THE WORLD BANK GROUP

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1989 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS

SUMMARY PROCEEDINGS

WASHINGTON, D.C.
SEPTEMBER 26-28, 1989

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INTRODUCTORY NOTE

The 1989 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., September 26-28, 1989 (inclusive). The Honorable Kyu Sung Lee, Governor of the Bank and Fund for Korea, served as Chairman.

The Summary Proceedings record in alphabetical order of member countries, the texts of statements by Governors relating to the activities of The World Bank Group. The texts of statements concerning the IMF are published separately by the Fund.

T. T. THAHANE
Vice President and Secretary
THE WORLD BANK GROUP

Washington, D.C.
January 1990

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OPENING REMARKS BY THE HON. GEORGE BUSH PRESIDENT OF THE UNITED STATES

We in the United States are keenly aware of the importance of these annual gatherings, which drive the work of all of us in maintaining a strong international economic and financial system.

This is my first opportunity to speak to you as President. But I have followed the activities of the International Monetary Fund and the World Bank throughout my years of public service. I have visited many of your homelands, and seen firsthand the problems created by inadequate growth and development—problems that your two distinguished institutions are working to solve.

We have witnessed a dramatic shift over the past few years in the debate over how to achieve sustained growth and development.

All across the world, there has been an almost simultaneous rediscovery of the power created when individuals are given the freedom to act in their own best interests.

True, we're here today mainly to discuss economic freedom. But make no mistake. In the end, both economic freedom—and political freedom—are essential and inseparable companions on the road to national prosperity.

The jury is no longer out. Look at the two economic systems and see who has prospered and who has struggled. Let's put an end to this econmic experiment. Because history has decided.

It is not climate, natural resources, or cultural traditions that make the difference. I said it in my inaugural address: "We know what works: freedom works. We know how to secure a more just and prosperous life for man on earth: through free markets, free speech, free elections, and the exercise of free will unhampered by the state."

In Latin America, Africa, and Mexico, courageous leaders are turning away from state control of their economies. Economic restructuring and deregulation are opening the door to private initiative. And already they are seeing results.

Even more stunning is the transformation in thinking in the communist countries—in both the Soviet Union and in Eastern Europe.

During our recent travels in Poland and Hungary, we were impressed by the people. But we were also impressed by the almost universal acceptance of the free market as the best hope—indeed, the only hope—for reversing the economic fortunes of these two proud countries.

And we welcome the efforts of the Soviet Union to liberalize and decentralize their economy. I have said many times that I want to see perestroika suceed. A more open and humane Soviet Union can only be in the interest of the West. And as we see the evidence of that reform, we can match it with steps of our own.

The rediscovery of these basic truths in the East has been matched by a recommitment to them in the West. Today the members of the European Community are dedicated to eliminating internal barriers to economic activity by the end of 1992. And, Europe's leaders assure me that this will not be at the cost of new external barriers to trade with the EC.

The Peruvian economist, Hernando de Soto, has helped us understand a worldwide economic phenomenon. By walking the streets of Lima, not analyzing official statistics, he found that the poor of Latin America—who have never read Jefferson or Adam Smith—ran their affairs democratically, outside the formal economy, organizing their private, parallel economy in a free and unregulated manner.

De Soto's great contribution has been to point out what, in retrospect, may seem obvious: people everywhere want the same things. And when left alone by government, people everywhere organize their lives in remarkably similar ways.

De Soto's prescription offers a clear and promising alternative to economic stagnation in Latin America and other parts of the world. Governments must bring the "informal" workers into the regular economy—and then get out of the way, and let individual enterprise flourish.

We each must do our part. The industrial countries have a special responsibility. We must coordinate economic policies to help provide sustained growth with low inflation, reduced trade imbalances, and greater stability in exchange markets.

We in the United States are working especially hard to reduce the Federal budget deficit, and to increase our national savings rate.

All our nations have a responsibility to ensure a fair and open trading system. We have a tremendous opportunity to advance that cause now, by making a success of the Uruguay Round of trade negotiations.

Making the political commitments necessary to ensure a success will not be easy, but we must strengthen the GATT, and allow our markets to open in a mutual, step-by-step fashion.

