected effects of the union on the world economy, the economies of neighboring countries and those of the Mediterranean countries in particular. On this occasion, we would like to urge member states of the European community to reduce customs and tax restrictions on products of developing countries in order to minimize the potential adverse effects of the European Monetary Union on those countries.

I would like now to move on to issues related to the World Bank Group.

The most important feature of World Bank Group operations in the past fiscal year was a substantial increase in loans and credits, far in excess of planned operations. Undoubtedly, the key factor that led to this level of activity was the role played by the World Bank Group in response to the financial crisis, particularly in East Asia, a role that should be supported in view of the wide-ranging effects of this crisis on the economies of many other countries.

We also welcome the continued focus of Bank operations on reducing poverty, developing human capacities, including health and education sectors, and protecting groups most vulnerable to the adverse effects of adjustment measures. We also look forward to increased attention to the conditions of low-income countries and those suffering the effects of armed conflicts. We would like to mention that there are broader areas for World Bank Group activities in the Arab countries, especially in light of the profound changes in economic policies undertaken by our countries in recent years, which have clearly contributed to the creation of an investment-friendly climate.

A look at the policies of the World Bank Group clearly indicates that the difficult circumstances through which the global economy is going will require more efforts to improve the ability of this Group to deal with fluctuations and complex situations resulting in particular from globalization and the adverse social and economic effects of financial crises.

We welcome the efforts exerted by the World Bank Group in the past fiscal year in this direction in the context of the Strategic Compact, and the priorities it has adopted to improve the efficiency of performance and deal with the challenges posed by globalization and financial crises, and the emphasis on development of human capacities and broadening of cooperation with other institutions and donor countries. We also support the positive directions of World Bank Group practices designed to give borrowing countries the initiative in leading the development process and assist them in selecting and applying appropriate policies to support their development efforts.

We would also like to stress the need for the World Bank Group to focus on its main goal of reducing poverty and contributing effectively to the development process in a large number of low-income countries whose conditions have worsened in light of current global developments. This will require that the World Bank Group devote its limited resources to the main objectives consistent with its mandate and character, and to shoulder a limited portion of the burden of dealing with international financial crises in a way consistent with its financial conditions.

As is well-known, the issue of fair sharing of burdens emerged also in the recent measures taken to deal with a decrease in the net income of the IBRD, which resulted in an increase in borrowing costs. We support the efforts made by Bank management and Executive Directors to analyze and discuss the projected decrease in net income and its potential effects on Bank activities. However, we believe that it is not fair that borrowing countries should shoulder the larger part of the burden of solving this problem, particularly since many loans recently extended by the Bank Group were designed to stabilize world financial markets and also will benefit major industrial countries.

Therefore, we support the Bank management's initiative in calling for the establishment of a special fund to be financed by the donor countries to contribute to operations to be financed also from net income. In this respect, we also look forward to greater efforts by the major donor countries to replenish the resources of the International Development Association (IDA) and provide additional resources to finance the Highly Indebted Poor Countries Debt Initiative (HIPC). This would help alleviate the Bank's financial burdens and ensure expanded utilization by low-income countries of Bank Group resources.

Allow me now to move on to a brief review of current developments in the Arab countries. In this respect, it should be noted first that the continued decline in world oil prices has adversely affected economic growth rates in our region, particularly in the oil-exporting countries. This has resulted in a reduction in public spending and the adoption of measures to increase non-oil revenues of those countries. The oil-producing countries have intensified their efforts to diversify their economies by improving the investment climate for the private sector and enhancing the quality of education and training of the local manpower.

In other Arab countries, the implementation of ambitious economic reform programs continued. This resulted in higher growth rates and lower inflation in a number of these countries. Marked progress has also been achieved in transforming their economies to market economies by opening infrastructure to private sector participation and privatizing public enterprises. This progress has been reflected in a marked improvement in the economic climate in Arab countries, increasing the volume of private sector investment in various economic activities. However, it should be noted here that Arab countries have been adversely affected by a decrease in world capital flows, which in turn has adversely affected their development plans. Therefore, we appeal to the IMF and the World Bank to continue and intensify their efforts to provide financial support and technical assistance to the Arab countries and their specialized agencies to enable them to deal with the challenges of globalization of the world economy and maximize the benefits from the new international conditions. It should be mentioned in this respect that sanctions imposed or threatened against a number of Arab countries, which we have drawn attention to in the past, are still in place. This adversely affects the economic conditions of these countries. We can only reiterate our just request to reconsider those measures objectively in order to alleviate the suffering of the affected peoples. We raise this issue because of the adverse effects of those measures at the financial and economic level and on free trade and the free transfer of capital. Hence, we call on the IMF and the World Bank to play a role in this respect.

We would also like to note the distinct efforts made to develop the Palestinian economy and build economic and financial institutions in the Palestinian territories. This has taken place with effective support from the World Bank, the IMF and donor countries. We would like to commend these valuable international efforts which are designed to help the Palestine National Authority overcome the difficult economic and living conditions in the Palestinian territories. But we are sorry to note that such efforts still face mounting obstacles as a result of the Israeli practices related to continued blockades which have hindered the Palestinian people's self-development efforts, wasted Arab and international financial contributions, and hampered the Mideast peace process. Therefore, we urge the World Bank Group, the IMF, all international institutions and member states to demand that the Israeli government give up such practices, and stop closing the borders and placing obstacles in the way of Palestinian, Arab and international efforts to develop the Palestinian economy.

MYANMAR: U KHIN MAUNG THEIN

Governor of the Bank

First of all, on behalf of the Myanmar delegation and on my own behalf, I would like to express my warm appreciation to Mr. Chairman on his assumption of the Chairmanship of the 1998 Annual Meetings of the Fund and the

Bank. I have no doubt that under his able guidance, these meetings will be a great success.

As we gather here for the Fund and the Bank Annual Meetings, we are aware that the Asian financial crisis of 1997, and its contagion effects, are very much still with us today. The course of events have shown how the Fund and the Bank have risen to the occasion by responding with prompt action to contain further deterioration of the situation, restore confidence and help to lay the ground work to resume the road back to stable sustained growth.

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

We have followed with appreciation the World Bank's financial supportive role in joining the Fund in dealing with the Asian financial crisis. We are also appreciative of the Bank's involvement in helping poverty reduction and enhancing the quality of life and promote sustainable environmental management.

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

Let me now touch on some features of Myanmar's economic development.

Since the latter part of 1988, streamlining of foreign trade procedures and liberalization of both internal and external trade had been introduced. Foreign investors are allowed to invest in Myanmar and foreign bankers are permitted to open their representative offices. Myanmar has been participating in regional cooperation programs and cooperating with both developed and developing countries for its technological advancement. Rural and border areas development activities are being implemented to alleviate poverty and also to reduce gaps in differences between rural and urban populations.

As over 60 percent of the population reside in the rural areas, the increase in farm income through the promoting of agricultural production has been the most appropriate strategy applied for poverty alleviation.

As agriculture is the mainstay of the national economy, 60 percent of the total population has been engaged in agriculture sector and it has been 35 percent of G.P., the promotion of agricultural production is fundamental for poverty reduction in both rural and urban areas. Efforts are being made to promote agricultural production with special emphasis to boost production of paddy, beans and pulses, sugarcane and cotton which have now been carried out through intensive and extensive cultivation with modern technical know-how.

With respect to the rural development programmes, the policy objective of regional development in Myanmar is mainly towards self-sufficiency and

self-reliance by promoting all round development through exploration and effective utilization of natural resources of the region, provisioning of the required inputs and also by infrastructure development. To raise the living standard of national races who have remained under-developed and lagged behind for decades, and also to alleviate poverty in rural areas, the government has effectively and systemically carried out the development of the border areas and national races since 1989 through multi-faceted programmes.

Myanmar has made all-out efforts to promote economic and social progress without substantial external multilateral cooperations. A market-oriented economic system has been pursued for almost a decade; a strong economic growth has been registered through out the years. This does not imply that Myanmar is not in need of multilateral assistance in striving towards economic and social development but this is to say that Myanmar could have more significant impacts and achievements in its economy with all the external multilateral assistance in complementary to its national endeavors.

We are combating unemployment, drug abuse, HIV/AIDS, environmental destruction and social distress mostly on self-reliance basis and it is obvious that now it is time to have solutions to cope with the magnitude of the above mounting problems with international cooperation. Rekindling old ties with the Bank is by no means a new cooperation pact; but it is rather reviving the "good old spirit" of the partners in the development arena.

Myanmar is the land with rich natural resources to be tapped for development purposes. Unfortunately, multilateral financial assistance to Myanmar have been unfairly suspended since 1988. Myanmar has been a legitimate member of the Bank and the Fund since 1952. As a legitimate member, Myanmar is fully eligible for the Bank's development assistance. However, the Bank has neglected Myanmar's development efforts and it has failed to assist Myanmar for the past eleven years. However, we have cooperated with the Bank and the Fund and we have been servicing our outstanding payments to the Bank regularly, up to the end of 1997. In the absence of major multilateral and bilateral donors, Myanmar managed its development needs with its own financial resources. However, I wish to say that the scarcity of financial resources hampers the implementation of various development activities, which are beneficial not only for Myanmar, but also for the region as a whole.

In fact, the Bank's ultimate purpose is to assist its members in endeavoring for their development. Moreover, the Bretton Woods institutions themselves had established their objectives to assist member countries without any influence in their decisions by the political character of the member concerned, but only economic considerations. I would like to exhort the Bank to assist all member countries on equal footings, without any political bias. And I would also like to urge the Bank to assist Myanmar with concrete and tangible support for its economic development based only on economic consideration.

Taking this opportunity, I would also like to mention that the Myanmar Government has been striving for all-round development in political, eco-

conomic and social fields to pave the way for the emergence of a peaceful, tranquil and a new modern developed nation in accordance with the 12 objectives laid down by the State. To fulfil the needs of food, clothing and shelter are the most basic human rights, and thus the Government is fulfilling the people's requirements at its utmost for easing food, clothing and shelter needs of the people. The Government has been making efforts to uplift the quality of the people's life and is also striving for emergence and process of proper democratic system. Myanmar really needs external financial cooperation in such a time of stringency and it would highly appreciate if the Bank took positive initiatives towards return to normalcy.

In conclusion, let me reemphasize the critical role of the Bank and the Fund which play to continue its concerted efforts to develop the international monetary and financial system, promoting enhancement of development process. I am confident that the Bretton Woods institutions should exert to have the important tools to respond to their future challenges in the developing world with the most flexible initiatives in the area of cooperation among the developing and developed countries.

NEPAL: RAM SHARAN MAHAT
Governor of the Bank

It is a great honor and privilege for me to address the Annual Meetings of the World Bank and the International Monetary Fund.

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

We thank the Bank for the progress made so far in Highly Indebted Poor Countries (HIPC) Initiatives. We are confident that with the extension of the eligibility period of the Initiative for two more years, more countries will benefit from this Initiative. We also support the Assistance to Post-Conflict Countries and urge other creditors and donors to complement the Bank in this endeavor.

It is commendable to note that the IMF has been active in raising financial resources to add to its fund. The increase in quota of member countries also

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

This Year's Annual Meetings are being held at a time when the world is passing through a difficult period. The countries in the East Asian region have suffered severe economic setbacks. The economy of Japan is also under pressure. Transition economies, particularly Russia, are also in crisis despite tremendous IMF financial backing and support from the world economy. Currency crisis, banking and economic turmoil have become common phenomenon in a number of countries. We firmly believe that the Bretton Woods Institutions and the world community, together, will come out with a reform package to help overcome the problems on an urgent basis before the turmoil spreads to other economies, leading to a situation of full-blown financial crisis. In the process of tackling the problems faced by countries in turmoil situations, the interest of smaller developing countries with a high degree of poverty should not be overlooked.

Time is a crucial input for development. Time needed for designing and processing a programme and disbursing the fund should be carefully minimized. Likewise, recipient countries should devote greater attention to the effective implementation of the development programme. I believe that the pace of development depends on these commitments.

Nepal embarked upon an economic reform programme in 1991 which led to the series of reforms in trade, industry, tax, and foreign exchange regimes, in line with the imperatives of liberal and open economy. The private sector was allowed to play a broader and dynamic role in the economy, and the government declared a policy of gradual disengagement from the management of public enterprises. The economy was growing at a rate of more than 5 percent in the last six years since 1991, with relative financial stability. The situation deteriorated last year. During FY 1997/98, the GDP is estimated to have grown by only 2.3 percent, the lowest growth rate since 1986/87. The agriculture growth rate was less than expected and private sector investment did not pick up. Revenue growth was not as expected and the development expenditure also slowed down. When the present government came into power in April 1998, the government took various measures to mobilize additional revenue, curtailed unproductive expenditures, and accelerated the privatization process. We have succeeded in regaining the confidence of the people. Now revenue has shown encouraging signs of growth and investment has started to pick up. In order to strengthen domestic resource mobilization efforts, government is committed to implementing VAT effectively.

Attainment of economic efficiency through the privatization process has been given priority. In this context, the government in the last six years has privatized 16 public enterprises; and currently four major public sector undertakings are in various stages of privatization.

A sound financial system is a prerequisite for smooth functioning of the national economy. Our commitment has, therefore, been to augment financial

sector reform so as to create a conducive atmosphere for healthy and sustainable economic development.

Equally important challenges for the Nepalese economy are to achieve broad-based growth and address the issue of poverty. These are challenging and complex issues. We believe that the development activities should be initiated at the grass root level with the meaningful participation of the stakeholders. People should be in the forefront of the development process and they should take a lead role in ensuring the investment efficiency and sustainability of the project benefits. In order to reinforce the participation process, the parliament has recently passed a Local Governance Bill, which will give more authority to the locally elected bodies in terms of revenue mobilization, allocation of resources, and implementation of development activities.

Infrastructure development is crucial to Nepal's economic development. Establishment of a rural road network; harnessing of water resources for irrigation and power development for domestic as well as the export market; and expansion of the rural telecommunications are some of prerequisites to reduce rural poverty, and the development of these sectors calls for higher investment. We have consistently increased the allocation for the social sector. In the current year's budget, more than one-third of the development budget has been allocated for the social sector. Here again, in order to improve the quality of services to the rural areas, expansion of rural infrastructure network is essential. This is also a prerequisite to enhance the capacity of the economy to accelerate the growth rate. We therefore urge the international community to support the development of Nepal's poor infrastructure sector, without which the goal of reducing poverty will become a distant dream.

The revised document of the Ninth Plan (1998–2003) has outlined a perspective for Nepal's long-term economic development. This plan at its core has set poverty alleviation as its sole objective, aiming to reduce the population under the poverty line by one-fourth. The targeted GDP growth rate is 6.0 percent annually. The plan also seeks to limit the growth of the money supply at 13 percent, while anticipating inflation at 6.5 percent. In order to achieve the targets, the plan has envisaged, within the framework of the goals defined by the Agriculture Perspective Plan, rural development with a greater focus on social services, agriculture growth and income generating activities, and the development of infrastructure, including the construction of rural roads. It will ensure the involvement of the civil society in socioeconomic development. The government will play the role of the facilitator. The promotion of the private sector, especially in industrial, trade, tourism, and other service sectors, is the core of the reform program.

The government is committed to provide good governance, and address the problem of corruption. Corruption is a complex issue with social, political, legal and institutional dimensions. It requires the efforts of both the donor and recipient community to fight this menace. We therefore seek the World Bank's cooperation in tackling this problem.

We firmly believe that the international community will support our efforts by providing an increased level of concessional finance, particularly to the poorer countries. We are encouraged by the recent announcement by the UK government to increase their development assistance by 25 percent. We expect that IDA 12 negotiations will be successfully concluded by the end of 1998 to avoid any uncertainties. Judicious and efficient utilization of increased development assistance will help to avert not only the problems that many countries are faced with, but also make the world a better place to live in for millions of people who have never had a chance to acquire even the basic needs of life.

NETHERLANDS: GERRIT ZALM

Governor of the Bank

The policy response of IMF and World Bank

As we all know, the world economy is currently experiencing serious financial instability. In this difficult situation the IMF's response has generally been adequate and continues to be supported by the Netherlands. Also, we support the Bank's efforts to assist countries in implementing the necessary structural reforms in the financial and the corporate sector and to alleviate the effects of the crisis on the poorest and most vulnerable. In a number of Asian countries recovery is now under way. However, in other cases, efforts to restore confidence have not yet brought about the desired result. This warrants a careful evaluation of the policies of the countries concerned and of the response of the international community. In this respect, both sufficient availability of funding and appropriate burden sharing between public and private actors are essential.

Financial sector management

In the meantime, it is possible to formulate a number of preliminary lessons to be learned from the crisis and the international response to it. A core lesson for IMF and Bank members is that sound macro-economic monetary and budgetary policy are a necessary, but not a sufficient condition for financial stability. A healthy financial sector safeguarded by adequate and effective supervision is similarly important. We welcome the initiatives that have been taken in response to the Asian financial crisis by the Bretton Woods institutions and by other international organizations to enhance and monitor standards in financial sector supervision. Further technical assistance by the international community to help emerging markets in establishing sound financial sectors is urgently needed. For this, we do not need to create a new international organization. That would only divert attention from the urgent real issues. We have already assigned to the IMF the task of monitoring the implementation and observance of the Basle Core Principles. This monitoring

should preferably form a regular element in Article IV consultations. In our view, Fund resources should be redirected to this end. In addition, the World Bank should further increase its capacity to assist countries, also pro-actively, in strengthening their financial sectors. I do think that these efforts need to be further stepped-up and coordinated where necessary.

Hedge Funds

Particularly in periods of financial distress, sizeable bank losses resulting from excessive risk taking may lead to a rapid loss of confidence in financial markets, seriously increasing systemic risk. In recent weeks, we have seen the near collapse of a hedge fund. The lessons to be drawn from this event are twofold. Firstly, transparency of hedge funds should be improved, so that all parties associated with hedge funds are aware of the risks they run. Secondly, the sheer size of banks' exposure to these funds is worrying. In our view, the Basle Committee should take the lead in examining these issues further.

Capital controls

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

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

Burden sharing public-private sector

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

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

Rethinking the architecture of the international monetary system

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

Fund-Bank collaboration

In responding to the international financial crisis, we should ensure that Fund and Bank do not duplicate, but remain complementary. They should continue to focus on their primary responsibilities. The Fund should continue to be focussed on macro-economic stability and restoring confidence in times of crisis. Medium and long term structural policies are primarily the responsibility of the Bank. In this respect, we welcome the attention paid by the Bank to the social consequences of crises. In cases of overlap such as the efforts to strengthen the financial sector in emerging markets, the need for good co-operation is evident. We welcome the improved Bank-Fund co-operation in specific pilot cases as a follow-up of the ESAF evaluation. The Bank should not engage in large scale balance of payments financing for the crisis countries, an activity for which it lacks the mandate and the instruments.

IBRD Net Income

Apart from the mandate issue, the provision of large scale balance of payments support puts undue pressure on the financial capacity of the Bank and shifts that burden onto the borrowers. A more equitable burden sharing could

very well involve a capital increase. Declining net income cannot adequately provide sufficient funding for reserves and for the other purposes which shareholders want the Bank to finance. We must be aware that there is a limit to what we can ask the Bank to do. We would therefore urge shareholders to live up to their responsibilities and contribute adequately to HIPC and IDA.

The international financial institutions cannot continue to respond to international crises by supplying ever larger rescue packages. All actors, including the countries concerned and the private sector should strengthen their efforts to avoid further turmoil. Fund and Bank should be provided with the necessary means to continue to play their role. In this context, I am glad to be able to announce today that the IMF quota increase has been approved by Dutch parliament.

NEW ZEALAND: W.F. BIRCH
Governor of the Fund

This annual meeting of the IMF is a pivotal to economic confidence and a recovery of growth in the world economy. We can continue to endorse open market fundamentals, and lead the world, including developing, emerging and transition economies, into a new era of global growth. Or we can encourage nations into the blind alley of renewed protectionism and other inward-looking policies, setting back for many years the achievement of that growth. I welcome the focus now being developed by the G7.

The contribution of the large industrial economies to confidence is crucial. But smaller economies have a role to play too, if they run open stable policies that maintain investor confidence.

There will always be cause for concern about the volatility of capital flows where countries have not yet set in place the fundamentals of a sound economic framework—where financial sector reform has not been addressed, bad loans abound: where governance and bankruptcy arrangements are inadequate. But where capital is desperately needed to lift the living standards of a people, it is no answer to shut out that capital, or impose constraints that boost its price.

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

In my country, New Zealand, in the 1970s and early 1980s, we had had one of the most protected economies in the western world. Designed to protect, it greatly increased our vulnerability.

We went through, in the mid-1980s, the same process of rising debt, exchange rate crisis, capital surges, inflation, and banking problems seen more recently in Asia. Without reform, the impact of the Asian crisis on New Zealand would inevitably have been high interest rates, serious bankruptcy, and massive unemployment. Instead, in 1985, we floated the Kiwi dollar. It is universally understood today that the Government and central bank are not

going to prop it up. This is a totally clean float. Banks and corporates know they have nothing to gain from undertaking unhedged foreign exchange liabilities. The exchange rate adjusts freely, in line with economic fundamentals.

We base our policy framework on five principles:

- an open economy, open trade policies and open capital markets;
- price stability as the sole statutory priority of the central bank;
- prudent fiscal policy, including a buffer against fiscal shock;
- flexible labor markets; and
- a low-rate broad-base tax system.

Those policies have trebled our growth, halved net public debt, cut net public foreign currency debt to zero, cut unemployment from 11 percent to 6 percent, and transformed our economic future.

If we want exporters to compete globally, we have to give them world input prices. Legislation passed last week timetables the removal of all remaining tariffs by July 2006. New Zealand has increased its Asian exports by 75 percent since 1990. Last year 7.8 percent of GDP and 36 percent of total exports went to Asia.

We have more exposure to Asian markets than any other OECD nation, leaving aside Japan, Korea and Australia, so inevitably, the Asian crisis hurt us. We expect -0.5 percent growth in the year to March 1999. Fiscal surpluses are off the table for 2 years. But we see growth recovering late this year to 3 percent in 1999–2000, and 4 percent in 2000–01.

New Zealanders exporting into a flat Japanese market have been able to boost sales by 20 percent in recent years. Large competitive efficiency gains in the last 3–4 years now combine with a major movement of the kiwi dollar in their favor.

Even on the low-growth assumption that demand for New Zealand exports goes on contracting till late 1999, our Treasury expects growth to average above 2.8 percent in 1993–2001.

There are however clear risks to global growth in the period ahead. In this environment, the IMF has a key role. Accountability is fundamental. If banks can make bad lending decisions with relative impunity from financial consequences, there will be no end to bad loans they make.

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

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

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

They did not, in the run-up to the Asian crisis, warn adequately of the underlying risks to stability. True, others also missed the boat. But the IFIs have a special responsibility. This annual meeting is pivotal, in particular because the juggernaut set in motion by the Asian crisis may have some distance yet to travel, before we can halt its destruction. I am encouraged by the steps already taken by Asian countries such as Korea and Thailand, but big risks still remain for the world economy.

It may be, for example, that growth in the US economy in 1999, reduced by events elsewhere, may fall as low as 0–1 percent. That would cause impacts in Europe and world-wide. If so, it would be difficult in the extreme for nations to find their way through that minefield, without clear strong delineation from the IMF and World Bank of the best choices to make. Confidence depends on being able to identify a reliable path though all these present difficulties, into a better global future.

Without leadership, the risk of a return to ad hoc protectionism based on myopic analysis and self-defeating policies is enlarged to seriously dangerous proportions. Providing that leadership and confidence is, in my view, the key task of this meeting.

PAKISTAN: HAFIZ A. PASHA

Governor of the Bank

It is my privilege to participate in the 1998 annual meetings to which I welcome Palau as a new member, and also record my appreciation of the Joint Secretariat for the excellent arrangements made for these meetings.

This year's meeting is like no previous meetings. At no time in the past has the role of two institutions, the IMF and World Bank been as seriously questioned as it is being done today. Hardly a day is going by nowadays without the appearance of a leading article in the most influential newspapers and journals, written by some of the most eminent academics, political leaders and persuasive authors of the world, on the role of the IMF and the World Bank. To be sure, there has always been some confusion over the respective roles of the IMF and the World Bank. Remember, that Lord John Maynard Keynes, more a founder of the two institution than anyone else, was perplexed at the inaugural meeting of the IMF. He thought the Fund should have been called a bank, and the Bank should have been called a fund.

Clearly, we are at the same crossroads that we were in 1944 at Bretton Woods. The present crisis has brought home to us, in stark terms, that, while global economic integration has presented developing countries with new opportunity, it has also has incurred huge costs. Policy makers now have to contend with far too many exogenous factors. For instance, the world economic outlook, as outlined in the 3rd October communiqué, alludes to the substantial fall in commodity prices which is adding to the difficulties of many

countries and to deflationary pressures on the global economy, as a result of which developing countries have to suffer losses in export opportunities, income, production. To these are added the social and economic costs of adjustment. The additional risk of destabilization imposed by unbridled capital movements is the ground for intense anxiety which has already gripped these meetings.

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

This brings me to the important point about ownership of reform programs. Ownership cannot be externally induced or imposed. I am not rehearsing here the familiar condemnation of "conditionalities." That would only be political rhetoric. My point is a more substantial one, that in its doctrinaire adherence to standardized economic prescriptions (the officially sanctified remedy for all ills) the IMF at times ignores home grown measures that can be more effective than those that are externally imposed. The unfortunate consequence of these attempts at adherence to a uniform economic theology is that hardly any attention is given to the context of a program. The great virtue of an indigenous reform effort is disregarded. Small wonder that IMF programs run into questions of ownership and arguments over the sequencing and timing of administering therapeutic treatment.

My fellow Governors, we in Pakistan have always been great supporters of the Bretton Woods Institutions and will continue to do so in future. We have continually argued for greater and sustained replenishment of IDA. We also favor capital increase which is the only long-term solution for ensuring that the Bank can provide financing for projects which the G-7 is itself encouraging the Bank to assist in. We also support the further replenishment of IMF quotas.

Mr. Chairman: Elimination of poverty was the prime purpose of the Bank and the *raison d'être* of IDA. Despite a half century of efforts, poverty remains the biggest curse of mankind. One can even argue that some of the indices of impoverishment have in fact, worsened. However, with the arrival of Mr. Wolfensohn there has been a renewed vigor to get back to the Bank's first principles. We, in the Third World, are deeply appreciative of his vision of the "strategic compact" and a re-alignment of priorities for removal of hunger, want, malnutrition, and disease. The five-point conceptual framework which he unfolded yesterday could not have come at a more opportune time. We

assure the management of both institutions that are solidly behind them as they trace their steps along the “markers” which the Chairman has so eloquently talked about.

Finally, let me give you a brief report on the economic situation in Pakistan.

Pakistan had undertaken a bold structural reform program in February 1997 when our Government assumed office. The economy was beginning to respond positively to the program with an increase in growth from 1.3 percent in 1996–97 to 5.4 percent in 1997–98, a reduction in the fiscal deficit to a five year low of 5.4 percent of GDP and a lowering of the rate of inflation to 7.8 percent from a double-digit level in the preceding years. Pakistan was therefore able to meet all the performance criteria under the ESAF/EFF arrangements with the Fund. Despite this commendable performance, our program received a severe setback as our response to our regional security problems triggered sanctions against us. The sanctions also affected our relationship with the international financial institutions. Even the Fund Program was put in abeyance despite Pakistan having met the performance criteria. This disruption in our normal financing has led to severe difficulties requiring emergency measures. We are doing all that we can to continue with our reform program and are in the process of negotiations with the IMF. I am confident that the world community will be willing to support Pakistan in this endeavor.

I thank you Excellencies for providing me with this opportunity.

PAPUA NEW GUINEA: IAIRO LASORO

Governor of the Bank

I would like to take this opportunity to welcome Palau as the new member of the World Bank and IMF, and a member of the Pacific Group.

I would also like to join the previous speakers to share our experience in coping with current economic and financial difficulties which are affecting many parts of the world and indeed the smaller nations in the South Pacific Region.

This meeting is timely as it allows us to address common issues together, learn from each other and look for options and solutions to assist in minimizing the impact of these difficulties.

The current problems in Russia add to the world’s economic difficulties. I know this is being closely monitored by international financial institutions and agencies in various fora—most recently in Ottawa, Canada last week at the Commonwealth Finance Ministers meeting.

At this juncture let me express my appreciation to the World Bank and the International Monetary Fund for providing assistance to the member countries affected by this crisis. Although this has provided some relief to the economies affected, the problems appear to have penetrated the basic structure of their

economies thus affecting the general economic activity of these countries, their trading partners and other countries in the region.

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

Allow me now, Mr. Chairman, to outline the developments in Papua New Guinea over the last twelve months.

Recent Economic Developments

I wish to place on record our Government's appreciation for the assistance provided to Papua New Guinea by the Fund and the Bank particularly in recent years. In late 1994, the Papua New

Guinea economy experienced a balance of payments crisis, resulting from expansionary fiscal policy in the early 1990s. The crisis prompted a marked change in fiscal, monetary and exchange rate policies.