As we seek to extend and expand growth in the world economy, the debt problems faced by developing countries are central to the agendas of the IMF and the World Bank. Over the past year, the international community's strengthened approach to these problems has provided new hope for debtor nations.

America's Secretary of the Treasury, Nick Brady, has helped direct the focus on debt reductions as a complement to continued new lending—bringing developing nations and commercial banks back to where they belong: the negotiating table.

Quick action by both the IMF and the World Bank has given this new strategy vital support. By making clear the terms under which they will support the reduction of debt burdens—and by working with countries to

develop the necessary economic reform programs—these institutions have made it possible to reduce debt burdens and provide a solid foundation for growth.

Thanks to these initiatives, Mexico reached an agreement with its creditor banks enabling Mexico to make enormous progress in reducing its debt burden. It also helped restore confidence in the Mexican economy which has already resulted in a return of capital and new foreign investment.

This agreement underscores the benefits other debtor countries stand to realize from this approach. Mexico's savings from this package will free resources for productive use in the economy, leading to increased investment and improved growth.

What Mexico has done is not a miracle. It is a product of hard work and sustained commitment.

The strengthened debt strategy is flexible enough to address the unique needs of each country. But the strategy will not work without sound economic policies in debtor countries.

Inefficient, unrealistic, and growth-stifling policies must go. Benefits are available to a broad range of other countries that pursue economic reforms. Several are now actively engaged with the IMF and the World Bank, and with the banking community.

Commercial banks have a special role in making this process work and must follow through on efforts made with Mexico and the Philippines, and broaden their efforts with other countries.

We encourage these steps not as self-sacrifice—but as self-interest. True, success not only will help the debtor nations, but it will also strengthen the banks, by putting their portfolios on a sounder footing.

One of the lessons of the 1980s, especially the debt crisis, is that we're all in this together. And when we cooperate, we all come out winners.

The IMF and the World Bank are at the crossroads of our cooperative efforts. The IMF must continue to foster the sound economic policies necessary for sustained growth. As part of that responsibility, the Fund has assumed an important and welcome role in the strengthened debt strategy.

The United States recognizes that the IMF must have adequate resources to fulfill its critical role. We will continue to work with other members, in the hope of reaching a decision on quotas by the end of the year. The United States has always supported the IMF and will continue to do so.

We all look to the World Bank to help build the foundation for a future global prosperity that reaches all peoples. Its efforts to promote structural reform and development are crucial to resolving debt problems. The Bank's decisions to take on new responsibilities on the debt front are welcome.

Also, to address the significant problems of the poorest countries, the International Development Association was established and will continue to have the support of the United States.

We have also learned, as I emphasized Monday at the UN, and last summer at the Paris summit, that environmental destruction knows no borders.

To make growth truly sustainable, we must weigh environmental considerations more heavily as we make economic decisions. We must also find ways to strengthen our environmental and developmental efforts, through innovative thinking such as "debt for nature transactions."

Over the years—as we've come to understand the effect of environmental destruction on the long-term growth of developing countries—the World Bank has increased the priority it assigns to environmental concerns. We applaud those efforts. But there is more to be done. We need to work more cooperatively to develop constructive solutions to global warming, including measures to promote energy efficiency and conservation and greater protection of forest resources.

In addressing the challenges of the 1980s, we have come to a deeper understanding of the importance of cooperating as a community of nations to address common problems.

I can think of no better current example than the need to work together to deal with international drug trafficking and money laundering. It is a worldwide problem. Drug money undermines honest businesses, corrupts political institutions, and even threatens the security of nations. To conceal their obscene profits, drug barons must wash their money by cycling it through financial institutions and illegitimate shell corporations.

The United States renews its call upon all countries to ratify the United Nations Vienna Convention, and make money laundering a criminal and extraditable offense. We need tough measures to track down and confiscate the profits of drug-related crime.

I am encouraged by the G-7 democracies' interest in a coordinated response to the money laundering menace. I urge everyone to join with us to explore new ways to stop money laundering in its tracks.