Strict expenditure controls were introduced to bring the fiscal deficit under control, monetary policy was tightened significantly and a floating exchange rate regime was introduced.

In early 1995, the Government introduced a macroeconomic stabilization and structural adjustment program, which was supported by a World Bank Economic Recovery Program loan and a Fund Standby Arrangement. Among other areas, the Government program focussed on the reestablishment of macro economic stability.

The Government's program produced positive results. The economy stabilized and economic growth resumed.

During 1995, fiscal policy was tightened to allow a budget deficit of half of one percent of GDP for the year. In 1996 the deficit was brought into surplus of one half percent and again in 1997 a small budget surplus was achieved.

Concurrent with improved fiscal management was a turn around in the external accounts. In both 1995 and 1996 balance of payments surpluses were recorded.

These surpluses were underpinned by very healthy performance in the current account, particularly in a positive merchandise trade balance.

Economic growth resumed in late 1995, and throughout 1996 the economy expanded strongly. This growth continued in early 1997. All of these goals were achieved against the backdrop of favorable external factors, including strong economic growth in Papua New Guinea's export markets and relatively good mineral and commodity prices.

The 1997 year was embarked upon with much the same favorable external environment and up to mid-1997 the PNG economy performed well, registering strong current account surplus and strong activity in the non-mining private sector.

In mid-1997 Papua New Guinea faced its worst drought in living memory caused by the El Nino weather phenomenon which affected seriously the rural economy and the livelihood of more than one million people.

The situation turned into one requiring a large-scale humanitarian supply of staple food items and water to rural communities. A quick response avoided many deaths caused by starvation and subsequent epidemics of disease.

The economic impact of the worst drought in Papua New Guinea's history was reflected in a drastic shortfall in export revenues and a sharp general economic contraction.

This was prompted by sharp falls in agricultural production in some areas and temporary closure of two of the country's largest mining projects as rivers dried up.

While the drought has subsided significantly, some sectors of the PNG economy are yet to fully recover.

As if the drought was not enough challenge for our Government which was elected into office in July 1997, in late 1997 Papua New Guinea faced a formidable challenge posed by sharply falling commodity prices, which were the result of the East Asian financial crisis.

This involved very large falls in oil, gold, copper and log prices. The significant declines in both prices for and volumes of these exports in 1997 left PNG with a large balance of payments deficit by the year's end.

As in the case of several other countries in the region, the balance of payments crisis put significant pressures on our currency beginning in mid 1997, but particularly in the first half of 1998, resulting in 40 percent depreciation of the Kina.

In response, our Government introduced in July 1998, several bold measures to reinforce fiscal and monetary controls which had been built in the 1998 budget, in order to arrest further decline in the exchange rate.

Stability of the exchange rate has been achieved since late July with the Kina remaining within a band of 40-45 United States cents.

The Governors will also recall that PNG has continued to suffer from the ravages of nature in 1998. The tidal wave disaster that struck Ataipe in the West Sepik Province of Papua New Guinea further increased pressures on the Government's budget.

Furthermore, sustaining the encouraging peace initiatives on Bougainville Island has required substantial expenditures on rehabilitation and peace accords. Maximizing the probability of peace will necessitate increased funding to the province to restore social and economic infrastructure.

In line with the mandate of our people, our new Government has initiated, and made significant progress, in putting in place the necessary legal framework

to combat widespread corruption in the public sector, and to improve public service delivery. A draft bill to establish an Independent Commission Against Corruption (ICAC) is before the Parliament and the Government is committed to a bi-partisan support to make the Act effective.

Our Government has also taken major steps in unleashing economic potential of Papua New Guinea. A major reform of the tariff and excise tax system has been passed by Parliament to become effective on January 1, 1999. A second Value Added Tax legislation has been considered by the Parliament and awaits its third and final reading before the end of this year.

These are major achievements by any standards and are fully in line with the international trends in integrating Papua New Guinea into the global economy.

The Papua New Guinea Government is determined to further encourage and promote fair and equitable development as enshrined in the constitution through maintaining a stable macro economic environment and law and order. This commitment has been demonstrated repeatedly most recently by the Prime Minister Hon. Bill Skate's, visit to the IMF and the World Bank.

In addition to implementing policies designed to restore economic stability our Government has pursued policy dialogue with both the IMF and the World Bank with a view to obtaining a Standby facility together with a Social and Economic Development Program loan respectively. However, for the last two years PNG has been forced to go through a recovery path alone while many other countries with access to substantial private capital inflows have succeeded in receiving significant support from the Bretton Woods institutions. Furthermore my Government is confident we will emerge from the current "challenging period" with economic stability intact and an economic structure from which social development can rapidly progress.

Papua New Guinea calls on the World Bank and the International Monetary Fund to not limit their focus to addressing the problems of only the larger economies. The challenges faced by the smaller nations in the region are as real as those of larger countries. However, with the limited access of smaller and emerging economies in the Pacific to other sources of funding, the IMF and World Bank's failure to assist them could indeed result in unspoken social devastation and poverty.

PARAGUAY: HEINZ GERHARD DOLL

Governor of the Bank

It is a privilege for me to address the participants in these Annual Meetings and to convey greetings from the people and new government of Paraguay. We would also like to join in welcoming the Republic of Palau.

My country has not been spared the effects of the global economic events of recent years. This has required a major effort to adopt domestic policies in a timely manner, so as to minimize the adverse impact on our economies while enabling us to find prompt responses to the nation's social problems.

The challenges involved in grappling with the recent financial crises, whose effects are spreading to the rest of the world, have had a major impact on the development of the smaller economies, which have had to make greater efforts to overcome their domestic problems as well. That is why it is important for these issues to be discussed at the annual meetings with all member countries of the World Bank and IMF, in order to identify appropriate and timely solutions for the emerging economies, which are having to cope with the fallout from events unfolding elsewhere.

Accordingly, the core objective of Paraguay's new government, which took office on August 15, has been to achieve sustainable economic growth through development of the production base, grounded in competitiveness, as a means of ensuring social development for the people.

The government's strategy is therefore aimed at strengthening the macro-economic environment based on a market economy and greater involvement of the private sector, considering that the government's efforts will focus on promoting the rationalization and reorientation of public expenditure.

With this in mind, we have decided to embrace the economic, social, and political challenges of improving our nation's fortunes by consolidating the reforms of our financial sector, deepening state reform, enhancing the transparency of government management, boosting productivity, and raising quality standards, with the aim of increasing national savings and exploiting the potential advantages that MERCOSUR offers.

Furthermore, our goal is to improve public services, broaden the coverage of social services, and ensure equal opportunities for the entire population, so as to embark on a course of sustained and sustainable development.

As part of this strategy, from the outset we adopted a policy of austerity in fiscal expenditure and, in the first 45 days of our administration, we reduced government outlays by 11 percent relative to the same period of 1997, while prioritizing education, health, infrastructure, and basic services.

With the aim of enhancing our performance in the area of tax collection, we are upgrading our tax supervision and audit mechanisms with a view to boosting tax revenue. In the early days of our administration, we successfully increased the tax yield by 10 percent in relation to the same period of 1997, notwithstanding a sizable reduction in import volumes.

The most important measures include the consolidation of education reform as the principal tool of development and poverty reduction. In addition, we have established a program of disease prevention and health promotion for the most vulnerable segments of society, focusing on high-risk, low-income groups.

To achieve the objectives which I have described, the current national government is awaiting parliamentary approval of a substantial package of economic, social, and social-security laws.

We have already enacted laws to prevent and punish unlawful acts associated with money or asset laundering, as well as trademark law, copyright, and

safeguarding individual property rights. We have also introduced laws aimed at the promotion and reciprocal protection of investment, a law to govern the securities market, and the external audit law, in the interest of facilitating capital market efficiency and capital investment.

The national government is cracking down on money piracy and money laundering activities. The success of this policy is evidenced by the fact that 32.6 percent of all the assets seized between 1993 and August 15, 1998 can be attributed to the current administration.

With respect to modernization of the state, the national government is seeking to encourage capital investment in public enterprises by the private sector, with the aim of eliminating market distortions, increasing the production and supply of goods and services in an environment of competitiveness and efficiency.

In this context, the parliament is considering laws on the capitalization of the telecommunications enterprise and the regulatory framework governing the supply of drinking water and environmental sanitation. The parliament will shortly be examining the regulatory framework governing the generation, transmission, and distribution of electric power.

Also, the public sector banking reform will be deepened for the purpose of providing agents of production with efficient technical and financial assistance, by ensuring that financial resources can be appropriately channeled through loan portfolios for the agricultural, industrial, and housing sectors.

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

In closing, we anticipate that these Annual Meetings will be successful in enhancing and improving the design, implementation, and evaluation of future socioeconomic policies.

PHILIPPINES: EDGARDO B. ESPIRITU

Governor of the Bank

The joint meetings of the International Monetary Fund and the World Bank are taking place this year amidst one of the most severe tests to world economic stability in the last two decades. Not since the severe economic contractions of the early 1980s, triggered by the large debt overhang of many developing countries and the weakening of the financial systems of creditor countries then, have we seen a crisis as pervasive as the present one. Not even the Mexican crisis in the early part of this decade can compare with it.

Indeed, some even go so far as to say that the world economy is today under the worst threat it has experienced in the post-World War II era. According to them, if ever there was a crucial test for the Bretton Woods institutions' ability to fulfill their missions of guarding the stability of the world financial system and bringing about sustained economic development, this is it.

The fact that the present crisis began in the emerging economies of East and Southeast Asia, which have long been considered the bastion of the idea that free markets are the best way of bringing about continued economic prosperity, makes it all the more significant. It seems that it was just at the very high point of the world's faith in the market, even among those countries that used to be under so-called command economic systems, that suddenly this turmoil erupts. Thus, many now again doubt the ability of the market to achieve the desired results. In fact, some countries have begun or are considering moving away from free market principles. This, to our mind, is rather unfortunate. The market has served the emerging economies of Asia and of other regions well. Moreover, most of those who have studied the causes of the Asian crisis have come to the conclusion that among these causes is the fact that there were distortions and structural deficiencies in the crisis countries that prevented markets from working well. One should not therefore be too hasty in discarding free-market based economic policies.

Yes, the players in the market should not be left to their own designs. But governments should resist any temptation to again put free markets in fetters and to abandon liberalization altogether. Governments, though, will have to redefine their role in the economy as well as the idea of liberalization. Essentially, I believe government's crucial role is to provide a clear, transparent and evenly applied regulatory framework. Government should not compete with the private sector nor arbitrarily intervene in its economic decisions, but it should likewise ensure that the institutions and mechanisms required to effectively oversee economic activities, particularly those of the financial and corporate sectors, are present.

Without going into any further discussion of the swings in sentiment throughout history between the relative merits of the market and of the state in organizing economic activity, let me just observe at this point that at least two of the economies originally hit by the crisis are now on their way to recovery after painful but still market-oriented measures. But new threats now loom on the horizon. The troubled emerging economies have relinquished center stage to the giant economies in the region. It is what happens to the currencies and economies of these big players and the contagion effects on other economies, that reach as far as Latin America, that now threatens world economic stability. It is now feared that if the disease in Asia worsens, the outbreak will reach the industrialized countries themselves.

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

United States, still we cannot ignore this threat. The suddenness and the unexpected gravity of the Asian crisis should have taught us this.

The character of the world economy is vastly different and more complex than that prevailing, say, in the 1930s, or even in the early 1980s. The high level of global integration and capital mobility that now prevails has made uncertain whether solutions that worked before would still work today. But we are still optimistic that on balance, the accumulated knowledge and experience on the workings of the world economy; the flexibility and adaptability of the countries and institutions involved; and the greater avenues for cooperation available today, will enable us to avert another global recession.

We in Southeast Asia, together with certain other countries in the Asia-Pacific region, have realized earlier on the great need for cooperation in meeting this crisis and have come up with the so-called "Manila Framework" for this purpose. This framework provides for, among others, the establishment of a regional surveillance mechanism to complement the global surveillance being done by the IMF; for enhanced economic and technical cooperation, particularly in strengthening the financial systems of the countries in the region; and for a possible cooperative financing arrangement to supplement IMF resources.

I wish to reiterate my country's support and endorsement of this framework. While recognizing the central role of the IMF in keeping global financial and economic stability, we believe that a specifically region-based and quick-responding surveillance and cooperative action mechanism would help the Fund a lot in achieving this objective. We are happy to report at this point that there has been substantial progress towards establishing such a mechanism. The ASEAN senior finance officials who have been tasked with carrying out the intent of the Manila Framework have in their meeting in Kuala Lumpur last month, laid the groundwork for the setting up of an ASEAN Surveillance Technical Support Unit. This Unit, which will be based in Manila for two years and which will be assisted by the Asian Development Bank, will provide technical and capacity-building assistance to ASEAN governments towards putting the surveillance mechanism into operation. Hopefully, through this mechanism we shall be able to detect early enough any incipient problem or vulnerabilities in the region's economies and to take prompt cooperative action to remedy or contain them.

It is also very encouraging to hear the recent announcement from Japan's finance minister, Mr. Kiichi Miyazawa of a Japanese assistance package for the crisis economies. This gives us renewed confidence that an important neighbor in the region is serious in its intention to take on a leading role in efforts to address the crisis.

We wish to note at this point that both the Fund and the Bank have, by and large, responded quite well to the Asian crisis, showing significant flexibility and adaptability in the process. More important than the foreign exchange funds they provided to ease the immediate liquidity problems in the affected

countries as a result of the drying up of capital flows, they helped these countries to pursue reforms that address their points of vulnerability. The solutions and approaches are still evolving, in many cases with important inputs from the assisted countries themselves. The Fund has often been criticized for allegedly failing to find effective ways to lick the crisis. But the question may be asked, what would have happened, what further devastation would have taken place, had the countries concerned not carried out IMF stabilization programs and complementary World Bank safety net and structural reform programs.

I say that instead of becoming irrelevant, these institutions have become all the more important in facing not only today's immediate financial turbulence but also the other potential problems that could emanate from major global trends. It is true that there may be a need for a rethinking of these institutions' roles, their internal structures and dynamics, as well as their approaches to the problems of their member countries, but the general direction should be towards strengthening rather than discarding them. We therefore view with a bit of concern what seems to be a lingering hesitation on the part of the Fund's biggest member countries to give it their full support by way of enhancing the Fund's capital base. We were, however, heartened to hear the statements made by President Clinton in his address at the opening of the joint meeting that the United States intends to keep its commitments to the Fund and that the G7 countries are now urgently working on a program that will strongly address the crisis.

With regard to the World Bank, there is apparently a need to address its own long-term viability problems to enable it to carry on with its important mission of fostering sustained economic development of its member countries. The present concern is how to check the declining trend in the Bank's net income while at the same time maintaining adequate reserves and meeting countries' demands for assistance at these difficult times.

We note with concern, however, that most of the measures that have been suggested to address this problem put the burden almost entirely only on one group of countries, namely, the borrowers. The Bank, it is true, has in the last two decades been facing new challenges and has had to attend to new kinds of clients with varying needs. These include the heavily indebted poor countries, the post-conflict countries, and now the emerging economies that have been hit hard by the crisis and its contagion effects. Whether it is appropriate to have a multilateral lending institution like the Bank shoulder the bulk of the responsibility of providing assistance to certain countries that have special links with potential bilateral donor countries, is one issue. But the more relevant issue now is the appropriate and equitable sharing of the burden of maintaining the Bank's financial viability. Just raising its lending rates, particularly on traditional facilities that cater to countries that have limited access to commercial funding sources, would indeed prove to be counterproductive and certainly unfair to these countries. As it is to all countries' interest to see that the Bank is in a position to facilitate the return and maintenance of global economic

growth, all member countries should therefore share in the costs of buttressing the Bank's resources. We therefore believe that a general capital increase is the most equitable way of maintaining the Bank's financial integrity while allowing it to continue to effectively fulfill its development mandate.

The return of global economic stability and growth should indeed be the concern of all countries as well as of the multilateral financing and development institutions. Everyone needs the help of everyone else. But individual countries have the responsibility of seeing to it that their respective houses are in order. In the Philippines, we are continuing to pursue painful reforms in spite of the current difficult environment. We are continuing with the liberalization of important sectors. We have made a conscious decision of maintaining our integration with the global economy regardless of the present crisis. We are resisting any temptation to reverse this sound long-term strategy in exchange for any momentary gain.

When we survey the world economy at this time when the century is about to close, we can recognize the tremendous changes that have taken place. The experience of the newly industrializing countries and the emerging economies has raised hopes that a broader range of countries can achieve sustained economic progress. But recent events have again dashed these hopes. In their place, the specter of a possible world depression is again visiting us.

But if we keep our wits about us, we would realize that we are now better armed in facing this threat. Among the advantages we now have compared to two or three generations ago is the fact that international organizations now exist that provide the vehicle for coordinated and cooperative action. The Bank and the Fund, which themselves are institutions born of earlier crises, are still around. They have many years of accumulated experience and knowledge, which although may still be in a state of flux in relation with the present crisis, are nevertheless useful weapons in going into battle against it. In our part of the world, we have the ASEAN, which also provides a vehicle for regional cooperative efforts. Let us strengthen and make full use of these institutions and organizations. After all, it is merely stating a truism to say that the problems of an integrated global economy can be solved only within the framework of international cooperation.

POLAND: LESZEK BALCEROWICZ

Governor of the Fund

Both, my own country, and the world economy have changed since I first spoke here at the outset of Poland's transformation in 1989. While I am proud to report to you that Poland remains firmly on the path of market-oriented reforms, macroeconomic stability and sustainable growth, the recent developments in the world economy present a more complex picture.

Economic turmoils often lead to intellectual confusion and false diagnoses, while they demand especially clear thinking.

Let me begin, therefore, with some clarifications:

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

Sudden outflows of short-term capital follow the periods of excessive inflows resulting from both imprudent lending and imprudent borrowing. The former points to the problems of decision making in large financial institutions, the latter reveals the deficiencies in countries' economic policy making.

I would thus be totally wrong if the present crisis was to weaken the commitment to the basic virtues of openness, prudence, and arm-length relationships between politics and the financial and corporate sectors. These virtues have been vindicated by the recent developments. No effort should be spared to prevent the reversal of the generally beneficial trend toward open market economy and orderly liberalization of factor movements.

Globalization should not be the whipping boy in the debate about the current crisis. Globalization rewards those with responsible economic policies but carries risks for countries which avoid or delay reforms and disregard basic requirements of macroeconomic discipline.

After these diagnostic observations let me move to the therapy. Two preliminary remarks are in order:

- First: one should distinguish between steps which are necessary to contain the present crisis, and measures aiming at prevention and containment of the future ones. These two sets of measures overlap to some extent but generally have very different time dimensions, with the former being obviously much more urgent. Also, while working on the containment of the present problems, one should not weaken and complicate the defenses against the future ones, e.g. through unconditional bail-outs of creditors or debtors.
- Second, factors which are given should be distinguished from those which can be treated as policy variables. The former include technological developments responsible for the speed of the short-term capital and the sheer side of these movements. There is no point in trying to control what is beyond anybody's control. In addition, these factors are not the primary reason for the present developments. It is not the mere speed and size of short-term capital but the policies of borrowers and lenders which are really relevant and should be changed, if necessary.

For the sake of brevity let me focus on the issue of how to reduce the probability of future crises. The required strategy includes steps which are also

necessary to deal with the present problems. I have here in mind, first of all, the economic policies of major industrial countries. Large countries have large responsibilities not only for themselves but also for the world economy.

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

- First: better early warning systems that should be put at the disposal of governments, financial institutions and the public at large, and
- Second: measures to improve the quality of decisions made by the major players, e.g. national governments, private financial institutions and international financial organizations. The point here is how to ensure that sound policies are pursued and early warnings are not ignored.

Speaking about the first mechanism, I fully support efforts to enhance surveillance, increase transparency, improve data collection, elaborate and disseminate various standard and make broader use of precautionary arrangements. I am glad to observe that basically all of this is already the work in progress in the IMF. While improving the early warning systems we should know whether the present crisis in the affected countries resulted from the absence of early warnings or from early warnings which were sent but disregarded. It appears to me that the truth is closer to the second alternative. Whatever the exact response, the basic question for the future remains how to strengthen the foundations of policies which lead to sustained development and not to economic crises. It is basically a political question as behind policies is politics, and financial crises have, in most cases, political roots. A major lesson from the present problems in the crisis stricken countries is that intimate links between politics, financial institutions and the corporate sector ultimately result in the mountains of bad debts and, as a result, in huge social costs. Also, one should think about constitutional arrangements which would limit fiscal deficits and the public debt. I am glad to inform you that such clauses already exist in the Polish Constitution which was adopted last year. Finally, strong prudential regulations and strong supervision in the financial sector are of utmost importance. This is the main response to the complexity of modern financial markets.

I have focused so far on how to make the domestic policies more responsible and efficient. But I also agree with those who see a potential problem in the behavior of private financial institutions on the lending side. Responsible decision making requires an adequate evaluation of potential risks, which, in turn, is inseparable from the penalties for the past mistakes.

Before concluding, I would like to make an official announcement that, I hope, should be well received by Mr. Camdessus. A week ago, on September 29, 1998 the Polish Government adopted the resolution approving the proposed increase of Poland's quota in the IMF. This decision can be seen as a proof that my country is prepared to fully discharge its obligations resulting from the IMF membership and that we share the assessment that an early replenishment of the

Fund's financial resources has become a matter of operational necessity. Pending any possible modifications of its future role and functions, the Fund cannot be left without resources allowing this institution to fulfill its current mandate and to provide assistance to countries in need. I call on all member countries to proceed swiftly with the agreed quota increase and I urge the participating countries to speed up the adherence to the New Arrangements to Borrow. Poland is also ready to support the HIPC initiative by depositing, on very beneficial terms, our share in the SCA-2 refund. We have already initiated the internal legal procedures leading to the approval of the proposed Fourth Amendment of IMF's Articles of Agreement and I expect this process to be completed before year-end

PORTUGAL: ANTONIO DE SOUSA FRANCO

Governor of the Bank

The world is facing an unexpected but decisive crossroad. The economic outlook has quickly deteriorated and what began a year ago or so in East Asia as a regional crisis has spread to other parts of the globe and is threatening social and economic stability in many countries. Solidarity and equity, as well as freedom suffer from that situation. Sound growth is more than always imperative and we should keep on fighting for it with wise and successful policies.

As the Austrian President of the EU Council has said, developments in the European Union have contributed towards international financial stability and sustainable non-inflationary growth. The high degree of convergence among European economies and the effective beginning of the euro—single European currency common to 11 countries—within less than three months have strongly helped to reduce market instability and to promote and preserve economic recovery. Today, in the world economy, the European Union is a pillar of sustained economic growth and employment, reaping the rewards of stability and budgetary adjustment and is contributing to long-term growth and employment. This concerted strategy is favorably influencing developments in the global economy but remains insufficient to eliminate the contagion effect. In a global world, crises tend to be global and demand global action.

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

The international community is challenged to work hardy towards reforming the global financial architecture with the aims of reducing the frequency and severity of financial instability, and, whenever it occurs, to deal with it more effectively. The advent of the euro will be a major contribution from

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

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

Attention has to be given to foster an orderly and well-sequenced liberalization of the capital movements. Sound financial sectors, strong supervision systems and appropriate macroeconomic policies are preconditions for successful capital account liberalization. The IMF and the World Bank need to give these issues high priority, working and more closely together and with the others to assist members in managing more effectively the risks of global integration. However, the real social and economic costs of these crises have to go hand in hand and the World Bank remains as the key player in helping developing and emerging countries to reduce poverty and to improve social welfare in a sustained manner.

Portugal supports the idea that, beyond immediate resources and programs, to deter fears and speculation, new times demand new horizons. A new Bretton Woods for the XXI century should be prepared, in order to generate new forms of political legitimacy, reinforce the governance of the IMF and the World Bank, restructure financial markets and institutions and involve the states and the private sector in the resolution of the crisis and the full resumption of strong non-inflationary growth. Many of us—all of us—agree with the principle perhaps with solution. Let's pass to action. Immediately and strongly.

Finally, I would not like to end without a reference to the HIPC Initiative and to the needs of post-conflict countries. Portugal is glad to see that the Initiative is well under way. I would urge members of the international community to ensure quickly the financing of the initiative. On the other hand I would encourage eligible countries to pursue the adjustment programs to qualify for this assistance. Post-conflict countries face tremendous needs and the international community has to be creative in responding to the challenge in a fairly shared and coordinated response.

**RUSSIAN FEDERATION: MIKHAIL MIKHAILOVICH
ZADORNOV**

Governor of the Bank

When we met in Hong Kong a year ago, the first serious waves of the financial hurricane had already swept over East Asia. But I doubt that many of us

foresaw the situation in which we would meet this time. Cautious optimism did not turn into reality—the crisis has deepened, striking more countries and destabilizing the financial and commodity markets to an even greater degree. The crisis has been transformed from local into global, and from financial into systemic.

As a result, the role of the Bretton Woods institutions becomes particularly important. They are expected to provide answers to a number of fundamental questions. They are expected to take decisive and broad actions designed to cope with the crisis.

Among the questions that face the international community and that directly concern the Fund and the Bank, the following especially stand out.

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

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

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

Unfortunately, the world community has done a poor job of learning lessons from the previous financial crises. As a result, the principal efforts now are focused, as in the past, on coping with the crises rather than on measures to prevent crisis-related problems. There remains a major unresolved question: what are countries to do if they have allowed short-term foreign capital into their markets without adequate preparation and without the appropriate

conditions? Obviously, when there is a sudden and massive outflow of capital, these countries find themselves in a desperate situation and are often forced to take measures that meet with disapproval in the international community.

In other words, there is an urgent need to develop concrete and universally accepted mechanisms for dealing with such crisis situations. Specifically, we need internationally recognized procedures for considering issues of restructuring, defaults and bankruptcies. In particular, in this context more headway could be made in solving the highly important problem of ensuring private sector participation in dealing with crises.

Are the financial capabilities of the international institutions adequate for the demands of combating a large-scale crisis? Unfortunately, the answer to this question is obvious. We face an immediate challenge—to ensure that the role and status of the international financial institutions are fully supported by the financial sources at their disposal.

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

As for the Bank, we are concerned by the decline in its net income, caused both by an increased demand on its financial resources and by a diminishing profitability of its operations. On our part, we favor a carefully modulated approach to strengthening the Bank's financial stability. Such an approach should be based on the principle of fair burden sharing and should include both an increase in the cost of borrowing and restraint in the financing of new initiatives, strictest adherence to budgetary discipline and greater utilization of earmarked funds. Unfortunately this approach has yet to find support of the Bank's Executive Board.

The HIPC Initiative

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

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

Cooperation between the Bank and the Fund

In light of the latest crisis-related developments, cooperation must be strengthened between the World Bank and the IMF. In many areas, including the HIPC Initiative and reform of the public sector, both organizations have demonstrated the advantages of close coordination. Ultimately the Bank and the Fund have common strategic objectives. But there is nothing surprising in

the fact that, from time to time, we see an overlap of responsibilities, frictions and even serious disagreements. We must not forget that there is a division of labor between the Bank and the Fund: while the Fund's efforts are aimed at maintaining macroeconomic stability and the efficient functioning of the international monetary and financial system, the Bank deals with specific projects, supports structural reforms and places its emphasis on social issues and sustainable development. This division of labor seems fully justified.

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

What has happened in Russia? Just a year ago, most observers shared the confidence of the Russian leadership that the most difficult period of economic reforms was over. We had managed to reduce inflation to a record low and to maintain a stable exchange rate for a long period of time. Signs of growth had appeared in the real sector of the economy.

The Asian crisis dealt a double blow to Russia. First, there was a drastic change in the overall attitude of investors toward developing and transition countries. Above all, this change affected short-term capital flows and led to extremely grave consequences for the stock markets and the government debt markets. Second, the sharp deterioration in Asia resulted in a steep decline of world prices for energy resources and raw materials. Revenues dropped not only for the Russian exporting industries but for the budget as well. The current account turned negative for the first time since 1991.

The impact of these external factors sharply exacerbated domestic problems that had remained unsolved. The principal one among them is the extremely grave condition of the federal budget. An inefficient structure of budget obligations still persists in Russia, and the numerous attempts to reform this system have continually run into political difficulties. When production is declining and tax system remains inefficient, the burden of traditional commitments becomes more and more onerous.

The global crisis has revealed the existing shortcomings of financing the deficit with short-term domestic debt. This debt was characterized by very short maturity and by high real rates of interest. The relative accessibility of international short-term capital in 1996–1997 led to a certain slowdown in public sector reforms.

The efforts to solve the accumulated structural problems have proceeded with great difficulty, above all in the area of government regulation of the

financial and banking sectors, the energy sector, natural monopolies and relations in the agrarian sector. The responsibility of economic agents for fulfilling their obligations, including those to the budget, has grown weaker as a result of inadequate efforts to apply legal means such as bankruptcy procedures.

We hoped—and I believe with good reason—that the restoration of economic growth would create more favorable conditions for solving all these and many other problems. Unfortunately, it turned out that Russia did not have sufficient immunity to global contagion. The macroeconomic stabilization that had been achieved was too fragile to withstand the shock of the crisis, and the domestic government debt market eventually collapsed, in spite of all the attempts by the government and the IMF to keep the situation under control.

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

SOLOMON ISLANDS: BARTHOLOMEW ABA'AU ULUFA'ALU

Governor of the Bank

(on behalf of Kiribati, Marshall Islands, the Federated States of Micronesia, Samoa, Solomon Islands, and Vanuatu)

I am pleased and honored to address the fifty-third Annual Meetings of the IMF and the World Bank Group on behalf of our Pacific Constituency comprising Marshall Islands, Federated States of Micronesia, Solomon Islands, Samoa, Vanuatu and Palau which is the latest member to join the Fund and the Bank.

The outlook for the world economy has deteriorated considerably over the last year and as such it gives much cause for concern. Almost every country in the world has been affected—albeit to differing degrees. We in the small island economies have already felt the full weight of the Asian crisis.

Many of us are concerned about reductions in tourist inflows, lower world commodity prices, and the decline in the volume of our exports.

We have responded to the Asian crisis by strengthening our own macroeconomic management and several of us have embarked on ambitious reform programs to improve the efficiency and effectiveness of government, strengthen government transparency, and facilitate private sector development.

We can learn from the mistakes of others and build stronger, more resilient economies. But given our limited resources, we also need financial assistance

from bilateral and multilateral sources. And we need a more favorable international environment to get the desired response from such reforms.

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

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

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

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

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

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

It is a well-known fact that we are a community of countries that are geographically dispersed over a vast ocean with virtually no direct access to markets and with limited scope for economic diversification. As the recent Commonwealth Ministerial Mission to the international financial institutions emphasized, there is a need to promote understanding of the "small states paradigm" in the economic sphere. This is particularly relevant in the context of international trade. It is in this vein that the Bretton Woods Institutions should give attention to the special attributes and constraints of smallness.

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

The current challenges facing our Pacific constituency members range from governance issues to tackling economic policy reform and meeting social welfare needs. We are determined not to be marginalized in the context of globalization. But to achieve this, we need larger countries to also pursue their reforms aggressively. And we want a Fund and Bank, that are sensitive and knowledgeable about our particular characteristics, to be forthcoming with technical and financial assistance when requested.

In concluding, I would like to thank the managements, staff and Boards of both institutions for their constructive advice and assistance on behalf of my Pacific constituency.

SPAIN: RODRIGO DE RATO FIGAREDO

Governor of the Fund and the Bank

The circumstances in which these Annual Meetings of the International Monetary Fund and the World Bank are being held are certainly very different from those that existed during our meetings last year in Hong Kong. In most countries at that time, growth rates were high and inflation was low, even though financial problems in South East Asia suggested that international economic trends might be viewed with a certain caution.

Such caution was justified; in fact, more countries are now affected by the upheavals in the international financial situation. The seriousness of events in the Russian Federation has increased the risks that this instability will impact other economies that—until very recently—were on the move and showed good prospects. The outlook for growth in the world economy has now diminished, even though the basic elements in many economies are in a better state than they have been for years.

Over the year, most of the more advanced economies have achieved satisfactory results; in particular, I wish to draw your attention to the economic recovery in the member countries of the European Union.

This year, after successfully completing the convergence process required by the Treaty, eleven of the members embarked upon what is perhaps the most ambitious monetary project in the Union's recent history: adopting the euro as a single currency.

Indeed, the international financial community is even now welcoming the new European currency as a decisive contribution to stability and growth in the world. At the same time, this monetary union entails assuming new responsibilities and participating more actively in the international arena.

Over the last few years, Europe has focused its efforts on achieving the necessary internal coordination for completing the project of establishing a single currency, but the international events now occurring require us to concentrate our attention on the process of international monetary cooperation. Europe, and the euro countries, must play an active part in defining the future international financial architecture.

Spain in particular is satisfied with the economic policies that have enabled it to become a full EMU member from the very outset. This has been achieved through large-scale fiscal consolidation measures that have imposed firm controls on public spending, especially as regards the structural component, reducing the government deficit from 7.3 percent of GDP in 1995 to 2.1 percent this year. Spanish society as a whole has joined in these efforts, and supports Spain's role in the process of European integration.

The credibility of this economic policy, the independence of the Bank of Spain, and a determined privatization policy have all helped control the inflation rate, which is currently about 2 percent.

In response to the new situation created by the single European currency, Spain has undertaken an extensive process of market deregulation and liberalization. Similarly, efforts have been made to promote investment in human capital, together with active employment policies.

This series of economic policy measures, and the resulting confidence on the part of markets, has made it possible to substantially reduce interest rates, thus benefiting Spanish economic agents. As a consequence, growth is increasing, and employment is being created at a rate exceeding the European average.

The good results achieved so far enable us to look forward with a reasonable amount of optimism. Nevertheless, developments in the international financial arena are making us prudent and moderate in our projections, and requiring us to speed up the process of stabilizing and liberalizing the Spanish economy.

Certainly, we can see some positive signs emerging in Thailand and Korea; however, instability in countries of the region may continue unless the Japanese economy begins to show signs of recovery. It is therefore the earnest wish of Spain, and of so many other countries, that the Asian nations should make progress along the path to economic recovery, and we are convinced that Japan must reform its financial system, increasing its transparency, and liberalize its markets, opening them up to competition. Japan is an essential element in the attempts to solve the international financial crisis.

The impact of the Asian crisis on world trade and commodity prices, together with the decline in confidence resulting from the Russian crisis, have damaged other emerging economies.

In the case of Latin America, economic adjustment and political democratization have transformed economic life, setting the region on the path toward sustainable growth, without inflationary tendencies, and opening the way to the increased prosperity of its people. However, the contagion effect from the current financial crisis is reducing the availability of the financing necessary for the economies of Latin America. Spain believes that the international institutions must respond to this danger by providing the necessary liquidity for those countries that are implementing policies designed to achieve stability, economic liberalization, and financial transparency.

The Latin American nations have made laudable efforts to modernize their economies. Those recurring episodes of hyperinflation, economic isolation, import substitution, excessive regulation, and inefficient monopolies have been left behind. Practically all the countries in the region have achieved a high degree of stability, openness, and competitiveness, and have implemented in-depth structural reforms, both in their financial systems and in their main productive sectors. It is essential for markets to appreciate the differences between these and other emerging countries.

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

The Spanish initiative also emphasizes our confidence in the economies of Latin America and their capacity to overcome market volatility. Spain supports the establishment of a new financial mechanism in the IMF that would provide additional support for these economies. We are making a firm political and financial commitment to this effort, and the Government of Spain has already decided what our own contribution to it will be.

Mr. Chairman, we are living in times of profound change. The existing architecture of the international monetary system was designed over fifty years ago, and must be overhauled and revitalized.

Spain believes that the International Monetary Fund and the World Bank must continue to be the main actors in the international monetary system. Both institutions—and particularly the IMF—need to be strengthened and provided with sufficient resources to enable them to carry out their functions in a globalized financial system. Moreover, we must ensure that participation in the governing bodies of these institutions is commensurate with the financial support provided by each member country.

Yesterday, the Managing Director of the IMF proposed five principles for transforming the international financial system, and two amendments to the Fund's Articles of Agreement. Spain is ready to play an active part in these changes, which we must all cooperate in achieving.

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

In order to prevent future crises, it will be necessary to devise alarm signals for identifying risk factors, so that the necessary measures can be adopted in a timely manner. To this end, it will be necessary to further develop the special-

ized mechanisms that are already available to the Fund and the Bank, and those that have recently been established, such as the units for short-term surveillance and the monitoring of financial-sector operations.

To resolve crises, joint action by both institutions is necessary, with the Fund focusing on macroeconomic equilibrium and the World Bank concentrating on the social impact of programs and on structural reforms—that of the financial sector being a priority. The Bank needs to design new products and to devise imaginative funding formulas in order to help countries carry out these reforms.

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

However, the implementation of economic programs also requires that countries continue to apply their policies for maintaining social cohesion and microeconomic modernization. Economic transformations are impossible without the support of men and women. This is why Spain supports the three-pillared approach presented by the President of the World Bank, Mr. Wolfensohn, for strengthening programs designed to maintain social cohesion and promote microeconomic activities in emerging economies. We must support the efforts of governments to make their economies more stable and open, but we must also ensure that schooling is provided for children, and that—in the emerging economies—small and medium-sized enterprises can expand.

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

Mr. Chairman, it will certainly be necessary to make great efforts to establish a stable and transparent international monetary system. Whatever activities you undertake in order to achieve this objective, you can count on the support and encouragement of the Spanish Government.

SRI LANKA: GAMINI LAKSHMAN PEIRIS

Governor of the Fund and the Bank

It is my privilege and pleasure to address the Fifty-Third Joint Annual Meetings of the International Monetary Fund and the World Bank on behalf of the government of Sri Lanka, especially in this year as my country celebrates the Golden Jubilee of its independence.

Mr. Chairman, let me join my fellow Governors in congratulating you on your assumption of chairmanship of the 1998 Annual Meetings.

World Economy

We meet at a time of considerable turmoil and uncertainty in the international financial markets, and the world economy is facing severe economic problems and challenges. International economic and financial conditions have deteriorated sharply, to a far greater extent than was projected at our last meeting. The period of recovery appears to be more protracted than anticipated. Mr. Chairman, we are concerned that world economic growth, as well as the expansion in world trade, have slowed down sharply, and the short-term prospects are not encouraging. Recession has deepened in many Asian economies, resulting in heavy economic and social costs with spillover effects on other countries. The situation has been further aggravated by declining commodity prices, the Russian financial crisis, a sharp contraction of capital flows to low-income developing countries, as well as to emerging market economies. The capital market spreads have widened for all emerging markets and transition economies with no relationship to the countries' macroeconomic fundamentals.

Sri Lanka

Let me turn to my own country. Sri Lanka has managed to avoid the worst of the Asian crisis because many of the conditions that existed in the crisis-ridden countries did not prevail in my country. The policies in place and new policy responses helped mitigate, in substantial measure, the contagion effect. The domestic financial markets remained stable. The Sri Lankan economy grew by 6.4 percent in 1997, showing improved business confidence on account of significantly improved macroeconomic management. The unemployment rate continued to fall for the fifth consecutive year, and inflation declined sharply, reflecting the impact of our sustained efforts to improve price stability.

Even though some export products have been affected inevitably by the East Asian crisis, the provisional GDP estimate for the first half of 1998 indicated a 5.1 percent growth rate. Private investment is gradually improving, enhancing the growth potential of the economy.

Under difficult conditions, fiscal reforms are continuing. The overall fiscal deficit has been reduced consistently during the last three years by containing the growth of expenditures. The goods and services tax (GST) was introduced in 1998; as expected, tax compliance has improved, and the tax base was expanded. A large part of the privatization proceeds was used to retire public debt, with the beneficial consequence of reducing the government debt burden.

The balance of payments position improved, diminishing the current account deficit and augmenting the external assets position of the country. Our managed float exchange rate system and improved monetary management

have helped maintain the domestic financial market in a relatively stable condition in a difficult external environment. In monetary management, we have increased our reliance on market-oriented monetary policy measures.

Despite challenging circumstances, substantial progress has been made in the implementation of structural reforms because we strongly believe that they are of crucial importance in improving the country's economic performance, future prospects, and strengthening the economy's resilience against external shocks. These reforms include several successful divestitures, further liberalization of foreign investment, continuing encouragement of private sector participation in infrastructure development activities, improvement in tax administration, tighter controls on government employment, and improvement of financial sector surveillance. The privatization program has been accelerated and extended into key areas such as plantations, telecommunications and aviation.

In the political sphere, considerable progress has been made in the effort to re-establish normal life in the liberated areas in the North, the consolidation of the security situation, restoration of civil society in the North by the holding of elections and the revival of grassroots organizations, and the presentation to Parliament of a comprehensive constitutional reform package as a major step in the process of arriving at a political resolution of the ongoing conflict.

Bretton Woods Institutions

Turning to the Bretton Woods institutions, we understand the inclement environment within which these bodies have to operate today. We commend their efforts to help minimize the adverse effect of the recent crises. We believe that it is extremely important to have a more coordinated approach by international and regional financial institutions with private sector creditors to face the present challenges more effectively.

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

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

the Fund to play its role in the international economy. An early resumption of new SDR allocation, giving due consideration to the rising shares of developing countries in the world economy is also essential in this regard.

We appreciate the initiatives taken by the Fund and the Bank to combat corruption and improve transparency and governance in all contexts including their own activities. The preparation of the draft manual on fiscal transparency, publication of information on the Fund's liquidity position and activities and encouragement of publishing more country specific information are steps in the right direction. Similarly, we support Fund initiatives in respect of private sector involvement, especially with regard to forestalling and resolving financial crises, as burden sharing is improved. It is encouraging that the Fund is studying in detail the possible impact of introduction of the euro in January 1999 and related Fund operational issues, and closely working with the EMU to maximize benefits and minimize any potential risks.

We appreciate the Bank's financial assistance to crisis-ridden countries, notwithstanding its difficult financial situation. The crucial role of IDA channeling assistance to low-income countries cannot be overemphasized in the context of continually declining ODA resources. We, therefore, urge the timely completion of the IDA-12 replenishment process which is now in its closing stages.

We commend the expansion of IFC and MIGA activities which are crucial to improve the private capital flows to developing countries, particularly in the present setting where private investors are showing greater inhibition.

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

Strengthening the Architecture of the International Monetary System

Let me make a few concluding remarks on strengthening of the architecture of the international financial system. The process of globalization and recent financial crises in some parts of Asia, Russia and previously in South America underscore the need to strengthen national and international financial systems. It is necessary to minimize the likelihood of crises in the future and to improve strategies and techniques for handling crises if they occur. A cooperative effort by all major players, i.e., governments, private sector, regional agencies and international institutions is necessary to address effectively such crises, as the impact may spill over from country to country and from market to market in a globalized economy, bringing about grave economic and social dislocation. Similarly, reforms should aim at achieving an appropriate balance between adjustment and financing and ensure that measures are in place to handle crises at their inception.

SWITZERLAND: CASPER VILLIGER

Alternate Governor of the Fund

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

It is true that the present crisis has brought to light a number of structural problems in international financial markets. The problems have been identified. They have now to be addressed thoroughly and rapidly. However, there are no simple solutions and no quick fix. We will have to make strong efforts to solve the problems. I would like to propose a strategy comprising five elements:

First, each country has to keep its own house in order and implement sound policies. Financial support should be given only to countries that in spite of sound policies have run into difficulties.

Second, market participants must be in a position to assess the risk involved in their investments. Therefore we need to enhance transparency.

Third, it is imperative to involve private creditors in the solution of financial crises.

Fourth, all this has to be achieved within the framework of the existing institutions. While these institutions must undoubtedly adapt to new challenges, they need to refocus their activities on their original mission.

Fifth, before looking for new resources and facilities, the quota increase and the NAB have to be implemented.

Mr. Chairman, let me explain some of these elements in more detail:

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

Strengthening the financial system. The IMF and the World Bank need to continue to give this issue high priority. The task is too complex to be mastered

by one institution. Therefore, the Fund and the Bank have to cooperate closely. I welcome the efforts and specific proposals that have been made to enhance this cooperation.

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

Refocusing on the original mission. The recent crises have required massive liquidity support from the IMF, the World Bank and member countries. Even for the IMF such use of resources is difficult to reconcile with its mission. It should exercise primarily a catalytic role. Emergency liquidity support is even more difficult to justify in the case of the World Bank. Clearly, this is not the primary responsibility of the World Bank. Its main focus in crisis management should be on measures to address the social consequences of the crisis on the poorest and on the subsequent more far-reaching structural reforms.

Securing financial resources. The IMF and the World Bank can take a lead in the prevention and resolution of crisis situations only if they have sufficient resources. The lending in the past year has led to a serious deterioration of the resource bases of the IMF and the IBRD. The IMF quota increase must become effective as soon as possible. The current global situation also makes an enhancement of the IMF's financial safety net essential. Therefore, the New Arrangements to Borrow should rapidly become operational. Furthermore, if emergency financing of the World Bank is to continue, measures must be found to ensure its capacity to contribute. Otherwise, these lending operations could limit available capital for lending to developing and transition countries and increase lending costs. Furthermore, the World Bank's capacity to contribute to IDA and HIPC could be reduced.

To conclude, Mr. Chairman, I want to underscore the fact that the particular attention emerging market economies have received over the past year should not lead us to neglect the other members of our institutions. Smaller transition countries continue to require the support of the IMF and the World Bank in order to ensure that the initial reform progress maintains its momentum. The same is true for lowest-income countries. Securing the financing of the continuation of the Enhanced Structural Adjustment Facility, IDA lending, and the joint HIPC Initiative must remain at the top of our agenda.

Finally, the Fund and the Bank should be commended for their good work and in particular the prompt response, the negotiation of programs in record

times, and for mobilizing the necessary financial resources. The crisis is putting a considerable strain on the staffs of both institutions, and their efforts and achievements must be acknowledged.

THAILAND: PISIT LEEAHTAM
Temporay Alternate Governor of the Bank

It is a great pleasure and privilege for me to address the Annual Meetings of the Governors of the Fund and the Bank in Washington DC this year.

Since the last Meetings in Hong Kong, the world economy has deteriorated significantly. The effects of the currency and financial crisis in East Asia have spread not only within the region, but also to markets as distant as Russia and Latin America. Continuing turmoil in international financial markets raises the specter of a meltdown on a global scale. It is time for a decisive international policy coordination among both developing and developed countries, as well as by the multilateral financial institutions. Previous speakers have already pointed out the precarious world condition and I will limit my presentation to a few issues involving my country.

Being the first to slip into crisis, Thailand is destined to be one of the first to get out. We realized fully that this is only possible through a comprehensive reform program supported by the international community. I will briefly review the progress we have made. After which, I will discuss the causes, the responses, the immediate problems and the risks. I will then finish with a few observations about the Fund and the Bank.

The Causes

I consider 3 factors as the causes of the crisis that erupted in Thailand last year.

First, on the fundamental side, the current account has been in a large deficit for a number of years. This has been fueled by huge capital inflows as local corporates made use of foreign resources without adequately taking into account exchange and market risks. At the same time, the banking system has not been prudent in assessing credit risks. When exports did not perform as expected in 1996, the stock market reacted negatively and thus causing runs in both the currency market and financial system.

Second, in response to the runs, the authorities did not pursue appropriate policies both in coping with the speculation on currency and the liquidity problem of financial institutions. They defended the Baht up to the point of depleting the reserves and aggressively made use of public funds to support the insolvent financial institutions.

Third, when the actual magnitude of the net official reserves was disclosed for the first time in August 1997, the market panicked. Even though the Government came up with a strong stabilization program supported by the IMF, it did not regain confidence, particularly, when credibility of the policy makers

was in question. This probably sent the strongest shock wave on transparency and accountability problems and thus became a contagion effect.

The Response

With the new Government was installed in mid-November last year, Thailand has responded to the crisis by strictly adhering to the comprehensive reform program. Apart from aiming at stabilizing the macroeconomics setting, it includes restructuring the financial system with the strengthening of supervision, restructuring corporate debt, amending the legal framework, promoting good corporate governance, privatizing state enterprises and further opening the economy. Moreover, social programs to address the plight of the underprivileged have been initiated and put in place.

To regain confidence and reverse the steady downward trends of both the stock market index and currency value, the Government has undertaken policies based on principles as follows: stabilization, transparency, private sector's own initiative in external debt management, and maintaining open economic policy.

First on stabilization, we place a high priority on stabilizing the economy by pursuing cautious monetary and fiscal policies, which include: inducing short-term interest rates at levels consistent with exchange rate stability; sourcing foreign funds from multilateral and bilateral agencies; restructuring the financial sector to re-establish depositor confidence; and arranging dedicated lines of credits for exports and other key sectors.

Second, we attach great importance to transparency as a critical means to shore up market confidence and impose policy discipline on the officials, in particular, the dissemination of information such as the Letters of Intent and the statistics in line with the IMF-SDDS system. For example, net official reserves are announced on a weekly basis.

Third, on private initiative, it is important to note that in managing the external payments accounts during the crisis period of the past 15 months, the private sector itself has been primary players both in mobilizing or allocating investment and in arranging the settlements or rollover of their obligations. The Government has resisted a call for both direct and indirect interference there by preserving the voluntary nature of external debt settlements among the private sector. This is therefore consistent with the market-oriented character of private financial activities in Thailand.

Fourth, in resolving the crisis and laying the basis for reform, Thailand has strictly adhered to the principles of openness and rejected any pressure for protectionism. We have not resorted to administrative means to replace the market mechanism. In contrast, open market policy constitutes a prominent part of our latest reform program.

Despite a difficult external environment, these measures have successfully restored stability. The current account has reversed from a deficit of about US\$ 1.2 billion per month to a surplus of about US\$ 1 billion per month in

1998. Net international reserves position increased to US\$ 15 billion in September 1998. Nearly all of the external swap obligations with foreign banks abroad have been unwound with only a few hundred million US dollars remaining. Gross reserves now account for 7.2 months of imports and are able to cover all of the total short-term-external debt. The currency which had depreciated throughout 1997 started to appreciate from over 55 Baht/US\$ in January 1998 to around 40 Baht/US\$ in the first quarter of 1998 and has been stabilized ever since. We have also been successful at restraining inflation which, having peaked in June, is estimated at around 9 percent for this year. Consequently, short-term interest rates declined markedly from over 20 percent in January to less than 7 percent in September.

The Immediate Problems

Despite stability in the macroeconomy, the internal working of the real and financial sectors has become a major problem. The real sector is faced with a shortage of credit as the banking sector becomes excessively risk-averse while non-performing loans rapidly expand. This in turn induces private borrowers to refrain from honoring their obligations and exacerbates the NPL problems. We have to break this vicious circle.

We are addressing the non-performing loan problem in several ways. The center point is private debt restructuring. We have introduced new rules governing NPL exit procedure based on international standards. We have provided tax incentives for debt restructuring. Our recently announced capital support facility also provides direct incentives for debt restructuring. We have established a high-level committee to facilitate the debt restructuring process using a market-based approach. We are fully cognizant that the debt restructuring process needs to be complemented by effective supporting legislation. For this reason, we are in the process of amending foreclosure and bankruptcy legislation which we expect will be enacted later this year.

To strengthen the financial sector, first we have placed a requirement for all financial institutions to submit plans for their capital increases under Memoranda of Understanding (MOU) with the Bank of Thailand. Second, we have gradually tightened loan classification and provisioning standards in line with international practice. Third, we liberalized the limit on foreign equity ownership in financial institutions. Furthermore, as part of our process to improve the operations of the Bank of Thailand, we have brought in experts from central banks of industrialized countries to support a high-level commission in developing recommendations for strengthening the central banking and bank supervision in Thailand.

Higher provisioning requirements due to tighter standards and declining asset quality have, however, caused financial institutions to become increasingly capital-constrained and restricted their ability to lend. At the same time, the deteriorating economic environment has made it very difficult for financial institutions to raise private capital on their own from both domestic and foreign

sources. For this reason, the Government announced a financial sector restructuring plan on August 14 which included two capital support facilities totaling 300 billion Baht. In partnership with the private investors, we will recapitalize financial institutions by exchanging Government bonds for preferred shares and subordinated debt. These facilities are structured to catalyze the entry of private capital as well as to facilitate new lending and corporate debt restructuring. Both facilities have appropriate safeguards built-in for the use of public funds. The new capital injection will be on a preferred basis, and the Government or new investors will have the right to replace the current management. The burden on public finances will be minimized with the requirement for preferred shares and subordinated debt to yield returns higher than interest payments on Government bonds.

Policy Shift

With stabilization achieved, a more solid basis for the resumption of economic activities is now established. We have phased in measures to stimulate aggregate demand in order to contend with the sharper than anticipated economic contraction. The depressed state of Asian economies, coupled with widespread currency devaluation among our competitors, suggests that a large increase in exports demand is not likely in the near future.

As a consequence of the financial crisis, domestic private demand for consumption and investment has dropped substantially. The burden of raising aggregate demand therefore falls heavily on the budget. Concurrently, we are creating training and employment programs to mitigate labor problems. Government spending is the most direct means to strengthen the social safety net and mitigate the impact of the crisis upon the poor. We have obtained assistance from development agencies to provide both financial and technical supports to manage the social dimension of the crisis. Consequently, Thailand gradually relaxed, its fiscal stance for fiscal year 1998 from a public sector surplus of 1 percent of GDP at the outset of the program in August 1997 to a deficit (excluding the cost of financial sector restructuring) of 2 percent and 3 percent in February and May of this year, respectively. To further stimulate the economy, the Government will continue to maintain an overall public sector deficit of around 3 percent for fiscal year 1999. Nevertheless, this will be self-correcting as the economy rebounds and should not create a structural deficit.

To stimulate private demand, we have also gradually lowered interest rates while maintaining exchange rate stability. However, the critical factor in restoring the health of the real sector is to induce the banking system to resume its intermediary role with the measures as outlined above. We have also tried to ensure that critical sectors such as exports, housing, agriculture and small-scale industries receive adequate credits through state-owned specialized financial institutions. We have mobilized funding particularly from both official and private organizations abroad for this purpose.

The Risks

Thailand has done its best to establish a solid foundation for a rapid and sustained economic recovery. Our comprehensive reform measures should allow the economy to return to positive growth in the coming months. We are endeavoring to implement the measures within the timeframe stipulated in the program. However, in the current global environment, there is little doubt that external conditions will continue to be critical for the recovery of Thailand and other countries in crisis. In this context, I would like to invite all the stronger economies to undertake a global solution in supporting the world economy in at least four ways.

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

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

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

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

Let me now turn to the important role of multilateral financial institutions at this difficult juncture. I have participated in the G-22 working groups and would like the Bretton Woods institutions to carefully consider the recommendations made by the three working groups in shaping a new architecture for the world economy. Let me now turn to the immediate matters regarding the roles of the World Bank and the Fund.

IBRD Matter

On the Bank matters, the crisis has underscored the extreme volatility of private capital flows and the importance of official resource transfers. Supplementing resources to strengthen the World Bank is crucial. I urge the donor community to do their utmost in replenishing IDA-12. This is vital in ensuring that the poorest nations would have sufficient resources available to cope with the upcoming difficulty. While pursuing this difficult task the World Bank must maintain its triple-A status in the capital market.

IMF Matter

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

Final Remarks

I would like to conclude by commanding the two Bretton Woods institutions for their speedy, flexible, and decisive responses to the crisis. I wish to thank them for their roles in working with us in Thailand throughout the crisis during the past year. Their ability to marshal international support, including their policy advice and financial resources, has been extremely crucial in helping us cope with the crisis. It also highlights the continuing importance and relevance of these institutions. They have fulfilled, and possibly exceeded, the role that was envisaged for them by their founders some fifty years ago. The current crisis provides them with an important opportunity to further define their role in the global arena. With decisive actions on the part of the multilateral financial institutions, G-7, and the countries in crisis, I am confident that we can jointly overcome the difficult challenges facing us today.

TONGA: KINIKINILAU TUTOATASI FAKAFANUA

Governor of the Bank

It is an honor for me to represent the government of the Kingdom of Tonga at the 1998 Annual meetings of the Board of Governors of the World Bank and International Monetary Fund.

The year 1997/98 has been a very challenging year for most member countries. The financial turmoil in Asia that erupted in mid-1997 has left many Asian economies with currencies and asset values far below pre-crisis levels. Moreover, the crisis has resulted in a slow-down in global economic growth during the year. Among the advanced economies, the out-turn for Japan has deteriorated further. Fortunately, economic growth in North America and Western Europe has been sustained and appears likely to remain so in the period ahead. The robust domestic conditions in these economies should facilitate the adjustment of current accounts in those emerging Asian markets affected by the sharp declines in capital flows.

Turning to the Pacific region and, in particular, the Kingdom of Tonga, growth performance over the last decade has been mixed. Tonga experienced average GDP growth in excess of 4 percent during the early 1990s, but this has

not been sustained since 1995/96. A combination of factors such as the slump on commodity prices of exports like vanilla, and adverse weather conditions affecting other exportable agricultural production have been the main causes. As a consequence we are now faced with a substantial trade deficit. The expansion of the banking system, has brought about a surge in domestic credit which is now approaching unsustainable levels, spiraling an acceleration in import demand and causing the gross official foreign reserves to deteriorate below acceptable levels. The overall level of inflation, however, continues to be about 3 percent.

Notwithstanding the above constraints, however, we are committed to our objective of stabilizing and restoring growth to our economy. On the fiscal front, we place priority on improving the overall incentive structure for exports, and hence the balance of payments. We are also pursuing a balanced (recurrent) budget by adopting a central strategy aimed at rationalizing expenditures, while at the same time expanding the revenue base. Progress has now been made on the public sector review program and greater emphasis is being placed on establishing tax and tariff structures that are less distortionary and at the same time inductive to productive activity. In particular, we are pursuing a more broad-based tax structure as the main source of revenue.