And there may be no greater opportunity before us all today than the challenge of Poland and more broadly Eastern Europe—where countries are in the throes of dramatic political and economic change.

The United States and its international partners have already undertaken new initiatives toward Poland. But now, in light of clearly growing needs, the recent accession of a Solidarity-led government, and our self-evident stake in its success, we must do more. We understand the Polish Government has under consideration a bold plan for economic recovery.

I call on the IMF and the World Bank to work rapidly with Poland to develop such a program and ensure its successful implementation. For its part, the United States intends to be out in front of this effort, to take advantage of this historic development and to ensure its success.

Today our mutual efforts to improve global growth, to ease the burdens of developing country indebtedness, and to open up markets for trade, have

demonstrated anew that progress is best achieved by facing pressing issues together.

This is a lesson we must carry with us into the 1990s if we are to pass on to future generations a global economy that is strong and resilient, and able to provide for the aspirations of the citizens of all our countries.

OPENING ADDRESS BY THE CHAIRMAN, THE HONORABLE KYU SUNG LEE GOVERNOR OF THE BANK AND FUND FOR KOREA

It is a privilege to welcome you to the Forty-Fourth Annual Meetings of the World Bank Group and the International Monetary Fund. As Chairman, and on behalf of all of you, I would like to express our thanks to the people of Washington, D.C. for their hospitality during these meetings.

All of us present join together in extending a sincere welcome to the delegates from our newest member country, the People's Republic of Angola, who are taking part for the first time in our meetings.

It is a special honor, not only to me, but to the Republic of Korea, to chair the Annual Meetings of the two institutions that have contributed so instrumentally to the development and prosperity of our country.

For this, we express our deep gratitude to all members.

Korea's Relations with the International Community

As Korea's national welfare changed, so have its relations with the Bretton Woods institutions. We were pleased, last November, to accept the obligations of Article VIII of the Fund's Articles of Agreement. Moreover, Korea has contributed to the enhanced structural adjustment facility and is actively participating in replenishment discussions for IDA-9 to continue meeting responsibilities of membership.

As a major beneficiary of a multilateral, open trading system, Korea pledges to contribute to the prosperity of the world economy by shouldering its international responsibilities to the best of its ability.

Recent Economic Performances

The world economy turned in a very impressive performance in 1988, growing at the highest rate since 1984, while world trade registered its strongest expansion of the decade. In 1989, there are signs of a moderation of growth to more sustainable levels in industrial countries, with underlying inflationary pressures beginning to subside.

On the other hand, economic activity in much of the developing world continues to be relatively weak with few signs of improvement in external balances.

Nevertheless, we can still be modestly optimistic that the current pace of world economic expansion will continue at least over the immediate future.

Major Developments in the 1980s: Global Interdependence

In this final year of the 1980s, these meetings are a fitting occasion for reflecting briefly on the major developments over this decade, which offer both encouraging signs and cause for concern.

First, looking at the positive side, major industrial countries have maintained the longest economic expansion in the postwar period. And, despite the recent loss of momentum, there has been progress in reducing external imbalances through macroeconomic policy coordination.

In addition, we can commend all the participants of the Uruguay Round for making important advances toward a more open trading system since September 1986, particularly at the Uruguay Round midterm review.

To help solve the problem of external debt, all interested parties, both debtors and creditors, the Bank, and the Fund have agreed to support the strengthened debt reduction strategy.

For another heartening sign, one can look to the momentum of economic reform well under way in the centrally planned economies, which has brought about greater reliance on market mechanisms, with positive implications for world trade and East-West relations.

On the negative side, the vicious cycle of protectionism and inadequate structural reform has not only intensified the problem of market rigidities, but has also led to concerns that the open trading system is under siege from unilateral acts and bilateral deals. Furthermore, persistent external imbalances among major industrial countries have led to exchange rate instabilities and high interest rates, threatening the very foundation for sustained world economic growth.

All of these unprecedented developments, both positive and negative, are clear manifestations of global interdependence. The interdependence of the world economy achieved over the many years of expanded trade and integration of financial markets is creating new opportunities, as well as difficult problems, for the international community.