The rapid erosion of international reserves warrants further monetary tightening and our monetary authorities have taken measures to improve the supervision of the banking system to ensure its long-term viability and stability. We acknowledge the continued efforts by the Bank and the Fund in providing appropriate policy advice and we consider the annual Article IV consultations to be essential and important in supporting our efforts at economic stabilization.

Turning now to Bank and Fund matters—capital flows to our region, in terms of aid and concessional loan resources should not be affected by the financial crisis in Asia and the recent turmoil in Russia. We note that total flows of Official Development Assistance (ODA) to developing countries have continued to decline. In 1997 ODA flows averaged 0.22 percent of GNP for the OECD countries as a group, reflecting a long-term decline from 0.33 percent in 1992. The Bank and the Fund are therefore urged to ensure that the level of aid assistance to small member countries is maintained in real terms. The Bank's agreement to collaborate with the Commonwealth Expert Group in the development of an acceptable vulnerability index for use when considering the graduation of member countries from concessional sources of financing is commended.

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

proposed revised international architecture. We acknowledge that progress has been made on several fronts, including significant financial assistance to underpin stabilization measures, programs of structural reform and technical assistance in key sectors. In this regard, we welcome the move to strengthen the Fund's surveillance ACTIVITIES. We would also like to endorse the call for involving the private sector in resolving and forestalling crises and welcome the initiative of the Bank to provide financial assistance to address the global problem of the millennium bug.

On the ESAF and the HIPC Initiatives, it is important that we continue to respond to the needs of our poorest members who are adversely affected by the downturn in global economic conditions. On the IMF Quota increase, we endorse the need to increase the Fund's resources in order to cope with the difficult tasks ahead.

In conclusion, I believe that the lessons learnt from the recent events and the policy responses currently established will ensure a successful transition into the new millennium. I call on both the Bank and the Fund to accelerate efforts to restore global economic stability and growth and to ensure that all member countries are accorded appropriate assistance during times of increased uncertainty. Finally, I wish to thank the Managing Director of the Fund and the President of the Bank and their staff for their tireless efforts during the past year and to reaffirm our continued support during this difficult time.

TURKEY: GUNES TANER
Governor of the Fund

As the Managing Director of the Fund observed in a recent speech to the European-American Council in New York, we are now in the midst of an era of globalization. The economies of the world are rapidly being integrated in unprecedented ways. Financial turbulence has prompted the creation of a forum for discussing common regional issues and exploring remedial policy actions which can lead toward a new international monetary system.

We view the present annual meetings as an especially timely gathering from the standpoint of the worldwide financial crisis now going on. As we all know, the contagion effects of the Asian crisis have been severe for both individual regions and the world as a whole. The latest developments in Russia show that not only the Asian countries, but countries elsewhere, are exposed to the consequences of this crisis. All nations are put on notice that contagion effects may test their fundamental economic health and their vulnerability to market volatility. This is a time of serious challenges to the sustainability of world growth and countries' structural adjustment efforts.

The world growth projections of early August have again been revised downwards. Most of this slowing results from renewed instability in Asia's financial markets, renewed financial turmoil in Russia, and their contagion

effects on other countries. Some market observers are already evoking the grim specter of a worldwide recession. It is evident that in today's integrated economic and financial world, the domestic policy weaknesses of one country can threaten the stability of all.

Now, the contraction of market financing is beginning to penalize emerging market countries in particular; the shortage of financial flows to these countries is their major challenge. Their balance of payments will come under pressure, and their growth will inevitably slow in the absence of effective and concerted countermeasures.

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

It is especially important, given countries' increased openness to international capital movements, to restore the stability of international financial and exchange markets. This is one of the main issues to be addressed at these 1998 Annual Meetings. The Asian and Russian crises have directed much attention to fixed exchange rate arrangements and capital account convertibility, issues which are also important to Turkey. Although a pegged exchange rate is useful as a nominal anchor when bringing down high inflation—as Turkey's experience shows—a more flexible policy is preferable for open economies once they have been stabilized and growth has resumed.

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

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

We also favor amending the Articles of Agreement to permit a special one-time allocation of SDRs. This long overdue agreement will double the present amount of SDRs and equalize the SDR-to-quota ratio of all members.

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

Changing circumstances now call for the IMF's role to be strengthened and redefined. Effective surveillance over financial sector issues will be helpful. The Bretton Woods Institutions should make stronger efforts than ever before to mobilize available resources in order to prevent present conditions from permanently destabilizing world markets.

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

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

Let me take this opportunity to say a few words about the Turkish economy. During this time of turmoil in Asia and Russia, Turkey is addressing all the key issues requiring priority attention under its Staff Monitored Program (SMP) with the Fund. We are strictly implementing the SMP to ensure that all targets and benchmarks will be met.

Turkey has made important progress with privatization in 1998. This is the first year since privatization began over a decade ago that Turkey has managed to complete about \$2 billion.

This year's fiscal revenues are expected to exceed 20 percent of GDP. In the structural area, Parliament has approved a tax reform package that will broaden the tax base, close loopholes, reduce collection lags, and lower taxation rates.

We believe that Turkey has responded appropriately to the turmoil in emerging markets and tensions in its own domestic debt market by significantly tightening its fiscal stance, which in fact has led to a larger than expected increase in the primary surplus. Fiscal tightening at the first shock was the single most important reason for Turkey's so far successful resistance to the present turbulence.

The government intends to follow the economic program closely and keep its pledge to meet all targets under the SMP. Continued efforts against inflation will also strengthen the economy against external shocks. Turkey's geographic location will give it a special importance in an era when energy resources will assume a decisive role in determining world prosperity.

TURKMENISTAN: YOLLY A. GURBANMURADOV

Governor of the Fund

Delegates to this Annual Meeting have made many proposals to improve the operation of the international monetary system. Understandably, many of these proposals are directed to improving the future operation of the system. However, in this short intervention, Turkmenistan wishes to emphasize that there is an urgent need to deal with the emerging contagion problems of the present crisis, particularly in CIS countries, before moving on to deal with desirable future changes to the system.

The Turkmenistan authorities' particular concern relates to the non-payment of inter-government arrears within the CIS countries. As at the end of

1997, Turkmenistan was owed US\$1.3 billion by other CIS countries, mainly in respect of non-payments for past gas shipments. Over recent years, Turkmenistan, with Fund encouragement, has agreed to reschedule payments of overdue amounts to facilitate orderly adjustment by our debtor countries such as Georgia and Ukraine. This rescheduling was made in good faith and at a considerable cost to Turkmenistan. However, with its own exports now under pressure from both falling commodity prices and political and other difficulties in transporting gas to traditional markets, Turkmenistan now finds itself in a very difficult external situation.

We are now no longer in a position, therefore, to provide what amounts to “forced” balance of payments, support to our neighboring countries, the more particularly so as our past actions of support have been badly abused by some of our debtors who now choose to spuriously dispute their debt obligations in the hope of delaying or avoiding repayment obligations.

Recently, we have seen the situation worsen considerably with debtors, such as for example Georgia, defaulting on agreed principal repayments despite the presence of a Fund program which should have required the countries concerned to meet debt obligations. In short, Turkmenistan is facing a clear case of financial contagion arising out of the failure of Fund programs to restore financial viability to our major trading partners within the CIS region. Whilst the Fund has sought to assist in resolving these problems by requesting the countries concerned to reschedule debt, it nevertheless approved a further extension of Georgia’s ESAF loan agreement this year without requiring a resolution of its unpaid debt obligations to Turkmenistan. We fear that similar situations could arise with our other debtors, notably Ukraine, which now face severe strains as a result of the Russian crisis.

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

It should also be recognized that these agreed repayments should receive priority over other debt payments, such as servicing of commercial loans from overseas banks. We have seen evidence that many of these commercial loans were based on speculative transactions rather than genuine trade or development financing. Moreover, we are most concerned that the cross default clauses often embodied in these loans add enormously to the financing of any rescheduling of debt (as for example has occurred in the case of Ukraine). The

funds recouped by the insertion of such clauses by legally advantaged western bankers are then denied legitimate trade financiers, such as Turkmenistan. It would be most unfair to see relatively poor countries disadvantaged in this debt resolution at the expense of legally advantaged speculators.

Without such measures, we fear that there will be a collapse of the payments system within the CIS region and the problems seen in one country of the region will quickly spread to others leading the whole region to become immersed in economic crisis. Turkmenistan appeals to other delegates present at these meetings to give urgent attention to these crucial payment system issues in their discussions of desirable reform of the international system.

UKRAINE: VALERIY PAVLOVYCH PUSTOVOITENKO

Governor of the Bank

The delegation of Ukraine to the Annual Meetings welcomes the business-like character of the discussion on the ways to prevent the financial crisis in emerging markets from evolving into a world economic crisis. Yet the crisis became virtually overwhelming for emerging market economies and no one can state with certainty how long it will last. In these conditions the Government of Ukraine believes that the only possible way out is by accelerating structural reforms, adjusting our budget expenditures to the possible non-inflationary sources of funding, continuous work with private creditors whose contribution we appreciate, as well as we are grateful for their understanding of our short-term liquidity problems. We are confident that the low, compared to the export and gross domestic product, level of accumulated debt and the reforms that we implement, will increase our creditworthiness and financial capacity. We are grateful for the timely support from the international financial organizations and appreciate the timeliness and effectiveness of their financial and technical assistance.

According to our estimates, the orderly implementation of the recently approved IMF Extended Fund Facility program and the projects portfolio prepared together with the World Bank will reduce the negative impact of the regional crisis on the economy of Ukraine and speed up market transformation process.

Ukraine together with the IMF and the World Bank has found a way to overcome temporary difficulties. At the same time, the need of the coordinated action plan in case of a crises spill-over remains essential for all the economies in transition. We would like to propose to speed up the preparation of the standardized for the international community schemes of private sector involvement into crises prevention and resolution in context of the well-thought capital account liberalization on a non-discriminatory basis. It is our believe that it would be impossible to design all the constituent parts a new architecture without the most active involvement of the World Bank and the IMF, orga-

nizations with an almost universal membership. This architecture shall prevent financial destabilization from spreading out from one country to another through the lack of confidence of the separate groups of investors without taking the macroeconomic situation in these countries into account. Only the IMF and the World Bank and, not any other entity, are the best able for designing a new architecture of the world monetary system.

As one of the largest recipients of the World Bank and IMF technical assistance, Ukraine believes that the opinion of resource recipients should be given a consideration while discussing any plans of reforming those institutions.

Economic growth, recent statistical signs of which are observed in Ukraine, we believe can be explained by the fact that parts of the shadow economy are coming into the official sector. This was stimulated by the jointly drafted with the World Bank and IMF deregulation measures, and actions to enhance openness and transparency and improve the quality of the overall system of governance. In this context we actively support every initiative to enhance transparency and openness of information in the budget area as well as in the financial sector.

The year we left behind was a year of big challenges for the international organizations as well. It is worth mentioning that we in Ukraine were carefully following the ways these institutions confronted some of the most significant challenges in their history.

We were impressed by the words of President Wolfensohn from the first page of the Annual Report of the World Bank—"For all of us at the World Bank Group, the crisis has highlighted the fact that financial and social policy must go hand in hand."

Speaking of our collaborative programs, they were highlighted by this very kind of unity. Together with the World Bank staff we concentrated our attention on the key directions of the structural reforms: development of enterprises, agriculture, the energy sector, the financial sector, and on ecological problems.

Despite a somewhat uneven pace of our program with the Bank, we can state with confidence that we achieved great progress in understanding the goals and tasks that we are facing, and in implementing mechanisms which are necessary to achieve them.

We cannot but be alarmed by the problem of the lack of funds in the international financial organizations, by the income dynamics of the World Bank, in particular. During the last year the Bank successfully proved its usefulness to all of its shareholders, borrowers and non-borrowers alike. Yet, today we observe that all attempts to improve the present financial position of the Bank, come as a burden on the shoulders of the IBRD borrowers only. In this respect we encourage all the members of the World Bank Group to look for a comprehensive solution to the income problems, including the possibility of a general capital increase. We also hope for the expedient adoption of the current quota increase of the Fund. The sooner we accomplish it, the sooner we will be able to come back to the appropriate financial standing of the institutions.

We are glad to observe the signs of the qualitative expanding of the International Finance Corporation activities. We believe that in Ukraine this institution will find more areas to apply its financial instruments and experience in employing the contemporary methods of private sector management. It is hard to overstate the role IFC can potentially play in catalization of the foreign direct investment and accelerating of the development of the private sector in Ukraine and other countries.

We would also like to commend the efforts of the Economic Development Institute, the Joint Vienna Institute and the IMF Institute that are well known in our country. The economic education and training of officials initiative launched by these institutions in Ukraine during the first years of our state's independence, is far from being completed and should be continued on the new level.

We all have heard on different occasions that this year was the year of Asia for the World Bank and the IMF. Unfortunately, signs of the crisis are now observed on almost all continents. Compared to the situation in the distant thirties, international financial organizations give us a chance to avoid the long-lasting world depression. We hope that during the next Annual Meetings we will remember the world crisis as the 20th century phenomenon that was not granted access to the new century.

UNITED KINGDOM: GORDON BROWN

Governor of the Fund

Mr. Chairman, at this time of great challenge for the global economy, I am grateful to have the opportunity to address this most distinguished gathering of world financial leaders.

I would like to start by thanking the staff of the IMF and the World Bank for the excellent organization of these meetings—and I would also like to pass on the thanks of Clare Short, UK Governor of the World Bank.

Our challenge is compelling. Never in our economic history have so many depended so much on economic cooperation among the nations of the world. And the leadership of the world's economic powers has not been so important or potentially decisive since the post World-War period of international economic transformation—a time when the IMF and World Bank were born and Dean Acheson spoke of being “present at the creation.”

We, too, present at the creation of a new interdependent and integrated global economy, must now shape that economy and, through stability and growth, ensure prosperity and opportunity for all.

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

denied opportunity, and the new economy has brought greater risks of insecurity as well as new opportunities.

No sensible policymaker wants to turn the clock back to protectionism and insularity. But to move forward we need vigilant and active governments, acting together through reformed international institutions, to ensure that the prosperity that has been achieved by some can be extended to all. And so we must not weaken support for the IMF and World Bank when the need for surveillance and coordination is pressing, but strengthen them by building the operational rules and institutional architecture for the new global financial system.

The statements from the G7, the Interim Committee and the Development Committee over the past few days have all demonstrated our shared determination to turn words and analysis into action. The proposals for action that I will outline are rooted in an understanding of what has gone wrong and what we must now do together to get the world economy back on track.

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

The Causes of the Current Crisis

Fifty years ago, that earlier generation began by honestly facing conditions in the world of their day. That must be our beginning as well.

The current financial crisis originated in national economic policy mistakes in Asia and a destabilizing lack of transparency. It grew because of their poorly regulated and often distorted financial sectors. It became global because of insufficient supervision and ineffective risk management in the developed country financial markets. It became a crisis because the initial policy responses were more appropriate to over-extended public sectors whereas the problem was over-exposed private investors. And it has become a human tragedy affecting millions because our social policy approach is still deficient.

Five weaknesses—in economic and financial policies, under-developed financial sectors in emerging markets, ineffective supervision, poor crisis management, unacceptably poor social protection. But together they expose an even more fundamental common problem.

For the last fifty years our policies for regulation, supervision and crisis management have been devised for what were essentially independent relatively sheltered national economies with discrete national capital markets and limited and slow-moving international capital flows.

Now that we are in an era of interdependent and instantaneous capital markets, individual economies can no longer shelter themselves from massive fast-moving and sometimes destabilizing global financial flows, and it is obvious that if we are to respond to this, we need urgent action now both to sustain domestic demand and make urgent progress for reform at both national and global levels.

Restoring Stability and Growth

First the current situation. What began last year as a local and regional crisis centered in a handful of Asian countries, with its effects most sharply felt in Asia, has spread from Asia to Europe and South and North America becoming what is now a global problem affecting us all.

Better risk management in future will lead to more stable capital flows. But it is a matter of concern that many emerging market economies are being caught up in the turmoil, regardless of the strength of their macroeconomic fundamentals.

Which is why, as last weekend's G7 statement has made clear, the G7 countries—North America, Europe and Japan—as well as the IMF and the World Bank, stand ready to support all emerging market countries which are prepared to embark on strong sound policies which will involve structural reform.

But when the balance of risks in the world economy has shifted from inflation to slower growth, the G7 countries must now assume greater responsibility.

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

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

And I was reassured that, in the recent G7 statement, members from each respective continent have resolved to play our rightful role and take action to ensure that our economies can both sustain growth and remain open to trade:

- the recent action of the US Federal Reserve in cutting interest rates was designed to sustain domestic demand growth. I was pleased to hear President Clinton say this morning that maintaining free trade, free from protectionism, is an important element of the US response. I know also that the administration is working very hard to ensure ratification of the NAB and the IMF quota increase. We should support and encourage them to step up their efforts in these areas;
- I know too from my recent visit to Japan that my Japanese colleagues are focussed on their efforts to stimulate domestic demand through fiscal and monetary policy. And, to help restore market and consumer confidence, the Japanese government must make available public funds and lay out a clear timetable for action to restore health to the banks and the financial sector.

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

Last year I told this meeting that I was determined to get the British economy back on track for sustained growth with low inflation. That required a necessary slowing in economic growth.

The UK economy grew last year by 3.5 percent. At the time of our March budget we expected growth to slow to 2 to 2.5 percent in 1998 and 1.75 to 2.25 percent in 1999 before returning to trend. So far this year, the latest indications are that we will meet our growth forecast for this year.

Six months ago the IMF was forecasting world growth at 3.7 percent in 1999. The turmoil in emerging markets together with the deteriorating economic situation in industrialized countries has led the Fund to revise down expected world growth to 2.5 percent next year.

So with Japan and one quarter of the world in recession, every country will be affected by the instability that is currently affecting the world economy.

With the IMF forecasting that growth in world trade will fall by two thirds this year, Britain's export markets are set to grow much more slowly. UK exports to Indonesia and Malaysia are already down 50 percent this year, they are down 55 percent to South Korea and down 60 percent to Thailand and the Philippines.

Slower world growth makes it inevitable that growth in Britain next year will be more moderate. But as a result of the tough and decisive action this government has taken, Britain is better placed to steer a course of stability in an uncertain and unstable world as we get the British economy back on track for sustained growth.

Our first task when we came into government was to set in place a long-term and credible platform to achieve the stability that is an essential pre-condition for long-term investment, growth and jobs.

It is in pursuit of our long-term goals—high and stable levels of growth and employment—and the rejection of the short-termism and stop-go policies that have undermined the UK economy in the past—that we have taken tough decisions.

In the face of rising inflationary pressure and the large structural deficit we inherited, we made the Bank of England independent, raised interest rates and tightened fiscal policy by 20 billion pounds over the past year, amounting to 3.5 percent of GDP from financial year 1996/97 to financial year 1999/2000.

Our Pre-Budget Report will set out the next steps, building on this platform of stability, that we must take over the coming year to equip the British economy so that it is more than equal to the challenges that the new global economy brings.

Britain cannot be properly equipped while we have productivity levels 40 percent below America, and 20 percent below France and Germany, so over

the next year, in partnership with industry, we intend to examine and begin the task of dismantling every barrier to productivity, prosperity and employment creation.

That will require policies to promote entrepreneurship and small business development, to invest in science and innovation, to encourage industrial investment to modernize our infrastructure and to open all sectors of our economy to greater competition.

In the modern economy, the economies that succeed will be those that get the most out of their people. So we will continue our reforms to promote greater employability of the British workforce through our New Deals for the unemployed and to make work pay by combining our new Working Families Tax Credit and national insurance reform with the minimum wage.

By building upon a platform of stability with our continuing commitment to a stable monetary framework and sound public finances, and united in our determination to promote and sustain domestic demand growth, I can assure you that, at this time of world economic instability, the British Government will continue to pursue policies for open trade, investment in productivity and employment opportunity for all.

Reforming the Financial Architecture

Vigilance in national economic policies today must be matched by a willingness to reform the international financial system to secure greater stability tomorrow.

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

For too long, the financial architecture has been defined in terms of the roles and responsibilities of the international institutions. In fact, the new financial architecture we propose—codes of conduct, the new global regulator and an international memorandum of understanding—is not about new institutions, but about how, in an interdependent world, we monitor and discipline ourselves and reach decisions in a more coordinated way.

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

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

We need to promote greater openness and transparency in national policy-making. In this new world, national governments must set clear, long-term policy objectives that build confidence and commit to openness in policy mak-

ing that keeps markets properly informed and ensure that objectives and institutions are seen to be credible.

The way for them to do this is to agree to abide by well-understood, and internationally-endorsed, codes of conduct: for fiscal policy, monetary and financial policy, corporate standards and social policy. The IMF has already drawn up a code of good conduct for fiscal policy and is now drawing up a code for monetary and financial policy. The OECD is drawing up the corporate code, and the World Bank is considering a social code.

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

Proper implementation of the codes of conduct should be a condition of IMF and World Bank support. Immediate action to promote transparency in policy making, financial sector reform and corporate governance should be key components in any reform program which the IMF and World Bank agree in coming months.

Of course, in this new role the IMF must be more publicly accountable. We need a systematic approach to internal and external evaluation of the Fund's own activities, including a new full-time evaluation unit inside the IMF, but reporting directly to the Fund's shareholders, and in public, on its performance. And the Fund and Bank must also work much more closely together, particularly in providing advice on financial policy to emerging markets countries. That is why the joint department of the IMF and World Bank we have proposed is essential to carry out this work.

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

But I believe we must now go further and develop new global structures for the global age. The events of recent months have pointed out inadequacies in our understanding of the interrelationships between financial markets and between countries, particularly between developed and emerging market economies, inadequacies in the quality of risk assessment and gaps in the international regulatory system. The Basle Committee has published a comprehensive set of core principles for banking supervision and set-up a liaison group and consultation group to monitor their implementation. I also welcome the Basle Committee's work on improving transparency and risk assessment.

But we now need a new coordinating mechanism to ensure proper standards and provide regular and timely international surveillance of all countries' financial systems and of international capital flows, not just to point out

weaknesses, but to ensure these weaknesses are addressed and to identify systemic risks to the global financial structure.

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

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

Third, the Standing Committee could also help to find better ways to identify systemic risk. In the UK, we published last year a Memorandum of Understanding, setting clear divisions of responsibilities and establishing a regular system of meetings and surveillance to ensure cooperation between our national financial institutions to identify and address systemic risk at an early stage. Systemic risk is not confined to national boundaries. What we need is an international memorandum of understanding which would establish the proper division of responsibility at the international level, to reduce the chance of crises occurring.

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

The UK is also determined to ensure that action is taken at an international level to promote fairness and relieve poverty. We should not allow our discussion of the lessons to be learnt from developments in Asia to obscure the important work that is still needed in the poorer countries.

I am pleased that we have agreed this week new procedures for advancing debt reduction to post conflict countries. And to meet our Mauritius Mandate

targets, we need to aim for 22 countries to reach the decision point in the HIPC process by the end of 1999. All countries should insist export credits are used only for productive expenditure. And all countries must stand ready to provide the resources to make progress by 2000.

Conclusion

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

The challenges that arise from our ever greater interdependence in an integrated global economy are challenges that summon forth new solutions. So let us resolve from here in Washington today to do whatever is necessary to create the conditions for stability and growth and to put in place the financial architecture that can achieve the ambitions of 1945 in a new world: to encourage investment flows from private and public sources in even the poorest areas of the world, so that all countries—from the richest to the poorest, most indebted countries—have the chance that they deserve to achieve stability, economic growth and opportunity for all their citizens.

UZBEKISTAN: BAKHTIAR SULTANOVICH KHAMIDOV

Governor of the Bank

A year has passed since the last Annual Meetings—a year which was marked by a number of important events revealing serious problems at the present stage of global economic development.

Recent events provide a basis for serious reflection and examination of the causes and depth of current problems and their spread to the global economy, and for a search for possible ways to solve them.

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

We must recognize that, in our modern world with all its polarities, there can be no one model for making the transition to a market economy which can be applied to all countries as a universal recipe for reform.

The crisis in Southeast Asia and especially in Russia demonstrates that a mechanical duplication of familiar models for market reforms which does not take into account the historical, national, and economic realities of the country

will not always produce the expected results; on the contrary, at times it will lead to deep economic crisis and the impoverishment of the people.

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

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

As a rule, when implementing a reform policy, the greatest progress is achieved by those states where the government enjoys the support of a public which understands the reforms and recognizes that they are aimed at raising the living standard.

This approach is of special importance when it is a question of the countries in the post-Soviet area, where the problem of transition from old principles and stereotypes to market principles has turned out to be far more difficult than was expected. This is the result of a need for deep comprehension and understanding of the fact that for more than 70 years these countries were under the influence of an administrative command-oriented ideology based on principles of totalitarianism. Furthermore, when recommending this or that model for transition from a planned to a market economy, many international experts only have a largely theoretical knowledge of planned economies and underestimate the depth of the processes taking place and the possible consequences during the transition period.

The experience of a number of countries shows that the implementation of forced systemic and structural reforms in countries with transition economies often leads to social opposition and gives rise to serious economic, religious, ethnic, and other conflicts that impede the introduction of market reforms.

It is obvious today that shock therapy is not always a justified means for achieving economic stabilization in the transition economies. There exist successful cases of a number of countries that have chosen their own path of gradual and consistent development. In our opinion, there should be a multitude of ways to make the transition to market conditions, and they deserve the most intent study.

After Uzbekistan acquired its independence, our first aspirations were to reconcile everything valuable and positive from the history of development of the global economic system with those conditions existing at that time in a country which was completely dependent economically on the central authorities and which had the poorest initial potential of the countries of the former U.S.S.R.

As a result of consistent measures taken by the government of Uzbekistan to develop and deepen its economic reforms, Uzbekistan has today already

passed through the critical stage of instability and reached the state of economic growth.

The proof of this is a dynamically growing rate of increase in industrial output and extraction of oil, gas, gold, and non-ferrous metals (Uzbekistan has joined the world's top ten countries in production of these commodities), as well as a growing positive foreign trade balance, which cannot be said of the majority of countries in the transition stage. Our steadily growing GDP is outpacing the increase in the Republic's population. And the growth in industrial production is accompanied by an improvement in the structure of production.

Positive changes in volumes and sources of funding for capital investments are taking place under the influence of our structural reforms.

As a result of the implementation of sound monetary policy, in 1998 inflation declined by a factor of 2.3 compared to the same period last year and comprised 1.5 percent per month. The revenue growth rate exceeded that of expenditures, reducing the budget deficit to 1.3 percent of GDP.

As opposed to many countries experiencing problems servicing external debt, Uzbekistan has pursued a sound external debt policy. We avoid short-term loans to support the balance of payments and attract loans only for project financing. This policy helps keep external debt at a moderate level (about 17 percent of GDP).

Special features in the development of Uzbekistan's banking and financial sector presently consist of the reinforcement and further development of positive tendencies in the areas of monetary circulation and inflation, and stable functioning of the banking system.

The Central Bank's conservative, strict approach to controlling the country's banking system operations is based on a fundamental principle for implementation of banking sector reform in Uzbekistan—ensuring stability. A decree of the President of the Republic of Uzbekistan on a restructuring of the Republic's banking system which was signed a few days ago serves as proof of this. It permits joint-stock commercial banks to sell up to 50 percent of their stock shares to nonresidents.

I also would like to note the great amount of assistance provided by international financial and economic institutions—the IMF, World Bank, IFC, EBRD, AsDB, etc.—in implementing economic reforms and integrating Uzbekistan into the global community.

We have now reached that stage of mutual cooperation where we have discovered common priorities and defined areas for further interaction which take into consideration the special features distinguishing Uzbekistan from the other transition economies, insofar as Uzbekistan has chosen its own path for development corresponding to its geopolitical and demographic influence in the region, and which take into account the tradition and mentality of the Uzbek people.

The government of Uzbekistan has worked out a strategy aimed at maintaining financial stability, expanding privatization, deepening reform in agriculture,

the banking sector, and small- and medium-scale business, and improving the country's export potential, with a view to signing Article VIII of the IMF's Articles of Agreement in 2000.

We believe that, at the present stage of global economic development, the expanded participation of all countries in economic programs involving international institutions and organizations should be viewed as a powerful factor for economic and social stability of individual regions and, as a whole, on the scale of the entire world. I trust that the Bretton Woods institutions will intensify their contribution to the strengthening of that process.

VIETNAM: NGUYEN TAN DUNG

Governor of the Fund

Today I am very pleased to represent the Government of the Socialist Republic of Vietnam and the State Bank of Vietnam in addressing this meeting of the Board of Governors of the World Bank and the International Monetary Fund.

First of all, I would like to convey the warmest greetings of the Government of the Socialist Republic of Vietnam to the Chairman, His Excellency Michel Camdessus, His Excellency James Wolfensohn, Governors and all delegates of member countries and the appreciation of our Government for your contributions to the development of these two most important international financial institutions and your assistance to Vietnam's economic reform and development.

We are meeting here against the background of the increasingly complicated financial crisis in many Asian countries as it spread geographically and threatens to prolong. And the global credit exhaustion is disrupting the stable development of many countries in and outside the region, forcing the world financial community and countries to face the biggest challenge in recent decades.

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

I hope that this meeting will devise additional appropriate solutions on the basis of a global coordination of efforts to help countries in crisis improve their situation, prevent recession, quickly recover and grow. There must be in place effective solutions to assist other countries contain the risk posed by the contagious affects of the crisis for common benefit of the international community.

As a country in Southeast Asia, Vietnam has been and continues to suffer from the heavy impact of the regional crisis. In addition, Vietnam is also enduring the serious consequences of natural calamities. In 1998, GDP growth is about 6 percent, the lowest level in the last seven years; exports failed to

increase substantially; foreign direct investment only reached 60 percent of the 1997 level; unemployment rose; balance of payment difficulties were encountered. The Government of Vietnam is watching closely the evolution of the crisis and is drawing valuable lessons from the crisis countries. We believe that given the trend towards interdependence prevailing in the global economy today, a sound macroeconomic policy that maximizes realization of the potential of the domestic economy, in conjunction with taking full advantage of capital flows, is fundamental condition of sustainable development.

Since 1997, despite many difficulties, the Government of Vietnam has consistently continued to: accelerate the process of reform with orientation towards a market economy, open the economy for integration into the region and the globe; adjust investment structure; restructure state-owned enterprises and the fields of public finance, banking, trade and taxation; closely combine economic and administrative reform to increase the efficiency and competitiveness of the economy. At the same time, we attach special importance to the implementation of programs for the development of agriculture and rural areas, malnutrition elimination, poverty alleviation, and social equality.

However, being a poor and least developed country, what we have achieved using the resources of our domestic economy and the limited assistance of donors and foreign investors has not been sufficient to prevent the decline in economic growth and the increase in difficulties created by the adverse impact of the regional crisis on Vietnam's economy.

The Government of Vietnam is committed to accelerate the reform process at an appropriate pace coupled with structural economic adjustment so that all domestic resources can be maximized, the impact of the crisis can be minimized and socioeconomic stability and development can be maintained. At the same time, we realize that the assistance of the Governments of other countries and international financial institutions, especially the World Bank and the International Monetary Fund, will be critical in supplementing our own resources.

We request the Fund and the Bank to increase concessionary funding and to provide technical assistance to Vietnam in a more timely and more practical fashion in implementing economic reform and structural adjustment. And the first thing is reaching agreement on a SAC and an ESAF program as soon as possible.

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

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

that external advice and assistance must take into account the positive impact of globalization while minimizing the negative effects for the economy of each country.

Finally, I would like to mention the enhancement of the financial resources of the Bank and the Fund to meet the urgent needs of programs relating to crisis resolution, structural adjustments, and assistance to poor countries. Therefore, we need to urgently complete the 11th quota review and the IDA fund contributions, as well as allocate additional SDR to the Fund. I appeal to industrialized countries to continue their strong support for the increase in the financial resources of the Bank and the Fund while cooperating, while coordinating closely with IMF and WB to help countries overcome the crisis, stabilize and develop.

CONCLUDING REMARKS BY JAMES D. WOLFENSOHN PRESIDENT OF THE WORLD BANK GROUP

Well, thank you very much, Mr. Chairman, and let me commence by thanking you for your great contribution to the success these meetings and the way in which you have worked with us to ensure a smooth carrying-out of our functions and the functions of this Board of Governors.

Let me start by saying that I come away from these meetings with a sense of hope and a sense that quite a lot has been achieved. It's a positive assessment. It's an assessment first based on the fact that I think we have focused in, through the remarks of the Governors and through the dialogues that we have had, on a practical and pragmatic assessment of this crisis. We're aware of its dangers. We're aware of the problems associated with those countries that already are in the headlines, but we have not forgotten those countries that are not in the headlines in terms of seeking to alleviate their problems and ensure that they are protected as much as possible.

We've talked of Latin America and the need for a stance to support countries in that region, but we've also not forgotten Africa in terms of ensuring that support for that continent, which has so suffered, can continue robustly.

It is a difficult situation, but it's a situation where I think the community of Governors and of this group have come together. We are talking about the architecture of the system, and I think in the long term, and even in the medium term, that is important, particularly insofar as it supports the role of the Fund in terms of surveillance and transparency, those matters which my colleague Mr. Camdessus has referred to.

But we are on a day-to-day basis not only considering the architecture, but we're considering what we do now. And there I have to say that the excessive commentary about the difficulties of cooperation between the Bank and the Fund I think have been vastly overdone. From my point of view, we have an ongoing and time-tested partnership with which I'm entirely happy and which I think is constructive for both facing this crisis and any others that may come down the line.

I'm impressed by the commentaries of President Clinton, many Governors, and the Managing Director himself in his opening and closing remarks, to indicate that this is not just a financial crisis. This is a crisis which has its impact on people, and the sensitive commentaries on this subject in terms of those that have been most affected is something that has come home to me in a very real way. It makes me feel that the role of the Bank as a partner in the role of the Fund is well recognized and that it is seen by all that the mounting of the financial and rescue packages and the extraordinarily important if not preeminent task of macroeconomic policy is supplemented by some years of work that we have to do on structure in the system and on the social aspects of these problems.

I was heartened by the recognition given by Governors to the role of the Bank in this context and by their evident support of the need for us to have resources that can address these issues. I was very comfortable in the observations made about IDA-12, about the apparent support for HIPC, as I was for the plea of the Managing Director for the continued support of ESAF and our joint approach to post-conflict situations.

I share with the Managing Director his observations in relation to the achievements of Indonesia, Korea, and Thailand, who have borne the frontal edge of this attack, and share with him the view that, as we join to look at the question of Russia, we too are prepared to be supportive on the assumption that we have a clear and transparent program established by that country to deal both with its economic and its human crises.

I think that what we have most come forward to recognize which is of importance to us is this essential balance between the financial and macroeconomic and the social and structural. But it is not two different issues. It is all one issue. You cannot have one without the other. And what I think is so incredibly powerful about the structure of the Bretton Woods institutions is that we have expertise in each area, and these meetings have allowed us to focus on the fact that there is a need for both and that they are, in fact, totally interconnected. And I am encouraged by the response that I have received to the suggestion that we experiment in terms of our approach to development programs to look beyond projects to systemic approaches.

And, indeed, you will be interested to know that I've had volunteers already from many countries to suggest that we work together on a comprehensive approach, broad-based, which will encompass not only those particular areas of development policy that I spoke of, but also to be inclusive and participatory in the establishment of objectives. I'm much encouraged by the response, and as I said, we'll be working on these issues during the next couple of years, and we'll report regularly to you on the results.

There are challenges ahead, but I think that the Governors have displayed in their statements, and I believe the general response of the delegations and the officials in the Bank and Fund, I think that what has come through from this is that we are united on this issue and we recognize that it is an issue which affects us all. President Clinton was clear on that. President Menem was clear on that. These are not issues which, if we are in a rich country, you can say are issues of somebody else. And I get a sense always in these meetings of the unity of the international community. And I think that at a time of crisis it was brought out very well at these meetings.

Going forward, I can commit to you the efforts of the Bank to work with each of you in relation to your individual issues, and I can commit to you that we will seek to preserve the resources and, if necessary, increase the resources in the Bank, IFC, and MIGA that will help re-stimulate economies that are lagging and that will help protect the existing achievements of countries in the social sphere.

I once again, Mr. Chairman, want to thank you for your chairmanship and express my congratulations to the Minister from Nepal who will chair our meetings next year and say how much I'm looking forward to working with him and, most importantly, how much I and my colleagues are looking forward to working with our sister organization in the Fund and with all of you to achieve the objectives that we have set for ourselves at these meetings.

CONCLUDING REMARKS BY THE CHAIRMAN THE HONORABLE WOLFGANG RUTTENSTORFER

As Chairman of the Boards of Governors, it is now my duty to bring these discussions to a close. It has been my privilege to have served as the Chairman of the Boards of Governors of the Fund and the Bank. I wish to thank you all for your support during my tenure. On behalf of all of you, I would also like to thank the President of the United States for his insightful address and the people of Washington, D.C. for their hospitality. I also wish to thank the President of the Argentina for his words of encouragement.

In closing the 1998 Annual Meetings, I would like to review briefly the major themes that have emerged from our deliberations and to point out the implications for the Fund and the Bank.

It is clear that the past year has been an extremely challenging time for us all. The Fund and the Bank have been called upon to address perhaps the most serious international economic crisis since their foundation, and they have risen to this challenge commendably. However, as many of you have noted, the time has come to prepare them for the next century.

In the short-term, the Fund and the Bank will need to focus on alleviating the immediate negative impact of the crisis and on restoring confidence. We must continue to work to maintain and reestablish macroeconomic stability in crisis-stricken countries. It is crucial that the spread of the crisis be arrested, in particular to avoid a global slowdown in growth. In addition, greater emphasis needs to be placed on the social dimensions of the crisis.

Over the longer-term, we will need to work diligently to reform the international monetary and financial system, while maintaining our commitment to assist our poorer members. Many of you have expressed support for the broad strategy presented by the Managing Director of the Fund and the President of the World Bank.

The important role of transparency has been highlighted. Better release of information will lead to better decisions by market participants, leading to less market volatility. In addition, the Fund's surveillance can be strengthened to provide a better early warning system of potential crises. Similarly, market participants will need to provide more and better information, as well as adhere to strengthened common standards across a number of areas. Your call to involve the private sector in forestalling and resolving financial crises must also be urgently addressed. Orderly and prudent liberalization of capital movements must progress within the context of appropriately strong and well-supervised financial systems. You have reaffirmed the importance of including this topic within the purview of the Fund.

Now more than ever, we must work to realize all these goals.

The social dimensions of economic development have been highlighted in our deliberations over the past few days. There has been broad support for the

important efforts of the World Bank Group to improve the quality of life of our citizens, particularly in our poorest members. Efforts to eradicate poverty, extend basic education and health care to the more vulnerable segments of the population, and provide assistance for essential structural reforms are at the heart of any successful development strategy.

In this context, the progress in the implementation of the HIPC Initiative has been welcomed. However, we must encourage more members to strive to be included in the Initiative, and we must redouble our efforts to secure the necessary financing for the HIPC Initiative and the ESAF.

My fellow Governors,

It is vital that both the Fund and the Bank have sufficient resources to perform their tasks. To that end, I echo your call for an early implementation of the quota increase for the Fund, the New Arrangements to Borrow, as well as of the SDR amendment. Also, IDA-12 replenishment needs our early and resolute attention.

In addition to ensuring that they have sufficient resources, strengthening Bank-Fund collaboration will be crucial in attaining all our challenging goals. Also, the operation of the Bank and the Fund must continue to be improved. We welcome the progress achieved so far in the Bank's Strategic Compact and look forward to further progress. The Fund is moving forward to improve its own operations—especially in making its work more transparent and improving the quality of its analysis and advice.

Allow me to express our gratitude to the heads of the Fund and the Bank—Mr. Camdessus and Mr. Wolfensohn. Their leadership during these challenging times has been critical. They have displayed a level of dedication and dynamism that deserves our praise. In addition, the staffs of the Fund and the Bank have done a tremendous job over the past year. We are confident that, based on their professionalism and the guidance and inspiration of their heads, the international community can effectively meet the present challenges.

My fellow Governors,

During my opening remarks, I noted the important role of markers along a path in providing clear direction. During these meetings, we have established markers for the urgent work ahead of us. Let us now follow these markers toward a more prosperous and equitable future.

Before adjourning, I would like to express my appreciation to the staff of the Joint Secretariat for their hard work, which has helped make our meetings such a success. I would also like to extend my best wishes to the Governor for Nepal, who succeeds me as Chairman of the Boards of Governors.

I would conclude by once again thanking everyone and wishing all a safe journey home. The 1998 Annual Meetings of the International Monetary Fund and the World Bank Group are hereby adjourned.

NEPAL: RAM SHARAN MAHAT

Governor of the Bank

Fellow Governors, Mr. Chairman, Mr. Camdessus, Mr. Wolfensohn, Ladies and Gentlemen. On behalf of Nepal and the countries of the region, I wish to express my gratitude at being selected to serve as Chairman of the Boards of Governors of the World Bank Group and the International Monetary Fund for the coming year. In fulfilling my role as Chairman of next year's Annual Meetings, I shall take as my model the outstanding manner in which Mr. Ruttensstorfer, the Governor for Austria, has conducted these meetings.

Since our meetings in Hong Kong last year, the economies of a number of our member countries, which were then experiencing difficulties, have not rebounded as we had hoped. Further, more countries are being affected by the global financial crisis, and the chances for a quick recovery have dimmed. This has been a much-discussed subject at these meetings. The process of recovery is one that will require the assistance of our institutions, the cooperation of those members whose economies are still healthy, and especially strenuous efforts on the part of the countries experiencing difficulties.

The World Bank Group and the IMF have acted quickly and aggressively to address the immediate crises that a number of members are facing, while at the same time continuing to carry out their mandated tasks. I offer Mr. Wolfensohn, Mr. Camdessus, and the staffs of the two institutions my heart-felt appreciation for the work they have been doing and will continue to do over the coming months.

As we close these meetings, the World Bank Group and the IMF have full agendas before them. I sincerely hope that next year at this time I shall be able to report to you that significant progress has been made in reversing the economic decline and that growth has resumed in the affected economies.

I look forward to seeing you next year in Washington for the 1999 Annual Meetings.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS

Tuesday

October 6	10:00 a.m.	Opening Ceremonies Address from the Chair Annual Address by Managing Director, International Monetary Fund Annual Address by President, World Bank Group
	3:00 p.m.	Annual Discussion

Wednesday

October 7	9:30 a.m.	Annual Discussion
	3:00 p.m.	Annual Discussion IMF Election of Executive Directors IBRD Election of Executive Directors MIGA Election of Directors
	6:15 p.m.	Joint Procedures Committee
	6:30 p.m.	MIGA Procedures Committee

Thursday

October 8	9:30 a.m.	Annual Discussion
	Following the conclusion of the Annual Discussion	Procedures Committees Reports Comments by Heads of Organizations Adjournment

NOTES:

- 1. The meetings will be held in the Marriott Wardman Park Hotel (formerly the Sheraton Washington Hotel) and all sessions will be joint.*
- 2. The morning sessions will adjourn by 1:00 p.m., and afternoon sessions will adjourn by 6:00 p.m.*
- 3. The Interim Committee and the Development Committee will meet on Sunday, October 4, and Monday, October 5, 1998 respectively.*
- 4. The balloting for the election of MIGA Directors will take place in the Office of the Managing Director and Corporate Secretary of the World Bank Group.*
- 5. The World Bank Group consists of the following:
International Bank for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
International Development Association (IDA)
International Centre for Settlement of Investment Disputes (ICSID)
Multilateral Investment Guarantee Agency (MIGA)*
- 6. There will be no separate Annual Meetings for ICSID. The Report regarding ICSID will be presented with the Procedures Committees Reports.*

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS¹

ADMISSION

1. Sessions of the Boards of Governors of the International Monetary Fund and the World Bank Group Organization will be joint and shall be open to accredited press, guests and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers, Executive Directors, and such staff as may be necessary.

PROCEDURES AND RECORDS

3. The Chairman of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they ask to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairman, the Managing Director of the International Monetary Fund, the President of the World Bank Group, and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Members.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the Managing Director of the International Monetary Fund and the President of the World Bank Group will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

¹ *Approved on April 15, 1998, pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1 (a).*

BANK AGENDA¹

1. 1997/1998 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of FY98 Net Income and Transfer from Surplus
4. Administrative Budget
5. Annual Report of the Development Committee
6. 1998 Regular Election of Executive Directors
7. Selection of Officers and Joint Procedures Committee for 1998/99

IFC¹

1. 1997/1998 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

IDA¹

1. 1997/1998 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

MIGA²

1. 1997/98 Annual Report
2. 1998 Regular Election of Directors
3. Selection of Officers and MIGA Procedures Committee for 1998/99

¹ *Approved on August 5, 1998 pursuant to the By-Laws, IBRD Section 5(a), IFC Section 4(a), IDA Section 1(a).*

² *Approved on August 5, 1998 pursuant to Section 4(a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

Chairman Austria
Vice Chairmen..... India
Nicaragua
Reporting Member Zambia

Members

Azerbaijan	Japan
Brazil	Lebanon
Cameroon	Micronesia
Canada	Mozambique
Côte d'Ivoire	Philippines
France	Poland
Georgia	Saudi Arabia
Germany	United Kingdom
Greece	United States
Guatemala	

REPORT OF THE JOINT PROCEDURES COMMITTEE

REPORT II¹

October 8, 1998

At the meeting of the Joint Procedures Committee held on October 7, 1998, items of business on the agendas of the Boards of Governors of the Bank, IFC, and IDA were considered.

The Committee submits the following report and recommendations on Bank and IDA business:

1. *1998 Annual Report*

The Committee noted that the 1998 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *1998 Regular Election of Executive Directors*

The Committee noted that the 1998 Regular Election of Executive Directors of the Bank had taken place and that the next Regular Election of Executive Directors will take place at the Annual Meeting of the Board of Governors in 2000....²

3. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 1998 Bank and IDA Annual Report, together with the Report dated July 30, 1998.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions....³

¹ Report I related to business of the Fund.

² See page 242.

³ See page 243 and 251.

4. *Allocation of Net Income of the Bank and Transfers from Surplus*

The Committee considered the Report of the Executive Directors dated July 31, 1998, on the Allocation of FY98 Net Income and Transfers from Surplus...¹

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution...²

The Committee submits the following report and recommendations on IFC business:

1. *1998 Annual Report*

The Committee noted that the 1998 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 1998 Annual Report, and the Administrative Budget attached to the Report dated August 15, 1998.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution....³

Approved:

/s/Wolfgang Ruttenstorfer
Austria—Chairman

/s/Benjamin Mweene
Zambia—Reporting Member

(This report was approved and its recommendation were adopted by the Boards of Governors on October 8, 1998)

¹ See page 269.

² See page 243.

³ See page 247.

REPORT III

October 8, 1998

The Joint Procedures Committee met on October 7, 1998 and submits the following report and recommendations:

1. *Development Committee*

The Committee noted that the Report of the Chairman of the Joint Ministerial Committee of the Boards of Governors of the Fund and the Bank on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Fund and Bank pursuant to paragraph 5 of Resolutions Nos. 29-9 and 294 of the Fund and Bank, respectively....¹

The Committee recommends that the Boards of Governors of the Fund and the Bank note the report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 1998/99*

The Committee recommends that the Governor for Nepal be Chairman and that the Governors for Kenya and the Philippines be Vice Chairmen of the Boards of Governors of the Fund and of the World Bank Group, to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available, after the termination of these meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: China, Dominica, France, Germany, Ghana, Japan, Kenya, Kuwait, Latvia, Mali, Nepal, New Zealand, Panama, Peru, the Philippines, Saudi Arabia, Spain, Sweden, Turkey, the United Kingdom, the United States, Uzbekistan, Venezuela, and Zimbabwe.

¹ See page 30.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Nepal, and the Vice Chairmen shall be the Governors for Kenya and the Philippines, and that the Governor for Dominica shall serve as Reporting Member.

Approved:

/s/ Wolfgang Ruttensdorfer
Austria—Chairman

/s/ Benjamin Mweene
Zambia—Reporting Member

(This report was approved and its recommendations were adopted by the Boards of Governors on October 8, 1998)

MIGA PROCEDURES COMMITTEE

Chairman Austria
Vice Chairmen..... India
Nicaragua
Reporting Member..... Zambia

Members

Azerbaijan	Japan
Brazil	Lebanon
Cameroon	Micronesia
Canada	Mozambique
Côte d'Ivoire	Philippines
France	Poland
Georgia	Saudi Arabia
Germany	United Kingdom
Greece	United States
Guatemala	

REPORT OF THE MIGA PROCEDURES COMMITTEE

REPORT I

October 8, 1998

At the meeting of the MIGA Procedures Committee held on October 7, 1998, the items of business on the agenda of the Council of Governors of MIGA were considered.

The Committee submits the following report and recommendations on MIGA business:

1. 1998 Annual Report

The Committee noted that the 1998 Annual Report and the activities of MIGA had been discussed at this Annual Meeting.

2. 1998 Election of Directors

The Committee noted that the 1998 Election of Directors of MIGA had taken place and that the next Election of Directors will take place at the Annual Meeting of the Council of Governors in 2000....¹

3. Officers and Procedures Committee for 1998/99

The Committee recommends that the Governor for Nepal be Chairman and the Governors for Kenya and the Philippines be Vice Chairmen of the Council of Governors of MIGA to hold office until the close of the next Annual Meeting.

It is further recommended that a Procedures Committee be established to be available, after the termination of this Annual Meeting and until the close of the next Annual Meeting, for consultation at the discretion of the Chairman, normally by correspondence and, if the occasion requires, by convening; and

¹ See page 254.

that this committee shall consist of the Governors for the following members: China, Dominica, France, Germany, Ghana, Japan, Kenya, Kuwait, Latvia, Mali, Nepal, Panama, Peru, the Philippines, Saudi Arabia, Spain, Sweden, Turkey, the United Kingdom, the United States, Uzbekistan, Venezuela, and Zimbabwe.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Nepal and the Vice Chairmen shall be the Governors for Kenya and the Philippines, and that the Governor for Dominica shall serve as Reporting Member.

Approved:

/s/Wolfgang Ruttenstorfer
Austria—Chairman

/s/Benjamin Mweene
Zambia—Reporting Member

(This report was approved and its recommendations were adopted by the Council of Governors on October 8, 1998)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF THE BANK
BETWEEN THE 1997 AND 1998 ANNUAL MEETINGS**

Resolution No. 516

Membership of the Republic of Palau

WHEREAS the Government of the Republic of Palau has applied for admission to membership in the International Bank for Reconstruction and Development in accordance with Section 1(b) of Article II of the Articles of Agreement of the Bank;

WHEREAS, pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of the Republic of Palau, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Palau shall be admitted to membership in the Bank shall be as follows:

1. *Definitions:* As used in this resolution:
 - (a) "Bank" means International Bank for Reconstruction and Development.
 - (b) "Articles of Agreement" means the Articles of Agreement of the Bank.
 - (c) "Subscription" means the capital stock of the Bank subscribed to by a member.
 - (d) "Member" means member of the Bank.
2. *Membership in the Fund:* Before accepting membership in the Bank, the Republic of Palau shall accept membership in and become a member of the International Monetary Fund.
3. *Subscription:* By accepting membership in the Bank, the Republic of Palau shall subscribe to 16 shares of the capital stock of the Bank at par on the terms and conditions set forth or referred to in paragraph 4 hereof.
4. *Payments on Subscription:*
 - (a) Upon accepting membership in the Bank, the Republic of Palau shall pay to the Bank under Article II, Section 7(i) of the Articles of

Agreement on account of the subscription price of each of the 16 shares subscribed pursuant to paragraph 3 of this resolution:

- (i) Gold or United States dollars equal to 0.875% of the said subscription price; and
 - (ii) An amount in its own currency which, at the appropriate prevailing exchange rate, shall be equal to 7.875% thereof.
- (b) The Bank shall call the amounts of subscription under paragraph 3 of this resolution payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 4(a) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses.

5. *Acceptance of Subscription:* Before the Bank shall accept the Republic of Palau's subscription to the shares set out in paragraph 3 of this resolution, the following action shall have been taken:

- (a) The Republic of Palau shall have taken all action necessary to authorize such subscription and shall furnish to the Bank all such information thereon as the Bank may request; and
- (b) With respect to and on account of the subscription price of the said shares, the Republic of Palau shall pay to the Bank the amounts set forth in paragraph 4(a) above.

6. *Representation and Information:* Before accepting membership in the Bank, the Republic of Palau shall represent to the Bank that it has taken all action necessary to sign and deposit the instrument of acceptance and sign the Articles as contemplated by paragraph 7(d) and (e) of this resolution and the Republic of Palau shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership:* The Republic of Palau shall become a member of the Bank with a subscription as set forth in paragraph 3 of this resolution as of the date when the Republic of Palau shall have:

- (a) become a member of the International Monetary Fund;
- (b) made the payments called for by paragraph 4 of this resolution;
- (c) furnished the representation, and such information as may have been requested, pursuant to paragraph 6 of this resolution;
- (d) deposited with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
- (e) signed the original Articles held in the archives of the Government of the United States of America.

8. *Limitation on Period for Fulfillment of Requirements of Membership*: The Republic of Palau may fulfill the requirements for membership in the Bank pursuant to this resolution until June 30, 1998, or such later date as the Executive Directors may determine.

(Adopted on December 12, 1997)

Resolution No. 517

Transfer to MIGA

RESOLVED:

That the Bank transfer from surplus, by way of grant, US\$150 million to the Multilateral Investment Guarantee Agency (MIGA), such transfer to be made in one payment immediately upon the adoption of this resolution and to be used as part of MIGA's capital resources to strengthen its financial position.

(Adopted on April 6, 1998)

Resolution No. 518

Increase in Authorized Capital and Subscription by Certain Members

WHEREAS the Governments of Brazil, Denmark, the Republic of Korea, Spain and Turkey have indicated their desire to subscribe additional shares of the capital of the Bank and the Executive Directors have recommended that they be authorized to do so;

WHEREAS it is desirable to increase the authorized capital stock of the Bank for this purpose; and

WHEREAS the Board of Governors expects that in the circumstances members will not wish to avail themselves of their preemptive rights under Article II, Section 3(c) of the Articles of Agreement of the Bank;

NOW, THEREFORE, the Board of Governors hereby resolves as follows;

1. The authorized capital stock of the Bank shall be increased by 23,246 shares of capital stock having a par value of \$100,000 each in terms of United States dollars of the weight and fineness in effect on July 1, 1944, provided, however, that in the event Brazil, Denmark, the Republic of Korea, Spain and

Turkey do not subscribe all the shares they are authorized to subscribe under paragraph 2, below, by the date set forth or referred to in paragraph 3(b), below, the authorized capital shall, at the close of business on the said date, be reduced by the number of shares each member mentioned above is authorized to subscribe under this resolution and shall not have subscribed by the said date.

2. The Bank is hereby authorized to accept subscriptions by Brazil, Denmark, the Republic of Korea, Spain and Turkey of up to the number of shares specified below upon the conditions set out in paragraph 3, below:

	<u>No. of Shares</u>
Brazil	8,341
Denmark	3,200
Korea, Republic of	6,445
Spain	4,311
Turkey	<u>949</u>
Total	23,246

3. Each subscription authorized pursuant to paragraph 2 above shall be on the following terms and conditions:

- (a) the subscription price shall be par;
- (b) a member may subscribe from time to time prior to December 31, 1999, or such later date as may be decided by the Executive Directors upon consideration of a request for an extension of the subscription period containing a schedule of the steps the member will take to subscribe the shares, provided, however that the subscription period shall not be extended beyond December 31, 2000;
- (c) the subscribing member shall pay to the Bank under Article II, Section 7(i) of the Bank's Articles of Agreement: (i) gold or United States dollars equal to 0.6% (six-tenths of one percent) of the subscription price of the shares subscribed, and (ii) an amount in its own currency equal to 5.4% (five and four-tenths of one percent) of such subscription price;
- (d) the Bank shall call the amounts of subscriptions payable under the said Article II, Section 7(i) which are not required to be paid under paragraph 3(c) above only when required to meet obligations of the Bank for funds borrowed or on loans guaranteed by it and not for use by the Bank in its lending activities or for administrative expenses; and
- (e) before any subscription shall be accepted by the Bank, the following actions shall have been taken: (i) the member shall have taken all action necessary to authorize such subscription and shall furnish to the Bank such information thereon as the Bank may request, and (ii) the member shall have made the payments provided for in paragraph 3(c) above.

4. Without prejudice to its right of approval under Article IV, Section 2(a) and (b) of the Articles of Agreement, each member subscribing shares pursuant to this resolution shall be expected to make available to the Bank for lending the portion of the subscription price of shares paid in its currency within a period of up to three years after subscription of such shares in accordance to a schedule to be agreed with the Bank.

5. In the absence of notice to the Bank from any member on or before May 29, 1998 that it intends to exercise its right to subscribe its proportionate share of the increase in capital provided for in this resolution pursuant to Article II, Section 3(c) of the Articles of Agreement, such member will be deemed to have waived such right.

6. This resolution shall not become effective unless all members have waived their rights to subscribe their proportionate share of the increase in the authorized capital stock of the Bank authorized under this resolution.