Balanced Growth for the 1990s

Today, much of the developing world suffers from deteriorating terms of trade and persistently high interest rates. In contrast to the 1960s and 1970s, when the gap in the standards of living between industrial and developing countries was reduced, in the 1980s, the gap has actually increased.

Furthermore, pervasive poverty and heavy debt-servicing burdens continue to weigh heavily on many developing countries.

If these adverse conditions persist, the spirit of international cooperation for common prosperity may be undermined. In the long run, because of global interdependence, sustained growth is impossible without balanced growth. Therefore, we must strive harder than ever before to achieve balanced growth.

In this connection, the emergence of middle-income countries is a significant step toward balanced growth. These middle-income countries, by sharing development experiences and appropriate technologies with the low-income countries, can help them maximize utilization of all available re-

sources, thereby contributing to their economic growth. The growing influence of the middle-income countries on the world economy, therefore, is a promising trend that should be nurtured.

Policy Action for International Community

What policy actions must we, the industrial and developing countries as well as the Bank and the Fund, take to lay the basis for the balanced and durable growth of the world economy?

Starting with the industrial countries, the first policy imperative is to promote a favorable financial and trade environment. Industrial countries with budget and current account deficits must strengthen fiscal policy to reduce the burden on monetary policy. Such action would contribute to reducing real interest rates, encouraging investment, and alleviating external imbalances. Countries with external surpluses should continue to promote adequate growth of domestic demand in excess of output growth, principally through enhanced structural reforms.

Industrial countries can act to promote a favorable external environment by resisting protectionism and ensuring the success of the Uruguay Round. Among other benefits, an open trading system will help developing countries expand exports, assisting their efforts to grow out of debt. Moreover, developing countries are liberalizing their own trade regimes under programs supported by the Bank and the Fund. Industrial countries should do no less.

The second policy imperative for industrial countries is to encourage adequate resource flows to developing countries. If these developing countries are to endure the demands of often far-reaching adjustment, technology and new money will be vital. Debt reduction will also be important where the level of debt is incompatible with the restoration of confidence and the resumption of growth. Commercial banks could be encouraged to provide resources for trade, investment, and debt reduction programs, partly through changes in tax regimes and regulatory and accounting systems.

Developing countries have equally important responsibilities in this action agenda. First and foremost, they should persevere with strong, growth-oriented adjustment programs. The most pressing task is to create a favorable domestic environment that would raise domestic savings, enhance productive investment, and induce the repatriation of flight capital. At the same time, the quality of investment deserves priority attention to maximize growth potential.

The Bretton Woods institutions, for their part, should assist countries in designing and implementing growth-oriented adjustment programs. In this connection, the timely decision by the Bank and the Fund Boards to support debt and debt service reduction is to be welcomed. As mobilizers of external

finance for adjustment, the Bank and the Fund must retain a strong catalytic role, encourage greater efforts by commercial banks, and remain vigilant to the needs of all developing countries.

Economic Reform in a Multilateral Framework

Diligent efforts of all member countries, as well as the Bank and the Fund, in carrying out their fair share of responsibilities, as outlined above, may be a necessary condition, but hardly a sufficient condition for the achievement of balanced growth. The unprecedented level of global interdependence mandates new economic policy responses regarding macroeconomic and structural reforms.

Needless to say, shortsighted unilateral actions motivated by national interest would only bring short-term gains at the expense of long-term growth potential of the world economy. The international community cannot look only to the smaller countries for a solution to global imbalances, for their actions cannot compensate for insufficient adjustment by the major industrial countries. There is an obvious need, therefore, to extend multilateral cooperation to every facet of economic policy for a more efficient management of the world economy.

In this regard, I think it is important to be reminded of the wisdom and the spirit of the founders of the Bretton Woods institutions and GATT, which have played an instrumental role in promoting world peace and prosperity. In particular, it should be noted that these three great institutions were founded in order to achieve balanced growth through greater respect for market mechanisms and favorable treatment of developing countries.

With renewed faith in the founding spirit of these institutions, we should coordinate our economic reform efforts. In this context, I would like to urge the Fund, as well as the Bank, to substantially enhance their policy advice and surveillance activities to strengthen multilateral disciplines for macroeconomic and structural reform.