(Adopted on June 22, 1998)

Resolution No. 519

Transfer from Surplus to Replenish Trust Fund for Gaza and West Bank

RESOLVED:

That the Bank transfer from surplus, by way of grant, US\$90,000,000 to the Trust Fund for Gaza and West Bank, such transfer to be drawn down by the Association as needed; provided, however, that the amount of such grant may at any time be changed by the Association into an equivalent amount in other currencies.

(Adopted on July 13, 1998)

Resolution No. 520

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1998, the annual rates of remuneration of the Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be as follows:

- (i) As salary, \$146,200 per year for Executive Directors and \$125,500 per year for their Alternates;
- (ii) As supplemental allowance (for expenses, including housing and entertainment expenses, except those specified in Section 13(f) of the By-Laws), \$9,000 per year for Executive Directors and \$7,200 per year for their Alternates.

(Adopted on August 11, 1998)

Resolution No. 521

Benefits of the Executive Directors and their Alternates

RESOLVED:

1. THAT, effective April 15, 1998, the amendments to the Staff Retirement Plan made applicable to Bank staff shall apply also to Executive Directors of the Bank, and their Alternates, on the same basis as the staff, and that in future SRP amendments providing for survivor benefits under the new pension scheme and an option for those under the existing pension scheme to convert to the new scheme shall be adopted for the staff, that such future amendments shall also apply to Executive Directors of the Bank, and their Alternates, on the same basis as the staff when such provisions become effective for the staff;
2. THAT, effective April 15, 1998, the changes in the Retiree Medical Insurance program (including changes in the existing plan and the newly adopted plan) made applicable to the staff of the Bank as of that date, shall apply also to the Executive Directors of the Bank and their Alternates, on the same basis as the staff; and
3. THAT, effective July 1, 1998, the replacement of the disability pension with the insured long term disability program, made applicable to the staff of the Bank as of that date, shall apply also to the Executive Directors of the Bank, and their Alternates, on the same basis as the staff.

(Adopted on August 11, 1998)

Resolution No. 522

1998 Regular Election of Executive Directors

RESOLVED:

- (a) THAT the attached Rules...¹ for the 1998 Regular Election of Executive Directors are hereby approved; and
- (b) THAT a Regular Election of Executive Directors shall take place at the Annual Meeting of the Board of Governors in 2000.

(Adopted on September 15, 1998)

¹ See page 259.

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF BANK
AT THE 1998 ANNUAL MEETINGS**

Resolution No. 523

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Bank consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1997/98 Annual Report, as fulfilling the requirements of Article V, Section 13, of the Articles of Agreement and of Section 18 of the By-Laws of the Bank.

(Adopted October 8, 1998)

Resolution No. 524

Allocation of FY98 Net Income and Transfer from Surplus

RESOLVED:

1. THAT the Bank transfer to the International Development Association, by way of grant, an amount equivalent to up to \$370 million in SDRs in the component currencies of the SDR as of June 30, 1998, \$210 million to be transferred out of the FY98 net income of the Bank and \$160 million from surplus, including up to \$70 million in reimbursement of the Association's share of the FY98 cost of implementing the Strategic Compact, which amounts may be used by the Association to provide financing in the form of grants in addition to loans; such transfer to be made at the time and in the manner decided by the Executive Directors;
2. THAT the Bank transfer to the HIPC Debt Initiative Trust Fund, by way of grant out of the Bank's FY98 net income, \$100 million, to be drawn down as needed; and
3. THAT any excess of FY98 net income over \$1,242 million be retained as surplus.

(Adopted on October 8, 1998)

**RESOLUTIONS ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
BETWEEN THE 1997 AND 1998 ANNUAL MEETINGS**

Resolution No. 227

Membership of the Republic of Palau

WHEREAS the Government of the Republic of Palau has applied for admission to membership in the International Finance Corporation in accordance with Section 1(b) of Article II of the Articles of Agreement of the Corporation; and

WHEREAS, pursuant to Section 17 of the By-Laws of the Corporation, the Board of Directors, after consultation with representatives of the Government of the Republic of Palau has made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors, hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Palau shall be admitted to membership in the Corporation shall be as follows:

1. *Definitions:* As used in this resolution:
 - (a) "Corporation" means International Finance Corporation.
 - (b) "Articles" means the Articles of Agreement of the Corporation.
 - (c) "Dollars" or "\$" means dollars in currency of the United States of America.
 - (d) "Subscription" means the capital stock of the Corporation subscribed by a member.
 - (e) "Member" means member of the Corporation.
2. *Subscription:* By accepting membership in the Corporation, the Republic of Palau shall subscribe to 25 shares of the capital stock of the Corporation at the par value of \$1,000 per share.
3. *Payment of Subscription:* Before accepting membership in the Corporation, the Republic of Palau shall pay \$25,000 to the Corporation representing payment in full for 25 shares of the capital stock subscribed.
4. *Information:* Before accepting membership in the Corporation, the Republic of Palau shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership*: The Republic of Palau shall become a member of the Corporation as of the date when the Republic of Palau shall have complied with the following requirements:

- (a) become a member of the International Bank for Reconstruction and Development;
- (b) made the payment called for by paragraph 3 of this resolution;
- (c) furnished such information as may have been requested by the Corporation pursuant to paragraph 4 of this resolution;
- (d) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted without reservation in accordance with its law the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
- (e) signed the original Articles held by the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership*: The Republic of Palau may fulfill the requirements for membership in the Corporation pursuant to this resolution until June 30, 1998, or such later date as the Board of Directors may determine.

(Adopted on December 12, 1997)

Resolution No. 228

Amendment of Resolution No. 179

WHEREAS, by Resolution No. 179 adopted by the Board of Governors on May 4, 1992, the authorized capital of the International Finance Corporation (the Corporation) was increased by \$1,000,000,000 in terms of United States dollars, divided into 1,000,000 shares having a par value of one thousand United States dollars each;

WHEREAS, the Board of Directors of the Corporation has concluded that it is desirable to amend the provisions of the Resolution No. 179 so as to extend the subscription date and the final payment date for shares subscribed or to be subscribed pursuant to the terms of said Resolution and have submitted proposals therefor to the Board of Governors on the basis set forth below; and

NOW, THEREFORE, THE BOARD OF GOVERNORS RESOLVES THAT:

1. The subscription date of February 1, 1993, appearing in paragraph D.3. of Resolution No. 179, is hereby changed to August 1, 1999.
2. The payment date of August 1, 1996, appearing in sub-paragraph (v) of Section D.2.(b) of Resolution No. 179, is hereby changed to August 1, 1999.
3. The payment date of August 1, 1999, appearing in paragraph (d) of Section D.2. of Resolution No. 179 in respect of subscriptions by member countries in circumstances of economic hardship, is hereby postponed to August 1, 2001.
4. All provisions of Resolution No. 179 not specifically amended hereby remain unchanged.
5. The provisions of this Resolution shall become effective upon approval by the Governors.

(Adopted on July 31, 1998)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IFC
AT THE 1998 ANNUAL MEETINGS**

Resolution No. 229

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1997/98 Annual Report and the Administrative Budget attached to the Report dated July 31, 1998 as fulfilling the requirements of Article IV, Section 11, of the Articles of Agreement and of Section 16 of the By-Laws of the Corporation.

(Adopted on October 8, 1998)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IDA
BETWEEN THE 1997 AND 1998 ANNUAL MEETINGS**

Resolution No. 192

Membership of the Republic of Palau

WHEREAS the Government of the Republic of Palau has applied for admission to membership in the International Development Association in accordance with Section 1(b) of Article II of the Articles of Agreement of the Association;

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of the Republic of Palau, have made recommendations to the Board of Governors regarding this application;

NOW, THEREFORE, the Board of Governors hereby

RESOLVES:

THAT the terms and conditions upon which the Republic of Palau shall be admitted to membership in the Association shall be as follows:

1. *Definition:* As used in this resolution:
 - (a) "Association" means International Development Association.
 - (b) "Articles" means the Articles of Agreement of the Association.
 - (c) "Dollars" or "\$" means dollars in currency of the United States of America.

2. *Initial Subscription:*
 - (a) The terms and conditions of the membership of the Republic of Palau in the Association other than those specifically provided for in this resolution shall be those set forth in the Articles with respect to the membership of original members listed in Part II of Schedule A thereof (including, but not by way of limitation, the terms and conditions relating to subscriptions, payments on subscription, usability of currencies and voting rights).
 - (b) Upon accepting membership in the Association, the Republic of Palau shall subscribe funds in the amount of \$20,000 expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960, that is to say, pursuant to the decision of the Executive Directors

of the Association of June 30, 1986 on the valuation of initial subscriptions, \$24,127, and shall pay the latter amount to the Association as follows: (a) ten percent either in gold or in freely convertible currency, and (b) ninety percent in the currency of the Republic of Palau. As of the date the Republic of Palau will become a member of the Association, 504 votes shall be allocated to the Republic of Palau in respect to such subscription, consisting of 4 subscription votes and 500 membership votes.

3. *Effective Date of Membership*: The Republic of Palau shall become a member of the Association with a subscription as set forth in paragraph 2(b) of this resolution as of the date when the Republic of Palau shall have complied with the following requirements:

- (a) become a member of the International Bank for Reconstruction and Development;
- (b) made the payments called for by paragraph 2 of this resolution;
- (c) deposited with the International Bank for Reconstruction and Development an instrument stating that it has accepted in accordance with its laws the Articles and all the terms and conditions prescribed in this resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this resolution; and
- (d) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

4. *Limitation on Period for Fulfillment of Requirements of Membership*: The Republic of Palau may fulfill the requirements for membership in the Association pursuant to this resolution until June 30, 1998, or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscription*: Upon or after acceptance of membership, the Republic of Palau shall also be authorized at its option to make an additional subscription in the amount of \$4,690 which shall carry 24,059 votes, calculated on the basis of 159 subscription votes and 23,900 membership votes, and which shall be subject to the following terms and conditions:

- (i) Payment of such additional subscription shall be made in the currency of the Republic of Palau within 30 days after the Republic of Palau notifies the Association of its intention to make such additional subscription.
- (ii) The rights and obligations of the Association and the Republic of Palau with regard to such additional subscription shall be the same (except as otherwise provided in this resolution) as those which govern the 90% portion of the initial subscriptions of original members payable under Articles II, Section 2(d) of the Articles by

members listed in Part II of Schedule A of the Articles, provided, however, that the provisions of Articles IV, Section 2 of the Articles shall not be applicable to such subscription.

(Adopted on December 12, 1997)

**RESOLUTION ADOPTED
BY THE BOARD OF GOVERNORS OF IDA
AT THE 1998 ANNUAL MEETINGS**

Resolution No. 193

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Association consider the Financial Statements, Accountants' Report and Administrative Budget, included in the 1997/98 Annual Report, as fulfilling the requirements of Article VI, Section 11, of the Articles of Agreement and of Section 8 of the By-Laws of the Association.

(Adopted on October 8, 1998)

**RELOLUTIONS ADOPTED
BY THE COUNCIL OF GOVERNORS OF MIGA
BETWEEN THE 1997 AND 1998 ANNUAL MEETINGS**

Resolution No. 54

Membership of the Republic of Palau

WHEREAS the Government of the Republic of Palau has applied for admission to membership in the Multilateral Investment Guarantee Agency (the "Agency"); and

WHEREAS, pursuant to Section 17(c) of the Agency's By-Laws, the Board of Directors has made recommendations to the Council of Governors regarding this application;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES that:

1. Before becoming a party to the Convention Establishing the Multilateral Investment Guarantee Agency (the "Convention"), the Republic of Palau shall accept membership in and become a member of the International Bank for Reconstruction and Development.
2. Upon deposit of its instrument of ratification, acceptance or approval of the Convention, the Republic of Palau shall be obligated to:
 - (i) subscribe at par to 50 shares of the capital stock of the Agency; and
 - (ii) pay in full to the Agency the paid-in portions of the subscription price of such shares in accordance with Articles 7 and 8 of the Convention.
3. With effect from the date of the fulfillment of the conditions set forth in paragraph 2 above, the Republic of Palau shall be admitted to membership and shall be classified as a Category Two (developing country) member for the purposes of the Convention.

(Adopted on December 12, 1997)

Resolution No. 55

Review of Allocation of Shares of the Agency

WHEREAS Article 39(c) of the Convention establishes that:

During the third year following the entry into force of this Convention, the Council shall review the allocation of shares and shall be guided in its decision by the following principles:

- (i) the votes of members shall reflect actual subscriptions to the Agency's capital and the membership votes as set out in Section (a) of this Article;
- (ii) shares allocated to countries which shall not have signed the Convention shall be made available for reallocation to such members and in such manner as to make possible voting parity between the above-mentioned Categories; and
- (iii) the Council shall take measures that will facilitate members' ability to subscribe to shares allocated to them[;]

WHEREAS, the Council of Governors reviewed the allocation of shares of the Agency and on April 12, 1991 adopted Resolution No. 20 postponing for two years the reallocation of unsubscribed shares for the purpose of achieving parity of voting power on the grounds that it could prejudice the admission of new members;

WHEREAS the Council of Governors once again reviewed the allocation of shares of the Agency and adopted Resolution No. 43 on June 8, 1993, postponing the reallocation of unsubscribed shares for the purpose of achieving parity of voting power once again and recommended that the position be reviewed in five years or 1998;

WHEREAS, in accordance with Resolutions No. 20 and No. 43 of the Council of Governors, it was further decided that the shares of the Agency should continue to be allocated to the countries and in the number set forth in Schedule A of the Convention;

WHEREAS the 1998 General Capital Increase is concurrently under consideration by the Council of Governors;

WHEREAS, should parity of voting power be achieved before the expiry of the general capital increase subscription period, or the extension thereof, such parity would be upset should one or more members decide not to subscribe the shares of the additional capital;

WHEREAS, in order to facilitate an increase in the membership of the Agency, Schedule A to the Convention should remain in force;

NOW THEREFORE the Council of Governors resolves that:

- (i) the review and reallocation of shares of the Agency, scheduled in the aforementioned Resolution No. 43 of the Council of Governors to take place during 1998, shall be postponed until the expiry of the three-year subscription period for the 1998 General Capital Increase; and
- (ii) any country listed in Schedule A to the Convention which decides to become a member of the Agency shall do so by subscribing the number of shares set forth in that Schedule and in the manner set forth in the Convention.

(Adopted on May 14, 1998)

Resolution No. 56

Election of Directors

RESOLVED:

- (a) That the 1998 Regular Election of Directors shall take place in accordance with the attached Rules...¹
- (b) That the 2000 Regular Election of Directors shall take place during the 2000 Annual Meetings of the Council of Governors.

(Adopted on September 15, 1998)

¹ See page 278.

REPORTS OF THE EXECUTIVE DIRECTORS OF THE BANK

November 17, 1997

Membership of the Republic of Palau

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Palau for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The attached draft resolutions on membership in the Bank, IDA and IFC conform substantially to the pattern for such resolutions.
3. Representatives of the Republic of Palau have been consulted informally regarding the terms and conditions recommended in the attached draft resolutions and they have raised no objection thereto.
4. The draft resolutions....¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 12, 1997)

December 18, 1997

Transfer to MIGA

1. At its Fall Meeting on September 22, 1997, the Development Committee considered a progress report on the capital increase of the Multilateral Investment Guarantee Agency (MIGA). Members of the Committee welcomed the consensus on addressing MIGA's resource constraints by means of a three-part funding package comprising an IBRD grant of US\$150 million, paid-in capital of \$150 million plus \$700 million of callable capital, and urged the Bank to move swiftly to implement the grant.
2. On September 25, 1997, the Board of Governors noted with approval the Report of the Executive Directors on the Allocation of FY97 Net Income,

¹ See page 236.

which included the addition of certain amounts to the General Reserve and the retention as surplus of the amount of FY97 net income in excess of the amounts allocated to reserves and those allocated to other uses. The amount of the surplus now stands at \$576 million.

3. The Executive Directors, having considered Management's recommendation, have concluded that the interests of the Bank and its members would be served by the immediate transfer to MIGA of US\$150 million out of the Bank's surplus, to be used by MIGA as additional capital resources to strengthen its financial position.

4. Accordingly, the Executive Directors recommend to the Board of Governors the adoption of the resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on April 6, 1998)

May 7, 1998

Increase in Authorized Capital and Subscription by Certain Members

1. The Governments of Brazil, Denmark, the Republic of Korea, Spain and Turkey have expressed the desire to increase their subscription to the capital stock of the Bank by 23,246 shares as follows:

	<u>No. of Shares</u>
Brazil	8,341
Denmark	3,200
Korea, Republic of	6,445
Spain	4,311
Turkey	<u>949</u>
Total	23,246

The Executive Directors recommend that the above countries be authorized to subscribe such shares and that the authorized capital of the Bank be increased by 23,246 shares for that purpose. In view of the purpose of the increase in the Bank's authorized capital, it is expected that no member will exercise its preemptive rights, and the increase would not become effective if any member were to exercise its preemptive rights.

¹ See page 238.

2. The terms and conditions of the subscription would follow the pattern established for such subscriptions. The portion of the price of the shares to be paid in at the time of subscription would reflect the average paid-in portion for existing shares. Thus, 6% of the price of the shares would be paid at the time of subscription and the balance would be added to callable capital. Of the 6% paid-in, 10% or 0.6% of the total price of the shares would be payable in dollars and 90% or 5.4% of the price of the shares would be payable in the member's currency. Brazil, Denmark, the Republic of Korea, Spain and Turkey would have eighteen months from the expected date of approval of the resolution by the Board of Governors to subscribe the shares. The subscription period could be extended by the Executive Directors upon receipt of a request from the member containing a schedule of the steps to be taken to complete the subscription, but the subscription period could not be extended by more than one year in total. In the event that the shares were not subscribed by the end of the subscription period, the authorized capital would automatically be reduced by the number of shares left unsubscribed.

3. The Executive Directors recommend that the Board of Governors adopt the draft resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on June 22, 1998)

May 28, 1998

Transfer from Surplus to Replenish Trust Fund for Gaza and West Bank

1. On October 19, 1993, by the terms of Resolution No. 93-11 and IDA 93-7, the Executive Directors of the International Bank for Reconstruction and Development (Bank) and the International Development Association (IDA) approved the establishment of the Trust Fund for Gaza. On November 11, 1993, by the terms of Resolution No. 483, the Board of Governors of the Bank approved the transfer from surplus, by way of grant, of US\$50 million to the Trust Fund for Gaza. On August 1, 1995, by the terms of Resolution No. 95-6 and IDA 95-3, the Executive Directors of the Bank and the Association amended Resolution No. 93-11 and IDA 93-7 by: (a) expanding the territorial scope of the activities to be financed out of the Trust Fund for Gaza to include such areas, sectors and activities in the West Bank which are or will be under

¹ See page 238.

the jurisdiction of the Palestinian Authority pursuant to the relevant Israeli-Palestinian agreements; and (b) changing the name of the "Trust Fund for Gaza" to "Trust Fund for Gaza and West Bank". On October 12, 1995, by the terms of Resolution No. 500, the Board of Governors approved the transfer to the Trust Fund for Gaza and West Bank, by way of grant out of the Bank's FY95 net income, of US\$90 million. On January 3, 1997, by the terms of Resolution No. 96-11 and IDA 96-7, the Executive Directors of the Bank and the Association further amended Resolution 93-11 and IDA 93-7 by: (a) introducing flexibility to the terms under which resources may be provided out of the Trust Fund for Gaza and West Bank; and (b) requiring that the repayment of trust fund credits made out of the Trust Fund for Gaza and West Bank accrue to the Association as part of its resources. On February 3, 1997, by the terms of Resolution No. 511, the Board of Governors approved the transfer to the Trust Fund for Gaza and West Bank, by way of grant out of the Bank's FY96 surplus, of US\$90 million.

2. In view of recent developments and their possible decisive effect on the success of on-going efforts toward establishing peace in the Middle East, the possible effects of such a peace on regional and international economic cooperation and growth, and in order to promote the purposes of the Bank in these circumstances, the Executive Directors consider that the Trust Fund for Gaza and West Bank should be replenished. They recommend that the Board of Governors authorize the transfer from surplus of the amount of US\$90,000,000 to the Trust Fund for Gaza and West Bank.

3. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft Resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on July 13, 1998)

July 31, 1998

1998 Regular Election of Executive Directors

1. Pursuant to Resolution No. 505 of the Board of Governors, a Regular Election of Executive Directors will take place at the 1998 Annual Meeting of the Board of Governors.

¹ See page 240.

2. The Executive Directors have noted that the size of the Board was increased to 24 in 1992, after a large increase in the membership, in order to preserve broad geographic representation which permits all major groups of countries to be represented. As in past years, there is strong feeling among the Executive Directors that, in the unlikely event that there was lack of such wide geographical and balanced representation, prompt corrective action would be called for.
3. The Executive Directors recommend that the maximum and minimum percentages of eligible votes required for election of an Executive Director be 10 percent and 2 percent, respectively. They believe that such percentages would provide a range that is broad enough in the circumstances.
4. The Executive Directors recommend that the date from which the 1998 Regular Election will be effective be November 1, 1998.
5. The Executive Directors note that under the Articles of Agreement of the International Finance Corporation (the Corporation) and the International Development Association (the Association) the elected Directors will serve *ex officio* as members of the Board of Directors of the Corporation and Executive Directors of the Association.
6. The Executive Directors recommend that the subsequent Regular Election of Executive Directors take place at the Annual Meeting of the Board of Governors in 2000.
7. The Executive Directors recommend the adoption by the Board of Governors of the attached Rules for the 1998 Regular Election of Executive Directors.
8. The draft Resolution...¹, embodying the above recommendations, is proposed for adoption by the Board of Governors:

(This report was approved and its recommendation was adopted by the Board of Governors on September 15, 1998)

Rules for The 1998 Regular Election of Executive Directors

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) "Articles" means the Articles of Agreement of the Bank.

¹ See page 242.

- (b) "Board" means the Board of Governors of the Bank.
- (c) "Chairman" means the Chairman of the Board or a Vice Chairman acting as Chairman.
- (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor, when acting for the Governor.
- (e) "Secretary" means the Secretary or any acting Secretary of the Bank.
- (f) "Election" means the 1998 Regular Election of Executive Directors.
- (g) "Eligible votes" means the total number of votes that can be cast in the election.

DATE OF ELECTION

- 2. The election shall be held during a plenary session of the 1998 Annual Meeting of the Board to be held Wednesday, October 7, 1998.

BASIC RULES—SCHEDULE B

- 3. Subject to the adjustment set forth in the Rules, the provisions of Schedule B of the Articles shall apply to the conduct of the election, except that:
 - (a) "two percent" shall be substituted for "fourteen percent" in Paragraphs 2 and 5 and "ten percent" shall be substituted for "fifteen percent" in Paragraphs 3, 4 and 5 thereof; and
 - (b) "nineteen persons" shall be substituted for "seven persons" in Paragraphs 2, 3 and 6, "eighteen persons" shall be substituted for "six persons" in Paragraph 6, and "the nineteenth" shall be substituted for the "seventh" in Paragraph 6 thereof.

EXECUTIVE DIRECTORS TO BE ELECTED

- 4. Nineteen Executive Directors shall be elected.

NOMINATIONS

- 5. (a) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election as Executive Director.
 - (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
 - (c) A Governor may nominate only one person.
 - (d) Nominations may be made until 12 noon on Tuesday, October 6, 1998. The Secretary shall post and distribute a list of persons nominated.

SUPERVISION OF THE ELECTION

6. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

BALLOTS

7. One ballot form shall be furnished before a ballot is taken to each Governor entitled to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.

BALLOTING

8. Each ballot shall be taken as follows:

- (a) Ballots shall be conducted by deposit of ballot forms used by Governors eligible to vote, in a ballot box.
- (b) When a ballot shall have been completed, the Chairman shall cause the ballots to be counted and shall announce the names of the persons elected as soon as practicable after the tellers have completed their tally of the ballots. If a succeeding ballot is necessary, the Chairman shall announce the names of the nominees to be voted on and the members whose Governors are eligible to vote.
- (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be valid.

9. When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be deemed to be elected by the number of votes received by him on such ballot; provided, however, that, if on such ballot the votes of any Governor shall be deemed under Paragraph 4 of Schedule B* to have raised the votes cast for any nominee above ten percent of the eligible votes, no nominee shall be deemed to have been elected who shall not have received on such ballot a minimum of two percent of the eligible votes, and a succeeding ballot shall be taken for which any nominee not elected shall be eligible.

Paragraph 4 of Schedule B of the Articles reads as follows:

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until ten percent is reached.

10. If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with Paragraph 4 above shall not have been elected, a second, and if necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only:

- (a) those who voted on the preceding ballot for any nominee not elected; and
- (b) those Governors whose votes for a nominee elected on the preceding ballot are deemed under Paragraph 4 of Schedule B* to have raised the votes cast for such nominee above ten percent of the eligible votes.

11. If the votes cast by a Governor bring the total votes received by a nominee from below to above ten percent of the eligible votes, all the votes cast by this Governor shall be deemed to have been cast for the benefit of that nominee without raising the total votes of the nominee above ten percent.

12. If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all, of such Governors could be deemed under Paragraph 4 of Schedule B* not to have raised the total votes of the nominee above ten percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.

13. Any member whose Governor has voted on the last ballot for a candidate not elected may, before the effective date of the election, as set forth in Section 17 below, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted toward the election of the Executive Director so designated.

ABSTENTION FROM VOTING

14. If a Governor shall abstain from voting on any ballot, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted within the meaning of Section 4(g) of Article V towards the election of any Executive Director. If at the time of any ballot a member shall not have a duly appointed Governor, such member shall be deemed to have abstained from voting on that ballot.

ELIMINATION OF NOMINEES

15. If on any ballot two or more nominees shall receive the same lowest number of votes, no nominee shall be dropped from the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of such nominees from the next succeeding ballot.

ANNOUNCEMENT OF THE RESULT

16. After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

17. The effective date of the election shall be November 1, 1998, and the term of office of the elected Executive Directors shall commence on that date. Incumbent elected Executive Directors shall serve through the day preceding such date.