Activities of the Bank and the Fund

Turning now to the activities of the World Bank Group, the increased resources committed by shareholders in 1988 are already contributing to several significant initiatives.

For example, there will be greater focus on poverty reduction in country assistance strategies by promoting productive employment and expanding access to health care, education, and physical infrastructure for the poor. Environmental concerns are being more fully integrated into the mainstream of the Bank's operational and policy work. In addition, there is increased attention to private sector development, which will be tailored to individual country circumstances.

With respect to the members of the World Bank Group family, I would like to stress that IDA-9 negotiations are of paramount importance and should be completed urgently, with a larger replenishment being a worthy goal.

I am pleased to note that, in 1989, IFC's net income nearly doubled for the third successive year. MIGA, along with IFC, is also providing advice and technical assistance to developing countries to help promote foreign direct investment. To advance all the far-reaching endeavors of the World Bank Group, shareholders that have not already done so are urged to subscribe fully to the general capital increase.

Turning to the activities of the Fund, multilateral surveillance—the Fund's primary function—has been important in assisting macroeconomic policy coordination and it must be deepened further to correct imbalances without endangering sustainable growth.

The Fund, like the Bank, has adapted greatly to the changing circumstances in the world economy. Assistance to low-income countries under the structural adjustment facility and the enhanced structural adjustment facility has risen significantly, and the extended Fund facility has been revitalized, with a number of new arrangements already in place.

If the Fund is to continue to play its role effectively as the world's central monetary institution, it is crucial that its size be kept commensurate with the size of the world economy, so that it may be adequately equipped as in the 1960s and 1970s, to cope with adverse contingencies. In recognition of this need, I would urge that all member countries reach an agreement on a substantial quota increase, and that the Ninth Review of Quotas be completed by the end of this year. The distribution of any quota increase will, of course, have to take into account each member's relative position in the world economy.

Conclusion

As we bring the 1980s to a close, it is clear that the level of global interdependence will deepen in the years ahead.

I believe we all agree that the aim of our deliberations at these meetings, therefore, should be to preserve and enhance our commitment to global prosperity through international cooperation. With all nations doing their fair share in a strengthened institutional framework for multilateral cooperation, the new horizon of the 1990s will indeed be bright.

ANNUAL ADDRESS BY BARBER B. CONABLE PRESIDENT OF THE WORLD BANK GROUP

Introduction

Mr. Chairman, Governors, Ladies and Gentlemen: I would like to welcome you all to these Annual Meetings. I particularly want to welcome the delegation of Angola, the newest and 152nd member of the Bank Group.

Before proceeding with my remarks, I want to say how sad we all are about the tragic loss last week of the Bank Governor for Chad, Mahamat Soumaila, and Mr. Midallal Ali Abakar, a member of the Chadian delegation. Our sincerest sympathy to their families, friends and colleagues.

We have been hard at work over the weekend, and during the next few days, I look forward to continuing our friendly and productive discussions of the important business at hand.

Our business—working for the future welfare of all people—could hardly be more pressing. As we enter a new decade, the World Bank—your World Bank—wants to make that future brighter, more productive and more fulfilling for the people of the developing countries. Of course the first task must always be to deal practically and efficiently with the problems of today. But we must never lose sight of that great vision.

As we enter the 1990s, we must take a hard look at the development priorities for the decade ahead—priorities both for developing countries and for the international community as a whole.

The Outlook for Development

The development record of the 1980s has been mixed. Some developing countries have made extraordinary strides in the past ten years. Their rapid growth and new presence in world markets are an inspiring example. The outlook for their peoples, from Korea to Indonesia, from Thailand to Mauritius, is one of hope and new achievements.

But the 1980s have also been a painful decade. We have learned a bitter lesson: development can be reversible. More developing countries have suffered reverses in the last decade than have experienced success. The consequences of decline will be felt well into the 1990s—in Sub-Saharan Africa, in the debtor countries of Latin America, and in Central Europe.

Yet, as we begin the new decade, the potential for progress is great. The political and ideological forces which have polarized the world for half a century are diminishing. Political and economic power is becoming less concentrated. There is a new recognition of the pressures that bind countries together: the need for peace and mutually assured security, the rapid emergence of a truly global economy, and the imperative of managing the world's resources in the interests of people everywhere.

This new reality should lead more countries to seek solutions through cooperation, despite the differences that remain. The result should be more plural economic and political institutions, and expanded opportunities for individuals and communities. The possibilities of building a peaceful, prosperous and sustainable world economy in the 1990s grows stronger as these forces take hold.

In short, to quote the social philosopher John Gardner, "The prospects never looked brighter and the problems never looked tougher. Anyone who isn't stirred by both of those statements is too tired to be of much use in the days ahead." A vigorous World Bank is planning to be of use in ways I shall describe.

The State of the Bank

With your support, the World Bank Group has had a strong and active year since we last met. We committed a record $21 billion in Bank and IDA resources and mobilized an additional $9.3 billion in cofinancing. IFC's commitments rose by one-third to $1.3 billion, and its net income vitually doubled—as it has in each of the last three years—to almost $200 million. The Bank Group's newest member, MIGA, has put in place operating procedures, and has started its business of policy advice and guarantees for private investment.

We at the World Bank are keenly aware of the scale of the problems that face our members. The Bank's development work has continuously evolved to meet the changing needs of its Borrowers. Adjustment lending has come into its own. The breadth, depth and intensity of the Bank's policy dialogue with its Borrowers has increased, and Bank efforts in the areas of resource mobilization and aid coordination have grown. Our operational collaboration with non-governmental organizations has increased sharply. So, too, has our commitment to environmentally-sound development. And most recently—following announcement of the Brady initiative—the Bank approved its first loans with set-asides to facilitate debt reduction in Mexico and Venezuela. The Bank is also working on debt reduction initiatives in other countries, such as Chile, the Philippines and Costa Rica.

Change is the only constant in human endeavor, and the Bank, as a human institution, is no exception. But one thing that has not changed over the Bank's 43-year history is its basic mission—to reduce poverty and accelerate growth.

The Bank spends a great deal of time analyzing economic statistics and worrying about macroeconomic performance. But, in the end, we know that what we are dealing with is people, not statistics. Unless the quality of life of individual poor people is improved by what we do, no amount of statistical analysis or macroeconomic planning will justify our work.

Mr. Chairman, as we gather on the threshold of a new decade—the one in which the Bank will celebrate its 50th anniversary—I am pleased to

report to you that the state of the Bank is good. This unique institution has continually demonstrated its resiliency and adaptability in responding to our Borrowers' needs. The Bank's main asset, of course, is its corps of extraordinarily skilled and committed staff. Their capacity for change, their ability to build and apply the Bank's knowledge, experience and financial creativity have been, and will continue to be, central to the success of our efforts to improve the lives of the world's poor.

To continue our fight against poverty in the poorest countries of Sub-Saharan Africa and Asia, a Ninth replenishment of IDA is vitally needed, since full commitment of IDA8 funds is rapidly nearing completion. Negotiations for IDA9 are underway. It is my hope tht they will be brought to a successful conclusion in the near future, and that the 9th replenishment will be at least as large, in real terms, as was IDA8. Anything less would let down hundreds of millions of people living in conditions of squalor. Anything less would be a grave disappointment.

The International Monetary Fund, our sister institution, is also seeking a quota increase. I urge our member Governments to give quick and favorable consideration to this increase, too, so that the Fund can sustain and expand its own very important work.

The Task Ahead

The task ahead is clear. The development agenda for the 1990s must be to harness growth and use resources creatively, so as to improve the quality of life for hundreds of millions of poor people everywhere. This is the real challenge of development, and the central task of the World Bank and its partners, particularly the Governments of developing nations.