GENERAL

18. Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT
1998 REGULAR ELECTION OF EXECUTIVE DIRECTORS
STATEMENT OF RESULTS OF ELECTION, OCTOBER 7, 1998**

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Khalid M. AL-SAAD			43,984
	Bahrain	1,353	
	Egypt	7,358	
	Jordan	1,638	
	Kuwait	13,530	
	Lebanon	590	
	Libya	8,090	
	Maldives	719	
	Oman	1,811	
	Qatar	1,346	
	Syrian Arab Republic	2,452	
	United Arab Emirates	2,635	
	Yemen, Republic of	2,462	
Khalid H. ALYAHYA			45,045
	Saudi Arabia	45,045	
Ruth BACHMAYER			76,720
	Austria	11,313	
	Belarus	3,573	
	Belgium	29,233	
	Czech Republic	6,558	
	Hungary	8,300	
	Kazakhstan	3,235	
	Luxembourg	1,902	
	Slovak Republic	3,466	
	Slovenia	1,511	
	Turkey	7,629	
Andrei BUGROV			45,045
	Russian Federation	45,045	
Federico FERRER			68,475
	Costa Rica	483	
	El Salvador	391	
	Guatemala	2,251	
	Honduras	891	
	Mexico	19,054	
	Nicaragua	858	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
	Spain	23,936	
	Venezuela	20,611	
Godfrey GAOSEB			55,190
	Angola	2,926	
	Botswana	865	
	Burundi	966	
	Eritrea	843	
	Ethiopia	1,228	
	Gambia, The	793	
	Kenya	2,711	
	Lesotho	913	
	Liberia	713	
	Malawi	1,344	
	Mozambique	1,180	
	Namibia	1,773	
	Nigeria	12,905	
	Seychelles	513	
	Sierra Leone	968	
	South Africa	13,712	
	Sudan	1,100	
	Swaziland	690	
	Tanzania	1,545	
	Uganda	867	
	Zambia	3,060	
	Zimbabwe	3,575	
Valeriano F. GARCIA			37,499
	Argentina	18,161	
	Bolivia	2,035	
	Chile	7,181	
	Paraguay	1,479	
	Peru	5,581	
	Uruguay	3,062	
Inaamul HAQUE			54,052
	Algeria	9,502	
	Ghana	1,775	
	Iran, Islamic Republic of	23,936	
	Iraq	3,058	
	Morocco	5,223	
	Pakistan	9,589	
	Tunisia	969	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Jannes HUTAGALUNG			41,096
	Brunei Darussalam	2,623	
	Fiji	1,237	
	Indonesia	15,231	
	Lao People's Dem. Rep.	428	
	Malaysia	8,494	
	Myanmar	2,734	
	Nepal	1,218	
	Singapore	570	
	Thailand	6,599	
	Tonga	744	
	Vietnam	1,218	
Young-Hoi LEE			49,355
	Australia	24,714	
	Cambodia	464	
	Kiribati	715	
	Korea, Republic of	9,622	
	Marshall Islands	719	
	Micronesia, Fed. States of	729	
	Mongolia	716	
	New Zealand	7,486	
	Palau	266	
	Papua New Guinea	1,544	
	Samoa	781	
	Solomon Islands	763	
	Vanuatu	836	
LI Yong			45,049
	China	45,049	
Matthias MEYER			46,096
	Azerbaijan	1,896	
	Kyrgyz Republic	1,357	
	Poland	11,158	
	Switzerland	26,856	
	Tajikistan	1,310	
	Turkmenistan	776	
	Uzbekistan	2,743	
Ilkka NIEMI			50,839
	Denmark	10,501	
	Estonia	1,173	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
	Finland	8,810	
	Iceland	1,508	
	Latvia	1,634	
	Lithuania	1,757	
	Norway	10,232	
	Sweden	15,224	
Terrie O'LEARY			62,217
	Antigua and Barbuda	770	
	Bahamas, The	1,321	
	Barbados	1,198	
	Belize	836	
	Canada	45,045	
	Dominica	754	
	Grenada	781	
	Guyana	1,308	
	Ireland	5,521	
	Jamaica	2,828	
	St. Kitts and Nevis	525	
	St. Lucia	802	
	St. Vincent and the Grenadines	528	
Franco PASSACANTANDO			55,093
	Albania	1,080	
	Greece	1,934	
	Italy	45,045	
	Malta	1,324	
	Portugal	5,710	
Murilo PORTUGAL			49,783
	Brazil	25,196	
	Colombia	6,602	
	Dominican Republic	2,342	
	Ecuador	3,021	
	Haiti	1,317	
	Panama	635	
	Philippines	7,094	
	Suriname	662	
	Trinidad and Tobago	2,914	
Surendra SINGH			54,945
	Bangladesh	5,104	
	Bhutan	729	
	India	45,045	
	Sri Lanka	4,067	

Candidate Elected	Members Whose Votes		Total Votes
	Counted Toward Election	Number of Votes	
Pieter STEK			72,208
	Armenia	1,389	
	Bosnia and Herzegovina	799	
	Bulgaria	5,465	
	Croatia	2,543	
	Cyprus	1,711	
	Georgia	1,834	
	Israel	5,000	
	Macedonia, FYR	677	
	Moldova	1,618	
	Netherlands	35,753	
	Romania	4,261	
	Ukraine	11,158	
Bassary TOURE			32,252
	Benin	1,118	
	Burkina Faso	1,118	
	Cameroon	1,777	
	Cape Verde	758	
	Central African Republic	1,112	
	Chad	1,112	
	Comoros	532	
	Congo, Dem. Rep. Of	2,893	
	Congo, Republic of	1,177	
	Cote d'Ivoire	2,766	
	Djibouti	809	
	Equatorial Guinea	965	
	Gabon	1,237	
	Guinea	1,542	
	Guinea-Bissau	790	
	Madagascar	1,672	
	Mali	1,412	
	Mauritania	1,150	
	Mauritius	1,492	
	Niger	1,102	
	Rwanda	1,296	
	Sao Tome and Principe	745	
	Senegal	2,322	
	Togo	1,355	

/s/
K. Tripathi (India)
Teller

/s/
J. Wong-Valle (Nicaragua)
Teller

Allocation of FY98 Net Income and Transfer from Surplus

1. The General Reserve of the Bank as of June 30, 1998 was \$14,659 million. As of that date, the surplus of the Bank was \$426 million and the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totaled \$293 million. The Bank's reported net income for the fiscal year ended June 30, 1998 (FY98) amounted to \$1,243 million.
2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to FY98 net income. The Executive Directors have concluded that the interests of the Bank and its members would best be served by the following dispositions of the net income of the Bank:
 - (a) the addition of \$750 million of net income to the General Reserve;
 - (b) the allocation of \$182 million of net income, representing the difference between actual funding of the Staff Retirement Plan and Staff Retirement Plan accounting expenses for FY98, to the pension reserve;
 - (c) the transfer to the International Development Association, by way of grant, of an amount equivalent to up to \$370 million in SDRs in the component currencies of the SDR as of June 30, 1998, comprised of \$210 million out of FY98 net income and \$160 million from surplus including up to \$70 million in reimbursement of the Association's share of the FY98 cost of implementing the Strategic Compact, which amounts would be usable to provide financing in the form of grants in addition to loans. The draft Resolution...¹ provides that the transfer would be made at the time and in the manner decided by the Executive Directors;
 - (d) the transfer to the HIPC Debt Initiative Trust Fund, by way of grant out of the Bank's FY98 net income, of \$100 million, to be drawn down as needed; and
 - (e) the retention as surplus of any excess of FY98 net income over \$1,242 million.
3. Accordingly, the Executive Directors recommend that the Board of Governors note with approval the present Report and adopt the draft Resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on October 8, 1998)

¹ See page 243.

REPORTS OF THE BOARD OF DIRECTORS OF IFC

November 17, 1997

Membership of the Republic of Palau

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Palau for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The attached draft resolutions on membership in the Bank, IDA and IFC conform substantially to the pattern for such resolutions.
3. Representatives of the Republic of Palau have been consulted informally regarding the terms and conditions recommended in the attached draft resolutions and they have raised no objection thereto.
4. The draft resolutions....¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 12, 1997)

June 26, 1998

Amendment of Resolution No. 179

1. On May 4, 1992, the Board of Governors of International Finance Corporation (IFC) adopted Resolution No. 179 entitled "1991 General Capital Increase" which increased the authorized capital of IFC by the creation of 1,000,000 additional shares having a par value of US\$1,000 each. A copy of Resolution No. 179 is attached for reference. The date up to which subscriptions and payments to the additional shares authorized under Resolution No. 179 can be accepted is August 1, 1998. With respect to shares allocated to member countries in circumstances of economic hardship, the final payment is August 1, 2000.

¹ See page 244.

2. The Board of Directors recommends that the subscription and payment dates be postponed for the following reasons. First, certain member countries will be unable to complete their payments by August 1, 1998 because of severe budgetary constraints. Postponement of the final payment date will facilitate payment of the balance. Second, 19 member countries have not yet subscribed to the shares allocated to them under Resolution No. 179. The proposed extension of the terminal date for subscription would provide these countries additional time to subscribe. Finally, the proposed extension would facilitate the widest possible participation in the capital increase, an outcome that is strongly supported by the membership.

3. Accordingly, the Board of Directors recommends that the Board of Governors of the Corporation adopt the draft resolution....¹

(This report was approved and its recommendation was adopted by the Board of Governors on July 31, 1998)

¹ See page 245.

REPORT OF THE BOARD OF DIRECTORS OF IDA

November 17, 1997

Membership of the Republic of Palau

1. In accordance with Section 19 of the By-Laws of the International Bank for Reconstruction and Development, Section 9 of the By-Laws of the International Development Association and Section 17 of the By-Laws of the International Finance Corporation, the applications of the Republic of Palau for membership in the Bank, IDA and IFC are hereby submitted to the Boards of Governors.
2. The attached draft resolutions on membership in the Bank, IDA and IFC conform substantially to the pattern for such resolutions.
3. Representatives of the Republic of Palau have been consulted informally regarding the terms and conditions recommended in the attached draft resolutions and they have raised no objection thereto.
4. The draft resolutions....¹ are recommended for adoption by the Boards of Governors of the Bank, IDA and IFC, respectively.

(This report was approved and its recommendation was adopted by the Board of Governors on December 12, 1997)

¹ See page 248.

REPORT OF THE BOARD OF DIRECTORS OF MIGA

November 17, 1997

Membership of the Republic of Palau

1. In accordance with the By-Laws of the Multilateral Investment Guarantee Agency, the application of the Republic of Palau for membership in the Agency is hereby submitted to the Council of Governors.
2. Representatives of the Republic of Palau have been consulted informally regarding the terms and conditions recommended in the attached draft resolution and they have raised no objection thereto.
3. Accordingly, the Board of Directors recommends that the Council of Governors adopt the draft resolution....¹

(This report was approved and its recommendation was adopted by the Council of Governors on December 12, 1998)

1998 Review of Allocation of Shares of the Agency

Article 39, Sections (a) (b) and (c) of the MIGA Convention establishes that:

- (a) In order to provide for voting arrangements that reflect the equal interest in the Agency of the two Categories of States listed in Schedule A to this Convention, as well as the importance of each member's financial participation, each member shall have 177 membership votes plus one subscription vote for each share of stock held by that member.
- (b) If at any time within three years after the entry into force of this Convention the aggregate sum of membership and subscription votes of members which belong to either of the two Categories of States listed in Schedule A of this Convention is less than 40 percent of the total voting power, members from such a Category shall have such number of supplementary votes as shall be necessary for the aggregate voting power of the Category to equal such a percentage of the total voting power. Such supplementary votes shall be distributed among the members of such Category in the proportion that the subscription of votes of each bears to the aggregate of subscription votes of the Category. Such supplementary votes shall be subject to automatic adjustment to ensure that such percentage is maintained and shall be canceled at the end of the above-mentioned three-year period.

¹ See page 252.

- (c) During the third year following the entry into force of this Convention, the Council shall review the allocation of shares and shall be guided in its decision by the following principles:
 - (i) the votes of members shall reflect actual subscriptions to the Agency's capital and the membership votes as set out in Section (a) of this Article;
 - (ii) shares allocated to countries which shall not have signed the Convention shall be made available for reallocation to such members and in such manner as to make possible voting parity between the above-mentioned Categories; and
 - (iii) the Council shall take measures that will facilitate members' ability to subscribe to shares allocated to them.

2. On April 12, 1991 the Council of Governors adopted Resolution No. 20 which postponed the reallocation of unsubscribed shares for the purpose of achieving parity of voting power on the grounds that it could prejudice the admission of new members. A similar resolution (Resolution No. 43) was adopted by the Council on June 8, 1993, and the position is due to be reviewed again in 1998. It was also decided that the shares of the Agency should continue to be allocated to the countries and in the number set forth in Schedule A of the Convention. The adoption of these two resolutions has facilitated a significant increase in the membership of the Agency.

3. In view of the proposed 1998 General Capital Increase, it is recommended that the 1998 review and allocation of shares of the Agency be postponed until the end of the three-year subscription period for the 1998 General Capital Increase. The rationale for this recommendation is that, if a reallocation of shares for parity purposes were to take place prior to the end of such subscription period, parity would automatically be upset if one or more of the members of the Agency did not subscribe to the capital increase.

4. Directors therefore recommend that:

- (i) Governors adopt the draft Resolution...¹ postponing the 1998 review of allocation of shares of the Agency until the expiry of the three-year subscription period for the 1998 General Capital Increase; and
- (ii) until then, the shares of the Agency shall continue to be allocated to the countries listed, and in the number set forth beside their names, in Schedule A of the Convention and in the manner set forth in the Convention.

(This report was approved and its recommendation was adopted by the Council of Governors on May 14, 1998)

¹ See page 252.

1998 Regular Election of Directors

1. Resolution No. 52, adopted by the Council of Governors on September 17, 1996, provides that the 1998 Regular Election of Directors shall take place during the 1998 Annual Meetings of the Council of Governors. This paper makes certain recommendations concerning the 1998 Regular Election.

2. Since the 1996 Regular Election of Directors, one Category One country, Austria; and seven Category Two countries (Burundi, Dominican Republic, Haiti, Palau, Panama, Qatar, and Singapore) have ratified the MIGA Convention and completed all of their membership requirements. These eight new members have subscribed to a total of 1,543 shares (Austria, 775 shares; and the seven Category Two countries, 768 shares, respectively) of the Agency's capital stock. A few other countries may join MIGA prior to the election.

3. The Report of the Ad Hoc Committee on the Rules for the 1996 Regular Election of MIGA Directors stated once again in paragraph 4 that:

The Committee expressed the view, as reflected in the Report of the Board of Directors, that at a time when membership in MIGA became equivalent to that of the Bank, the MIGA Board of Directors would become identical in size and composition with that of the Board of Executive Directors of the Bank and would be based on the same principles of preserving a broad geographic pattern of representation and of allowing all major groups of countries to be represented.

4. The Board is now composed of 24 Directors, all of whom are also Executive Directors of the IBRD (Bank) representing roughly the same constituencies; these Directors represent 137 MIGA member countries while, as stated in paragraph 3 above, at least another eight member countries will participate in the upcoming election.

5. This increase in membership since 1996 indicates that efforts should continue toward achieving homogeneity among the Boards of MIGA and the other institutions of the World Bank Group. Moreover, the number of common issues being dealt with by the Executive Directors/Directors of the World Bank Group institutions have continued to increase in number and complexity.

6. In view of these developments and noting that Article 2 of the MIGA Convention mandates the Agency to complement the activities of other members of the World Bank Group, the Board of Directors makes the following recommendations.

RECOMMENDATIONS

A. Size of the Board

7. The Board of Directors recommends that the number of Directors remain at its present 24.

B. Composition of the Board

8. The Board of Directors urges the Governors to form, as closely as possible, the same constituencies in the MIGA Board of Directors as those for the Boards of other World Bank Group institutions.

9. During the informal meeting held on May 20, 1991, it was the consensus of Directors that, beginning with the 1992 Election of Directors, Governors should be urged to nominate candidates based in Washington, D.C. and all Governors complied with this suggestion in the 1992, 1994 and 1996 Regular Election. Based upon the rationale in paragraphs 3–6 above, it is again recommended that Governors be urged to nominate the same persons as Directors of MIGA as those nominated as to the Boards of the other World Bank Group institutions.

10. It is further recommended that Directors, particularly those elected by more than one Governor, appoint the same persons as Alternate Directors of MIGA as those appointed to be Alternate Executive Directors/Alternate Directors to the Boards of the other World Bank Group institutions.

C. Terms of Office

11. Article 32 (c) of the Convention and Section 10 of the By-Laws provide that the Council of Governors shall determine the terms in the office of the Directors. In view of the reasoning set out in paragraphs 3–6 above, it is even more desirable that the terms in office of MIGA's Directors should coincide with those of the Boards of the other World Bank Group institutions to facilitate elections of persons holding positions on these boards. Thus, the Board of Directors recommends that the Council continue this practice and that the 2000 Regular Election of Directors be held at the 2000 Annual Meetings of the Council of Governors.

D. Maximum and Minimum Percentages of Votes Applicable to the Election

12. For the purpose of Schedule B to the MIGA Convention, paragraph 8 of the Rules for the 1996 Regular Election of Directors set the maximum and minimum percentages of voting power applicable to the 1996 Regular

Election at 15 and 3, respectively, of eligible votes. These percentages appear appropriate for the election of the number of Directors to be recommended in the attached report, and therefore the Board of Directors recommends that they be made applicable to the 1998 Regular Election of Directors.¹

13. Accordingly, the Board of Directors recommends that the Council of Governors adopt the draft Resolution...² and Rules for the 1998 Regular Election of Directors embodying the above recommendations.

(This report was approved and its recommendation was adopted by the Council of Governors on September 15, 1998)

¹ *In the unlikely event that these percentages are inappropriate due to additional new countries having become members of the Agency prior to the 1998 Regular Election, the Council of Governors could modify them before the start of the election.*

² *See page 254*

Rules for the 1998 Regular Election of Directors

DEFINITIONS

1. In these Rules, unless the context shall otherwise require,
 - (a) "Articles" means the Articles of Agreement of the Bank.
 - (b) "Board" means the Board of Governors of the Bank.
 - (c) "Chairman" means the Chairman of the Board or a Vice Chairman acting as Chairman.
 - (d) "Governor" includes the Alternate Governor or any temporary Alternate Governor, when acting for the Governor.
 - (e) "Secretary" means the Secretary or any acting Secretary of the Bank.
 - (f) "Election" means the 1998 Regular Election of Executive Directors.
 - (g) "Eligible votes" means the total number of votes that can be cast in the election.

DATE OF ELECTION

2. The election shall be held during a plenary session of the 1998 Annual Meeting of the Board to be held Wednesday, October 7, 1998.

BASIC RULES—SCHEDULE B

3. Subject to the adjustment set forth in the Rules, the provisions of Schedule B of the Articles shall apply to the conduct of the election, except that:
 - (a) "two percent" shall be substituted for "fourteen percent" in Paragraphs 2 and 5 and "ten percent" shall be substituted for "fifteen percent" in Paragraphs 3, 4 and 5 thereof; and
 - (b) "nineteen persons" shall be substituted for "seven persons" in Paragraphs 2, 3 and 6, "eighteen persons" shall be substituted for "six persons" in Paragraph 6, and "the nineteenth" shall be substituted for the "seventh" in Paragraph 6 thereof.

EXECUTIVE DIRECTORS TO BE ELECTED

4. Nineteen Executive Directors shall be elected.

NOMINATIONS

5. (a) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election as Executive Director.

- (b) Each nomination shall be made on a Nomination Form furnished by the Secretary, signed by the Governor or Governors making the nomination, and deposited with the Secretary.
- (c) A Governor may nominate only one person.
- (d) Nominations may be made until 12 noon on Tuesday, October 6, 1998. The Secretary shall post and distribute a list of persons nominated.

SUPERVISION OF THE ELECTION

6. The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

BALLOTS

7. One ballot form shall be furnished before a ballot is taken to each Governor entitled to vote. On any particular ballot only ballot forms distributed for that ballot shall be counted.

BALLOTING

8. Each ballot shall be taken as follows:
- (a) Ballots shall be conducted by deposit of ballot forms used by Governors eligible to vote, in a ballot box.
 - (b) When a ballot shall have been completed, the Chairman shall cause the ballots to be counted and shall announce the names of the persons elected as soon as practicable after the tellers have completed their tally of the ballots. If a succeeding ballot is necessary, the Chairman shall announce the names of the nominees to be voted on and the members whose Governors are eligible to vote.
 - (c) If the tellers shall be of the opinion that any particular ballot is not properly executed, they shall, if possible, afford the Governor concerned an opportunity to correct it before tallying the results; and such ballot, if so corrected, shall be deemed to be valid.
9. When on any ballot the number of nominees shall not exceed the number of Executive Directors to be elected, each nominee shall be deemed to be elected by the number of votes received by him on such ballot; provided, however, that, if on such ballot the votes of any Governor shall be deemed under Paragraph 4 of Schedule B* to have raised the votes cast for any nominee

**Paragraph 4 of Schedule B of the Articles reads as follows:*

4. Indetermining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until ten percent is reached.

above ten percent of the eligible votes, no nominee shall be deemed to have been elected who shall not have received on such ballot a minimum of two percent of the eligible votes, and a succeeding ballot shall be taken for which any nominee not elected shall be eligible.

10. If, as a result of the first ballot, the number of Executive Directors to be elected in accordance with Paragraph 4 above shall not have been elected, a second, and if necessary, further ballots shall be taken. The Governors entitled to vote on such succeeding ballots shall be only:

- (a) those who voted on the preceding ballot for any nominee not elected; and
- (b) those Governors whose votes for a nominee elected on the preceding ballot are deemed under Paragraph 4 of Schedule B* to have raised the votes cast for such nominee above ten percent of the eligible votes.

11. If the votes cast by a Governor bring the total votes received by a nominee from below to above ten percent of the eligible votes, all the votes cast by this Governor shall be deemed to have been cast for the benefit of that nominee without raising the total votes of the nominee above ten percent.

12. If on any ballot two or more Governors having an equal number of votes shall have voted for the same nominee and the votes of one or more, but not all, of such Governors could be deemed under Paragraph 4 of Schedule B* not to have raised the total votes of the nominee above ten percent of the eligible votes, the Chairman shall determine by lot the Governor or Governors, as the case may be, who shall be entitled to vote on the next ballot.

13. Any member whose Governor has voted on the last ballot for a candidate not elected may, before the effective date of the election, as set forth in Section 17 below, designate an Executive Director who was elected, and that member's votes shall be deemed to have counted toward the election of the Executive Director so designated.

ABSTENTION FROM VOTING

14. If a Governor shall abstain from voting on any ballot, he shall not be entitled to vote on any subsequent ballot and his votes shall not be counted within the meaning of Section 4(g) of Article V towards the election of any

**Paragraph 4 of Schedule B of the Articles reads as follows:*

4. Indetermining whether the votes cast by a governor are to be deemed to have raised the total of any person above ten percent of the eligible votes, the ten percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until ten percent is reached.

Executive Director. If at the time of any ballot a member shall not have a duly appointed Governor, such member shall be deemed to have abstained from voting on that ballot.

ELIMINATION OF NOMINEES

15. If on any ballot two or more nominees shall receive the same lowest number of votes, no nominee shall be dropped from the next succeeding ballot, but if the same situation is repeated on such succeeding ballot, the Chairman shall eliminate by lot one of such nominees from the next succeeding ballot.

ANNOUNCEMENT OF THE RESULT

16. After the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

EFFECTIVE DATE OF ELECTION

17. The effective date of the election shall be November 1, 1998, and the term of office of the elected Executive Directors shall commence on that date. Incumbent elected Executive Directors shall serve through the day preceding such date.

GENERAL

18. Any question arising in connection with the conduct of the election shall be resolved by the tellers, subject to appeal, at the request of any Governor, to the Chairman and from him to the Board. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

**MULTILATERAL INVESTMENT GUARANTEE AGENCY
DIRECTORS ELECTED AT THE 1998 REGULAR ELECTION
STATEMENT OF RESULTS OF ELECTION, OCTOBER 7, 1998**

Directors elected separately by the Governors of the six member countries having the largest number of shares:

Candidate Elected	Member Whose Votes Counted Toward Election	Total Votes
Jan PIERCY	United States	20,696
Satoru MIYAMURA	Japan	5,272
Helmut SCHAFFER	Germany	5,248
Jean-Claude MILLERON	France	5,037
Stephen PICKFORD	United Kingdom	5,037
LI Yong	China	3,315

Directors elected by the Governors of member countries other than those listed above:

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Khalid M. AL-SAAD	Bahrain	254	4,782
	Egypt	636	
	Jordan	274	
	Kuwait	1,107	
	Lebanon	319	
	Libya	726	
	Oman	271	
	Qatar	314	
	United Arab Emirates	549	
	Yemen, Republic of	332	
Khalid H. ALYAHYA	Saudi Arabia	3,314	3,314
Andrei BUGROV	Russian Federation	3,314	3,314

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Federico FERRER	Costa Rica	294	4,533
	El Salvador	299	
	Guatemala	317	
	Honduras	278	
	Nicaragua	279	
	Spain	1,462	
	Venezuela	1,604	
Godfrey GAOSEB	Angola	364	7,704
	Botswana	227	
	Burundi	251	
	Eritrea	227	
	Ethiopia	247	
	Gambia, The	227	
	Kenya	349	
	Lesotho	227	
	Malawi	254	
	Mozambique	274	
	Namibia	284	
	Nigeria	1,021	
	Seychelles	227	
	Sierra Leone	252	
	South Africa	1,120	
	Sudan	383	
	Swaziland	235	
	Tanzania	318	
	Uganda	309	
	Zambia	495	
Zimbabwe	413		
Valeriano F. GARCIA	Argentina	1,431	3,581
	Bolivia	302	
	Chile	662	
	Paraguay	257	
	Peru	550	
	Uruguay	379	
Inaamul HAQUE	Algeria	826	2,943
	Ghana	422	
	Morocco	525	
	Pakistan	837	
	Tunisia	333	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Luc HUBLOUE			6,928
	Austria	952	
	Belarus	410	
	Belgium	2,207	
	Czech Republic	622	
	Hungary	741	
	Kazakhstan	386	
	Luxembourg	293	
	Slovak Republic	399	
	Slovenia	279	
	Turkey	639	
Jannes HUTAGALUNG			3,204
	Fiji	248	
	Indonesia	1,226	
	Malaysia	756	
	Nepal	246	
	Singapore	331	
	Vietnam	397	
Young-Hoi LEE			1,807
	Korea, Republic of	626	
	Micronesia, Fed. States of	227	
	Palau	227	
	Papua New Guinea	273	
	Samoa	227	
	Vanuatu	227	
Matthias MEYER			3,759
	Azerbaijan	292	
	Kyrgyz Republic	254	
	Poland	941	
	Switzerland	1,677	
	Turkmenistan	243	
	Uzbekistan	352	
Ilkka NIEMI			4,840
	Denmark	895	
	Estonia	242	
	Finland	777	
	Iceland	267	
	Latvia	274	
	Lithuania	283	
	Norway	876	
	Sweden	1,226	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
Terrie O'LEARY			5,964
	Bahamas, The	277	
	Barbados	245	
	Belize	227	
	Canada	3,142	
	Dominica	227	
	Grenada	227	
	Guyana	261	
	Ireland	546	
	Jamaica	358	
	St. Lucia	227	
	St. Vincent and the Grenadines	227	
Franco PASSACANTANDO			4,500
	Albania	235	
	Greece	457	
	Italy	2,997	
	Malta	252	
	Portugal	559	
Murilo PORTUGAL			4,554
	Brazil	1,656	
	Colombia	614	
	Dominican Republic	324	
	Ecuador	359	
	Haiti	252	
	Panama	308	
	Philippines	661	
	Trinidad and Tobago	380	
Surendra SINGH			4,190
	Bangladesh	517	
	India	3,225	
	Sri Lanka	448	
Pieter STEK			7,159
	Armenia	257	
	Bosnia and Herzegovina	257	
	Bulgaria	542	
	Croatia	364	
	Cyprus	281	
	Georgia	288	
	Israel	651	
	Macedonia, FYR	227	
	Moldova	273	

Candidate Elected	Members Whose Votes Counted Toward Election	Number of Votes	Total Votes
	Netherlands	2,346	
	Romania	732	
	Ukraine	941	
Bassary TOURE			4,207
	Benin	238	
	Burkina Faso	238	
	Cameroon	284	
	Cape Verde	227	
	Congo, Dem. Rep. Of	515	
	Congo, Republic of	242	
	Cote d'Ivoire	353	
	Equatorial Guinea	227	
	Guinea	268	
	Madagascar	277	
	Mali	258	
	Mauritania	240	
	Mauritius	264	
	Senegal	322	
	Togo	254	

/s/
K. Tripathi (India)
Teller

/s/
J. Wong-Valle (Nicaragua)
Teller

ACCREDITED MEMBERS OF DELEGATIONS AT 1998 ANNUAL MEETINGS

Albania

Governor
Anastas Angjeli

Alternate Governor
Fatos Ibrahim

Adviser
Arben Ahmetaj
Artur Kasimati
Ermira Skenderi
Gjergi Teneqexhi
Fatmir Xhaferi

Algeria

Governor
Abdelkrim Harchaoui

Alternate Governor
Omar Bougara

Adviser
Yaker Amran
Kacim Brachemi
Layachi Chenafi
Mahieddine Djeflal
Abderrezzak Ferroukhi
Ramtane Lamamra
Mohamed Louhab
Oum-El-Kheir Ouaoua
Kheireddine Ramoul
Mohamed Terbeche

Angola

Governor
Antonio Manuel Graca

Alternate Governor
Marinela Martins Amaral Ribas

Adviser
Eunice Maria de Vasconcelos
Agostinho Fernandes
Antonio Franca
Laura M.P. de Alcantara Monteiro
Adriano Rafael Pascoal
Pedro Maiangala Puna
Alberto Bento Ribeiro

Antigua and Barbuda

Governor
Lennox O. Weston

Alternate Governor
Starret D. Greene *

Argentina

Governor
Pedro Pou

Alternate Governor
Rogelio Frigerio

Adviser

Horacio Aldo Chighizola
Valeriano F. Garcia
Diego Guelar
Guillermo Hartenek
Guillermo Lesniewier
Felipe Murolo
Hector Jose Paglia
Adalberto Rodriguez Giavarini
Jorge A. Rodriguez
Pablo C. Rojo
Carlos E. Sanchez
Jose Alberto Uriburu

Armenia

Governor
Tigran Sargsyan

Alternate Governor
Aram Henrik Gharibyan

Adviser

Gagik Arzumanyan
Ashot Manoukyan
Vardan Sarkissian
Bagrat Tunyan

Australia

Governor
Rod Kemp

Alternate Governor
Neil F. Hyden *
Ian MacFarlane *

* Temporary
◊ Not a member of IFC
Not a member of IDA

Adviser

Roger Brake
Laurie Dunn
Sharon Grant
Paul Grigson
Gary Hobourn
Gary Johnston
Christopher Y. Legg
Michael Mugliston
R.W. Rankin
Miranda Rawlinson
Nigel Ray
Peter Versegi

Austria

Governor

Wolfgang Ruttenstorfer

Alternate Governor

Hans-Dietmar Schweisgut

Adviser

Ruth Bachmayer
Michael Kochwalter
Paul Kutos
Isabella Lindner
Mag. Harald Sitta

Azerbaijan

Governor

Elman Siradjogly Rustamov

Alternate Governor

Samir R. Sharifov *

Adviser

Ulvi Seidzade

The Bahamas #

Governor

Ruth R. Millar

Adviser

Kevin Armbrister
Deborah Bastian
Sheila Carey
Paul Feeney
Corryne L. Miller

Bahrain #

Governor

Ibrahim Abdul Karim

Alternate Governor

Zakareya Hejres *

Bangladesh

Governor

Shah A.M.S. Kibria

Alternate Governor

A.K.M. Masihur Rahman
Syed Ahmed *
K.M. Shehabuddin *

Adviser

Quazi Mesbahuddin Ahmed
A.M. Yakub Ali
Saqib Ali
Muhammad Musharraf Hossain Bhuiyan
Fazlul Karim
Shahjahan Mian
Mizanur Rahman
Mushfiq Us Swaleheen

Barbados #

Governor

Owen S. Arthur

Alternate Governor

Erskine R. Griffith

Adviser

Myrtle D. Bishop
Courtney N. Blackman
David Bulbulia
Kelvin Arthur Dalrymple
Kay McConney-Barrington
Grantley Worrell Smith

Belarus #

Governor

Gennady V. Novitsky

Alternate Governor

Vladimir N. Shimov

Adviser

Sergei M. Didenko
Mikhail V. Nikitenko

Belgium

Governor

Jean-Jacques Visieur

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Alfons Verplaetse

Adviser
Gino Pierre Alzetta
Jean-Pierre Arnoldi
Hiliana Coessens
Anne de Gang
Bernard Delbecque
Kurt Delodder
Marcia de Wachter
Luc Hubloue

Belize

Alternate Governor
Yvonne S. Hyde
Jaime D. Alpuche *

Adviser
Michael Ashcroft
Sydney J. Campbell
James Murphy
Alan David Slusher

Benin

Governor
Albert Tevoedjre

Alternate Governor
Pierre John Igue

Adviser
Desire Olivier Agboton
Honore-Theodore Ahimakin
G. Sourou Codja
Paul Derreumaux
Jean-Marie Ehouzou
Souleymane Gado
Souleymane Tamboura
Lucien Tonoukouin

Bhutan ◊

Governor
Yeshey Zimba

Alternate Governor
Tshering Dorji *

Bolivia

Governor
Herbert Muller Costas

Alternate Governor
Alberto Valdes Andreatta

Adviser
Enrique Ackermann
Maria-Amparo Ballivian
Raul Boada Rodriguez
Samuel Echalar
Juan Bernardo Requena Blanco

Bosnia and Herzegovina

Governor
Mirsad Kurtovic

Alternate Governor
Ranko Travar
Sven Alkalaj *
Petar Bosnic *

Adviser
Amir Hadziomeragic
Zlatko Hurtic
Malik Skaljic

Botswana

Governor
Ponatshego H.K. Kedikilwe

Alternate Governor
O.K. Matambo

Brazil

Governor
Pedro Sampaio Malan

Alternate Governor
Gustavo Henrique de Barroso Franco
Alexandre Kafka *
Daniel Andrade Ribeiro de Oliveira *
Marcos Caramuru de Paiva *
Demosthenes Madureira de Pinho Neto *
Murilo Portugal Filho *

Adviser
Luiz Eduardo Franco de Abreu
Jose Linaldo Gomes de Aguiar
Paulo Donizeti de Araujo
Amaury Guilherme Bier
Jose Mauro M. Carneiro da Cunha
Carlos Eduardo Dutra
Jose Roberto L.F. Fiorencio
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Helio Mori
Joao Arnolfo Carvalho de Oliveira
Pedro Americo Furtado de Oliveira
Byron Costa de Queiroz
Tatiana Rosito
Sergio Ruffoni Guedes
Elcior Ferreira de Santana Filho
Antonio Claudio Sochaczewski
Isac Roffe Zagury

Brunei Darussalam ◊#

Alternate Governor
Haji Selamat Haji Munap
Chua Pheng Siong *

Bulgaria #

Governor
Muravei Radev

Alternate Governor
Martin Mihaylov Zaimov

Adviser
Marin Bogdanov Bogdanov
Alexander Dimov Bozhkov
Lubomir Christov
Philip Dimitrov
Alan Lee Hawkins
Petar S. Jotev
Ivan Krastev
George Prohasky
Ivo Prokopiev
Daniela Simeonova
Valentin Petrov Tsvetanov
Ilian Draganov Vassilev
Petia Pavlova Vassileva

Burkina Faso

Governor
Bissiri Joseph Sirima

Alternate Governor
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Adviser
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Souleymane Ouedraogo
Bruno N. Zidouemba

Burundi

Governor
Astere Girukwigomba

Alternate Governor
Seraphine Wakawa

Adviser
Cyprien Sakubu
Gaspard Sindayigaya

Cambodia

Alternate Governor
Aun Porn Moniroth *
Vongsey Vissoth *

Adviser
Mao Chan Samnom
Sum Sannisith
Tal Nay Im
Pan Vandy
Houth Var

Cameroon

Governor
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Alternate Governor
Daniel Njankouo Lamere
Jean-Marie Gankou *

Adviser
Aminou Bassoro
Francois-Xavier Eloundou
Rene T. Mbappou Edjenguele
Christian Nana
Anatole Nkodo Ze
Pierre Titti

Canada

Governor
Paul Martin

Alternate Governor
Huguette Labelle
Ian Bennett *
Thomas A. Bernes *
Joy Kane *
James Peterson *

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Howard Brown
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Abdallah Ould Cheikh-Sidia
Bekaye Ould Sidi Mohamed

Mauritius

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Oscar Ignorosa
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Senny Phillip

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Othman Benjelloun
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Mustapha Faris

Mohammed Germouni
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Monkid Mestassi
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Abdurahman bin Mohd. bin Jabor
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Abdullah I. Al-Hudaithi
Abdullah Al-Hugail
Ibrahim M. Al-Issa
Medlej Al-Medlej
Meshary Ibrahim Al-Meshary
Abdulrahman Mohammed Almofadhi
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Khalifa Abdullatif Al-Mulhem
Mohammed Al-Nafie
Suliman Al-Olayan
Saeed Al-Qahtani
Abdullah Sulaiman Al-Rajhi

Abdulmonam Al-Rashed
Rashed Abdulaziz Al-Rashed
Salah Rashed Abdulrahman Al-Rashed
Saud Al-Saleh
Mohammad Al-Shehri
Ali Samir Al-Shihabi
Abdulaziz S. Al-Sughayer
Abdulaziz Al-Turki
Abdulaziz Al-Wohayeb
Sami Al-Yousef
Sami Baarma
Fuad Abdulwahab Bahrawi
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Abdullah Saleh Kamel
Khalil Abdulfattah Kordi
Abdulrahman bin Mahfouz
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Samcidine Dieng
Chimere Diop
Seynabou Diop Ly
Mamadou Faye
Moussa Faye
Amadou Kane
Mamadou Diagna N'Diaye
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Ng Nam Sim *

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Hon Chee-Won
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Kathy Lai
Nor Azlina Sulaiman
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Nitya Pibulsonggram *
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Suparut Kawatkul *

Adviser

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Amaret Sila-On
Anothai Techamontrikul
Aran Thammano
Chakkrit Parapuntakul
Chanunporn Phisitvanich
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Kasama Suebwises
Nophadol Bhandhugravi
Patraporn Rangsiwongs
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Suksri Lumprasert
Sun Vithespongse
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Ayewanou Agetoho Gbeasor
Frederic Hegbe
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Ihor Anatolijovych Shumylo
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Khalifa Mohd. Hassan
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Stephen John Pickford *
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S. Kate Brownlee
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Alan Carter
Alastair Clark
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J.A.L. Faint
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Nicholas Joicey
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Rosemarie Pauli
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Isaac Alfie Stocher *
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Bakhtiar Sultanovich Khamidov

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Alternate Governor
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Adviser
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Enzo Del Bufalo
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Maria Eugenia Maccio Mancilla
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Alternate Governor
Le Thi Bang Tam *

Adviser
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Nguyen Ngoc Minh
Nguyen Thieu
Nguyen Xuan Thao
Pham Quang Ngoc
Phung Khac Ke
Tran Quoc Hung
Truong Thai Phuong
Vo Hang Phuong

Republic of Yemen

Governor
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Alternate Governor
Anwar Rizq Al-Harazi

Adviser
Faisal Amin Abo-Rass
Saeed Abdo Ahmed
Abdulwahab Al-Hajjri
Mutahar Al-Saidi
Ali Lutf Al Thor
Omar Salim Bazara
Jalal Mohamed Moula
Ahmed A. Ghaleb Saeed

Zambia

Governor
Edith Zewelani Nawakwi

Alternate Governor
Benjamin Mweene

Adviser
Donald Chanda
Mike K. Changwe
Stella Mumba Chibanda
Mathew Kasonde Chisunka
Walubita Imakando
Dunstan W. Kamana
Emmanuel Gabriel Kasonde
Ephrain C. Kaunga
Deepak Malik
Samuel Bwalya Musonda
Moses Kalimukwa Nawa
Collins Shamutete

Zimbabwe

Governor
Charles Tawonerera Kuwaza

Alternate Governor
Edward Mashiringwani

Adviser
George Anthony Chigora
Mutasa Dzinotizei
Rudo M. Faranisi
Molly Jena
Ernest Matienga
Obert Matshalaga
Fortune Mafukureni Mawoyo
Kombo James Moyana
Ncube Mthuli
Joseph Mubika
Henry Mukonoweshuro
M.M. Namasasu
Edwin Roberts
Takura C.W. Tande
Edwin Maxwell Zvandasara

* Temporary
◇ Not a member of IFC
Not a member of IDA

ACCREDITED MEMBERS OF DELEGATIONS (MIGA) AT THE 1998 ANNUAL MEETINGS

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Governor
Shkelqim Cani

Alternate Governor
Fatos Ibrahim

Algeria

Governor
Abdelkrim Harchaoui

Alternate Governor
Omar Bougara

Angola

Governor
Valentina Matias de Sousa Filipe

Alternate Governor
Manuel Neto da Costa

Argentina

Governor
Roque Benjamin Fernandez

Alternate Governor
Pedro Pou

Armenia

Governor
Armen R. Darbinian

Austria

Governor
Wolfgang Ruttenstorfer

Alternate Governor
Hans-Dietmar Schweisgut

Azerbaijan

Governor
Elman Siradjogly Rustamov

Alternate Governor
Samir R. Sharifov *

The Bahamas

Governor
William C. Allen

Alternate Governor
Ruth R. Millar

Bahrain

Governor
Ibrahim Abdul Karim

Alternate Governor
Naser Mohamed Yusuf Al Belooshi

Bangladesh

Governor
Shah A.M.S. Kibria

Barbados

Governor
Owen S. Arthur

Alternate Governor
Erskine R. Griffith

Belarus

Governor
Gennady V. Novitsky

Alternate Governor
Vladimir N. Shimov

Belgium

Governor
Jean-Jacques Viseur

Alternate Governor
Gregoire Brouhns

Belize

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Ralph Fonseca

Alternate Governor
Keith A. Arnold

* Temporary

Benin

Governor
Albert Tevoedjre

Alternate Governor
Pierre John Igue

Bolivia

Governor
Herbert Muller Costas

Alternate Governor
Alberto Valdes Andreatta

Bosnia and Herzegovina

Governor
Mirsad Kurtovic

Botswana

Governor
Ponatshego H.K. Kedikilwe

Alternate Governor
Wilfred Jiwa Mandlebe

Brazil

Governor
Pedro Sampaio Malan

Alternate Governor
Gustavo Henrique de Barroso Franco
Alexandre Kafka *
Daniel Andrade Ribeiro de Oliveira *
Marcos Caramuru de Paiva *
Demosthenes Madureira de Pinho Neto *
Murilo Portugal Filho *

Bulgaria

Governor
Muravei Radev

Alternate Governor
Martin Mihaylov Zaimov

Burkina Faso

Governor
Lamoussa Salif Kabore

Alternate Governor
Patrice Nikiema

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Astere Girukwigomba

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Daniel Njankouo Lamere
Jerome Mendouga *

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Francisca Castro F.

China

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Xiang Huaicheng

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Jin Liqun

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Juan Camilo Restrepo Salazar

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Democratic Republic of the Congo

Governor
Fernand Tala-Ngai

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Eduardo Lizano Fait

Cote d'Ivoire

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Alternate Governor
N°Goran Niamien

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Governor
Borislav Skegro

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Josip Kulisic

Cyprus

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Christodoulos Christodoulou

Czech Republic

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Ivo Svoboda

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Governor
Atef Mohamed Mohamed Ebeid

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Governor
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Gino Bettaglio

Equatorial Guinea

Alternate Governor
Miguel Abia Biteo

Eritrea

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Hilmar Thor Hilmarsson *

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Kiyoto Ido *
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Eisuke Sakakibara *
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Mauritius

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Moldova

Governor
Anatol Arapu

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- Alternate Governor*
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Alternate Governor
Abdeltif Loudyi *
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Governor
Tomaz Augusto Salomao
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Adriano Afonso Maleiane
- Namibia**
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Paul Walter Hartmann
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Alternate Governor
Ram Binod Bhattarai
- Netherlands**
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Pieter Stek *
R.A. Vornis *
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- Nigeria**
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Justina O. Ashinze *
Cosmas C. Chimah *
- John Boye Ilori *
Okwu Joseph Nnanna *
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Lasse Seim *
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St. Vincent and the Grenadines

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Seychelles

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Alternate Governor
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Alternate Governor
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Alternate Governor
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Rodrigo de Rato Figaredo

Sri Lanka

Alternate Governor
Dixon Nilaweera

* Temporary

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Swaziland

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Ephraim Mandla Hlophe

Sweden

Governor
Kari Lotsberg

Alternate Governor
Ake Tornqvist *

Switzerland

Governor
Nicolas Imboden

Alternate Governor
Walter Hofer *

Tanzania

Governor
Nassoro Wanchilowa Malocho

Alternate Governor
Raphael O. Mollel

Togo

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A-H, S.B. Tidjani-Dourodjaye

Alternate Governor
Kossi Assimaidou

Trinidad and Tobago

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Trevor Sudama

Alternate Governor
Vishnu Dhanpaul

Tunisia

Governor
Mohamed Ghannouchi

Alternate Governor
Abdelhamid Triki

Turkey

Governor
Yener Dincmen

Alternate Governor
Cuneyt Sel

Turkmenistan

Governor
Khudayberdy Artikovich Orazov

Uganda

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Gerald M. Ssendaula

Alternate Governor
Emmanuel Tumusiime Mutebile

Ukraine

Governor
Valeriy Pavlovych Pustovoitenko

Alternate Governor
Roman Vasyliovych Shpek

United Arab Emirates

Governor
Jamal Nasser Lootah

Alternate Governor
Mohamed Obaid Al-Mazrooei

United Kingdom

Governor
Clare Short

Alternate Governor
Gordon Brown
John Cunliffe *
Stephen John Pickford *
John Vereker *
Myles Wickstead *

United States

Governor
Robert E. Rubin

Alternate Governor
Timothy F. Geithner *
David A. Lipton *

* Temporary

Karin Lissakers *
Michael Marek *
Barry S. Newman *
Jan Piercy *
Alice M. Rivlin *
Lawrence H. Summers *

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Governor
Luis A. Mosca Sobrero

Uzbekistan

Governor
Bakhtiar Sultanovich Khamidov

Vanuatu

Governor
Sela Molisa

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Andrew Kausiama

Venezuela

Governor
Maritza Izaguirre Porras

Alternate Governor
Teodoro Petkoff

Vietnam

Alternate Governor
Le Duc Thuy

Republic of Yemen

Governor
Ahmed Mohamed Sofan

Zambia

Governor
Edith Zewelani Nawakwi

Alternate Governor
Benjamin Mweene

Zimbabwe

Governor
Herbert M. Murerwa

Alternate Governor
Charles Tawonerera Kuwaza

* Temporary

OBSERVERS AT THE 1998 ANNUAL MEETINGS

Abu Dhabi Fund for Development

Ahmed Hussein Al-Bager
Hussain Abdelrahman M. Al-Midfa

Shamshad Akhtar
Rhonda Bresnick
Eva L. Relova

African Development Bank

Omar Kabbaj
Ahmed M.F. Bahgat
Cheikh Ibrahima Fall
Thierry de Longuemar
Theodore Nkodo
Dorte Kabbell
Selamawit Yemaneberhan N'Diaye

Bank for International Settlements

Andrew D. Crockett
Andre Icard
Jean-Francois Rigaudy
Svein Andresen

African Export-Import Bank

Christopher Chuka Edordu
Benedict Okechukwu Oramah

Bank of Central African States

Jean-Felix Mamalepot
Antoine Nkodia
Joseph Nyonuchi Maison
Mayimbene Gilbert Ntang
Serge-Blaise Zoniaba

Andean Development Corporation

Enrique Garcia Rodriguez
Hugo Sarmiento K.
Ana Mercedes Botero
Rodrigo Navarro B.
Carolina Espana

Caribbean Development Bank

Neville L. Grainger
Dorla Humes

Arab Bank For Economic Development in Africa

Medhat Sami Lotfy
Kamal Mahmoud Abdellatif
Ebe Ould Ebe

Central American Bank for Economic Integration

Victor Rodolfo Portnoy
Jorge Rodriguez Mancera
Luis Ernesto Santamaria Agudelo
Nick Rischbieth Gloe
Maria del Pilar Escobar Pacas
Rafael Alvarez Zaldivar
Felix Garrid Safie Parada

Arab Fund For Economic And Social Development

Abdulatif Yousef Al-Hamad
Ismail Tawfiq El-Zabri
Taher Hamdi Kana'an
Mervat W. El Badawi
Husam Omar Khalil

Central American Monetary Council

Jose Paiz Moreira

Arab Monetary Fund

Jassim Abdulla Al-Mannai
Samir Ramez Abiad

Central Bank of West African States

Michel Komlanvi Klousseh
Ismaila Dem
Albert Bah
Ousmane Samba Mamadou

Asian Development Bank

Mitsuo Sato
Ramamurthi Swaminathan
D.C. Amerasinghe
Robert A. Salamon
Shinji Ichishima
Paul M. Dickie
Yoshihiro Iwasaki
Hisashi Ono
Wong Ching Hoe

Common Market for Eastern and Southern Africa

Mark Pearson
Ali Mansoor
Issa Lukwago
Martin Ogang
M. Gondwe
F. Gatiramu
S. Mjasiri

Commonwealth Secretariat

Emeka Anyaoku
Humphrey Maud

Rumman Faruqi
Michael Fathers
Indrajit Coomaraswamy
Chandni Shah

Otmar Issing
Tommaso Padoa-Schioppa
Bernd Goos
Michele Kirstetter

Council of Europe Social Development Fund

Giorgio Ratti
Raphael Alomar
Kari Nars
Martin Murtfeld
Ignacio Garrido Sanchez
Rainer B. Steckhan

East African Development Bank

Fabian R. Tibeita
Joram Kariisa-Kasa

Eastern Caribbean Central Bank

E.Eustace Liburd
Arthur P. Campbell

Economic Community of West African States

Lansana Kouyate
Frank Ofei
Rebily David Asante
D. Barthelemy Drabo
Bashir M. Ifo
Thierno Bocar Tall

Economic Cooperation Organization

Onder Ozar
Sohrab Shahabi
Imtiaz A. Kazi
Mahmood Khaghani

European Bank for Reconstruction and Development

Horst Kochler
Nicholas H. Stern
Marcus J. Fedder
Charles R. Frank, Jr.
Barbara Ann Clay
Steven D.F. Kaempfer
Noreen Doyle
Ullrich H. Kiermayr
Ayesha Shah
Axel Bertuch-Samuels
Francois Lecavalier
Kazuya Murakami
Mahir Babayev
Teresa de Barcenas
Julia Touloumbadjian

European Central Bank

Wim F. Duisenberg

European Investment Bank

Brian Unwin
Wolfgang Roth
Ariane Obolensky
Claes de Neergaard
Rudolf de Korte
Jean-Louis Biancarelli
Martin Curwen
Walter Cernoia
Patrick Thomas
Rene Karsenti
Ulrich Damm
Christopher Bearne
Fiona Turner

European Investment Fund

Gerbrand G. Hop
Michel Berthezene
Elena Rotondi

European Union

Yves-Thibault de Silguy
Xavier Larnaudie-Eiffel
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Herve Carre
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Paul N. Goldschmidt
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Bernard Philippe
Hugo Paemen
Werner Schuele
Anne Vorce
Michael Green
Aslam Aziz
Vlassia Vassikeri

Food and Agriculture Organization of the United Nations

Charles H. Riemenschneider

Inter-American Development Bank

Enrique V. Iglesias
Charles O. SETHNESS
Carlos Ferdinand
Ricardo Hausmann
Eric Allan Bobb
Carlos Abel Santistevan de Noriega

Inter-American Investment Corporation

John C. Rahming
Raul R. Herrera

- Roldan Trujillo
Jean Olivier Fraisse
- Inter-Arab Investment Guarantee Corporation**
Mamoun Ibrahim Hassan
Abdel Maksoud Eissa
- International Fund for Agricultural Development**
Fawzi Hamad Al-Sultan
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Robert Cassani
Vera P. Weill-Halle
Jessica Simmons
- International Labour Organization**
Katherine Ann Hagen
Stanley G. Taylor
Anthony G. Freeman
Franklyn A. Lisk
- International Telecommunications Union**
Abdelkrim Boussaid
- Islamic Development Bank**
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Tarik Kivanc
Bader-Eddine Nouioua
D.M. Qureshi
Abdul Aziz Jalloh
El Mansour Ould Veten
Mohameden Mohamed Sidiya
Lamine Doghri
Tarek Youssef El Reedy
Mahmoud A. Al-Khoshman
Ndeye Fama Diagne
- Latin American Economic System**
Eduardo Mayobre
- Latin American Reserve Fund**
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Andres Gamarra
- League of Arab States**
Khalid Abdalla
- Nordic Development Fund**
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Jesper Andersen
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Erkki A.O. Karmila
- Carl Lowenhjelm
Bo Heide-Ottosen
Oddvar Sten Ronsen
Heidi Syrjanen
- OPEC Fund for International Development**
Y. Seyyid Abdulai
Saleh Al-Omair
Said Aissi
Jumana A.W. Dejany
Ahmed Khouni
Nelly Ruiz
- Organisation for Economic Co-Operation and Development**
Donald J. Johnston
Kumiharu Shigehara
Ignazio Visco
Richard Carey
John West
- Development Assistance Committee**
James H. Michel
- Organization of African Unity**
Vijay S. Makhan
Frederick Yao Alipui
O. Olaniyan
Ngardoumlao Mbondjim Sahndol
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Alejandro Foxley
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- P. L. O.**
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Fouad H. Sh. Beseiso
Samih H. Abid
Abla M.Z. Nashashibi
Aziz M. Abu-Dagga
Ibrahim J. Affaneh
Mohammed Hasan Saleh El-Aydi
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- Southern African Development Community**
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Fudzai Pamacheche
Esther Kanaimba
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Ian Kinniburgh
Suzanne Bishopric

Farooq Chowdhury
John Langmore

UN Children's Fund
Eva Jespersen

UN Conference on Trade and Development
Yilmaz Akyuz

**UN Economic Commission for Latin
America and the Caribbean**
Jose Antonio Ocampo Gaviria
Ines Bustillo
Rex Garcia

**United Nations Educational, Scientific, and
Cultural Organisation**
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Universal Postal Union
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Philip Allen
John Gary Halpin
Juan B. Ianni
Afsaneh F. Shams

Philippe Hlavacek
Guillermo Ronderos

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Boni Yayi
Emmanuel-Marie Nana
Yao Agbo N'De Hounouvi
Koami Womas
Remy Aka-Kouadio

West African Economic & Monetary Union
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Younoussi Toure
Kalou Doua Bi
Adele Congo-Kabore

World Health Organization
Thomas Loftus

World Trade Organization
Renato Ruggiero
Keith M. Rockwell
Clemens F.J. Boonekamp
John Hancock

**EXECUTIVE DIRECTORS, ALTERNATES AND ADVISORS
BANK
September 30, 1998**

<i>Executive Directors</i>	<i>Alternate Executive Directors</i>	<i>Advisors to Executive Directors</i>
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Khalid H. Alyahya (Saudi Arabia)	Khaled M. Al-Aboodi (Saudi Arabia)	Richard R. Herbert (United Kingdom)
Juanita D. Amatong (Philippines)	Murilo Portugal Filho (Brazil)	Carlos Marulanda (Colombia) Sergio Ruffoni Guedes (Brazil)
Ali Bourhane (Comoros)	Luc-Abdi Aden (Djibouti)	Mahamat Ali Adoum (Chad) Yssouf Bamba (Cote d'Ivoire) Bassary Toure (Mali) wa Bilenga Tshishimbi (Dem. Rep. of the Congo)
Kacim Brachemi (Algeria)	Inaamul Haque (Pakistan)	Ernest Ako-Adjei (Ghana) Mohammad Khazae Torshizi (Islamic Republic of Iran)
Andrei Bugrov (Russian Federation)	Eugene Miagkov (Russian Federation)	Boris M. Lvin (Russian Federation)
Juan Cariaga (Bolivia)	Valeriano F. Garcia (Argentina)	Ivan Rivera (Peru)
Joaquim R. Carvalho (Mozambique)	Godfrey Gauseb (Namibia)	Agil M. Elmanan (Sudan) Bayo Oyewole (Nigeria) Cyrus Rustomjee (South Africa)
Enzo Del Bufalo (Venezuela)	Inigo Fernandez de Mesa (Spain)	Roberto Jimenez Ortiz (El Salvador)
vacant (Canada)	Alan David Slusher (Belize)	Kathryn Hollifield (Canada) Gerry McGrath (Ireland) Francois Page (Canada)

<i>Executive Directors</i>	<i>Alternate Executive Directors</i>	<i>Advisors to Executive Directors</i>
Luc Hubloue (Belgium)	Namik Dagalp (Turkey)	Ruth Bachmayer (Austria) Katalin Demeter (Hungary)
Jannes Hutagalung (Indonesia)	Sun Vithespongse (Thailand)	Hon Chee-Won (Singapore)
Young-Hoi Lee (Korea)	Christopher Y. Legg (Australia)	Allison Stinson (New Zealand)
Li Yong (China)	Zhao Xiaoyu (China)	Zou Jiayi (China)
Matthias Meyer (Switzerland)	Jerzy Hylewski (Poland)	Jurg Benz (Switzerland) Gregor Binkert (Switzerland)
Jean-Claude Milleron (France)	Jean Pesme (France)	Eric Jourcin (France)
Satoru Miyamura (Japan)	Akira Kamitomai (Japan)	Yoshio Horimoto (Japan)
Ilkka Niemi (Finland)	Anna M. Brandt (Sweden)	Juris Cebulis (Latvia) Frode Neergaard (Denmark)
Franco Passacantando (Italy)	Helena Cordeiro (Portugal)	
Stephen John Pickford (United Kingdom)	Myles Wickstead (United Kingdom)	
Jan Piercy (United States)	Michael Marek (United States)	Brian G. Crowe (United States)
Helmut Schaffer (Germany)	Eckhardt Biskup (Germany)	Roland Reich (Germany)
Surendra Singh (India)	Syed Ahmed (Bangladesh)	Sameer Vyas (India)
Pieter Stek (Netherlands)	Mihai Nicolae Tanasescu (Romania)	Lubomir Christov (Bulgaria) Sergiy Kulyk (Ukraine)

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MIGA
September 30, 1998

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Khalid H. Alyahya (Saudi Arabia)	Khaled M. Al-Aboodi (Saudi Arabia)
Juanita D. Amatong (Philippines)	Murilo Portugal Filho (Brazil)
Ali Bourhane (Comoros)	Luc-Abdi Aden (Djibouti)
Kacim Brachemi (Algeria)	Inaamul Haque (Pakistan)
Andrei Bugrov (Russian Federation)	Eugene Miagkov (Russian Federation)
Juan Cariaga (Bolivia)	Valeriano F. Garcia (Argentina)
Joaquim R. Carvalho (Mozambique)	Godfrey Gaoseb (Namibia)
Enzo Del Bufalo (Venezuela)	Inigo Fernandez de Mesa (Spain)
vacant (Canada)	Alan David Slusher (Belize)
Luc Hubloue (Belgium)	Namik Dagalp (Turkey)
Jannes Hutagalung (Indonesia)	Sun Vithespongse (Thailand)
Young-Hoi Lee (Korea)	Christopher Y. Legg (Australia)
Li Yong (China)	Zhao Xiaoyu (China)
Matthias Meyer (Switzerland)	Jerzy Hylewski (Poland)
Jean-Claude Milleron (France)	Jean Pesme (France)
Satoru Miyamura (Japan)	Kiwamu Inoue (Japan)
Ilkka Niemi (Finland)	Anna M. Brandt (Sweden)
Franco Passacantando (Italy)	Helena Cordeiro (Portugal)
Stephen John Pickford (United Kingdom)	Myles Wickstead (United Kingdom)
Jan Piercy (United States)	Michael Marek (United States)

<i>Directors</i>	<i>Alternate Directors</i>
Helmut Schaffer (Germany)	Eckhardt Biskup (Germany)
Surendra Singh (India)	Syed Ahmed (Bangladesh)
Pieter Stek (Netherlands)	Mihai Nicolae Tanasescu (Romania)

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