Priorities for the Next Decade: Using National and International Resources More Efficiently

Mr. Chairman, the development needs of the 1990s will be enormous: to overcome stagnation in Africa, to move beyond debt paralysis in Latin America and elsewhere, to offer growth and hope to Asia's hundreds of millions of poor people, to assist reform and renewal in countries moving away from centrally planned economies, and to reverse the degradation of developing countries' natural resources. In all of this the developing countries carry the main burden of responsibility for their own future. But the industrialized world also has a vital part to play—not just in providing external resources, but also in assuring the developing countries of access to their markets, and in conducting their own economic policies so as to create a global "enabling environment" for growth.

External Resources and Country Performance

External finance will be crucial, not only in monetary terms, but also because with it comes new technology, knowledge and access to markets.

Financial flows will depend on many factors, including economic growth in the industrial countries. Any observer of the development scene knows that the prospects for public and private resource flows for the 1990s have changed. But development during the coming decade cannot, and must not, be held hostage to external finance. Governments and the donor community must focus on the creative mobilization *and* use of both domestic and international resources. This is a fundamental requirement for healthy economic growth. It is also the best way to lay the basis for more sustainable, high-quality flows of long-term external finance.

There is no substitute for good macroeconomic policies and strong adjustment programs in the quest for economic stability and growth. These are the essential preconditions for external finance. When Governments have the courage and farsightedness to make deep-seated, sustained and credible changes, the international community should be ready to respond by providing swift, strong and reliable financial support, and by helping to reduce the sometimes painful impact of adjustment on individuals—particularly on the poor.

Savings and Investment Efficiency

An important priority for most developing countries is to raise savings and investment rates, so as to use the energies of their people to the fullest. The developing countries which grew fastest and most consistently over the last 20 years were those that managed to sustain savings and investment at high levels—a quarter of GDP or higher. Even more important, the rapidly growing developing countries used their resources more efficiently. If developing countries are to make up lost ground, what needs to be done is clear.

Reforming the Financial System

The financial systems of developing countries often hold the key to economic growth. If financial institutions are undeveloped, mistrusted or shackled by inappropriate controls, they cannot mobilize savings efficiently and allocate them to the most productive use.

This year's World Development Report shows that the economic shocks of the 1980s have combined with bad government policies to undermine financial systems to a dangerous degree. Governments have weakened banks by controlling the allocation of credit, and they have disguised public sector deficits by recourse to the banking system. In many countries, the so-called quasi-fiscal deficit has become a major source of financial instability and inflation. And weak regulations have made it all too easy for banks to compound past lending mistakes by throwing good money after bad.

These are not arcane technical problems: they inflict massive human damage. Because of them, people find their savings rendered worthless, the prices of everyday necessities running wildly out of control, and vital public

services—such as schools and health clinics—decaying for want of resources. Financial stability is a quality-of-life issue, too.

To tackle these difficulties, interest rates need to be progressively freed. This will guide scarce savings to their most productive use. Many countries also need to reduce financial restrictions. At the same time, they require stronger regulation and legal and accounting standards. Competition should be strengthened to ensure that savers and entrepreneurs do not face financial monopolies serving entrenched interests. The Bank is assisting reforms of this sort through its financial sector lending. And IFC is helping several countries to establish securities markets and the financial institutions that will operate in them.

Using Public Money Rationally

If countries are to grow, and to harness that growth to the quality of life, Governments must make better use of the resources they themselves claim from the economy. This means sound public finance.

Many countries will have to endure prolonged fiscal austerity during the 1990s. The capacity of the public sector will continue to be severely constrained. This forces all of us—in industrial as well as developing countries—to think afresh about priorities, and about the productivity and equity of taxation and spending.

Public sector deficits must not be allowed to continue fueling inflation and to crowd out the private investments that are essential to drive renewed growth. Governments need to take a fresh look at the efficiency and equity of taxes—at how to broaden the tax base; reduce excessive burdens on productive people; phase out special exemptions; and rely less on trade taxes which distort incentives against exports. In short, the pursuit of sound public finances must not mean imposing ever higher taxes on sections of the population whose productivity is discouraged by an unfair or excessive tax burden. Instead, the causes of fiscal deficits must be brought under control.

When resources are tight, Governments have a particular duty to look more closely at the effectiveness—and the equitable use—of the money they spend. Developing countries need to use public funds for building functioning school systems, not white elephant projects in industry. They need essential services to be adequately maintained, not public employment expanded beyond the numbers that can be decently paid and effectively used. They need Governments to provide essential urban infrastructure, not divert scarce resources to luxuries for select groups. Better ways must be found for public expenditure to complement and spur private production, not displace it.

Debt Reduction and Sound Policies

Another important way to ensure that developing countries get the external resources they need is to bring their indebtedness—in those cases where

it is a binding constraint—down to manageable proportions. You, our shareholders, have put the Bank and the Fund at the center of international efforts.

We have seen major breakthroughs in the debt strategy in the last year, from the Toronto Summit agreement to the Brady initiative. These developments are welcome and encouraging. They strengthen our collective ability to respond to each country flexibly, according to need and merit.

We are far from the end of the debt crisis. New solutions continue to be needed for each country. The financial, regulatory and other problems which Third World debt poses will continue to be a challenge to our collective creativity.

Military Expenditure

As we think about the tasks of development in the coming years, we can no longer neglect a sensitive component of the fiscal problem: military spending. All countries have the sovereign right and responsibility to defend themselves. But let us hope that, in the changing political climate of the 1990s, resources are increasingly allocated to more productive purposes, in industrial countries as well as developing countries.

While there is much variation among developing countries, as a group low-income countries currently allocate around 20 percent of central government budgets to defense. In the mid-1980s military spending in developing countries exceeded spending on health and eduction combined. While many components of national budgets have been cut, the $200 billion which the developing world spends annually on the military has largely been protected. And arms are often a prime source of external debt: military debt accounts for a third or more of total debt service in several large developing countries.

Developing countries on one side, and their arms suppliers and creditors on the other, must adapt to a world where budgets are tight. It is important to place military spending decisions on the same footing as other fiscal decisions, to examine possible trade-offs more systematically, and to explore ways to bring military spending into better balance with development priorities. In evaluating their military expenditures, Governments should be realistic, but they also should remember the human consequences of these choices.

The Bank's Operational Role

Steady effort in all these directions can dramatically improve developing countries' prospects in the 1990s by creating new opportunities for the enterprise of their citizens.

The Bank will use its strengths flexibly to support these efforts by our members. We will retain our capacity for rapid disbursement of finance. This commitment is evident in our adjustment programs, and in the financial support the Bank is extending for debt reduction. Adjustment lending and debt reduction operations will continue to play a critical role in our support for Sub-Saharan Africa and the heavily-indebted countries.

As we move into the 1990s, the Bank also will stress increasingly our core business: supporting efficient, long-term investment which multiplies domestic entrepreneurial energies and productivity, and which directly addresses the needs of poor people.

We can best do that by lending which promotes better economic policies, rational investment priorities and the development of human resources in key sectors; which creates productive assets of high quality; and which is a catalyst for other private and public development finance. We will seek other opportunities to play this catalytic investment role in our regular lending program, in our aid coordination activities, and in the Bank Group's expanding collaboration with the private sector.

The Bank's role as a promoter of efficiency and of market-oriented investment will be particularly important in the complex task of reforming centrally planned economies, as changes in these countries develop. We have a responsibility to maintain support for badly needed structural change in all countries, even when political conditions make that difficult. The Bank has a substantial involvement in several socialist countries, and our knowledge of the challenges of reform in these economies has greatly expanded. But there are few precedents to guide the reformers, and the economic and political uncertainties are formidable. We are strengthening our knowledge, and we will continue to build our programs in collaboration with others, and in line with the progress that these countries achieve.

Priorities for the Next Decade: Environment and Individual Lives

As all of us here think about development priorities in the coming decade, we should focus both on costs and resources, as well as on goals and ideals which are worthy of the great effort which will be needed. We must dare to be visionaries, even as we strive to be prudent treasurers. This is, perhaps, the hardest challenge of all.

In the coming decade, it will be impossible to improve the quality of life in developing and industrial countries alike unless we do much more to conserve our global environment. We must deal with population problems, with energy needs and with sustainable agriculture. But we cannot do so by choking off the hopes of poor people and poor countries. We must protect the environmental quality of life in the fullest sense—by extending economic choice and opportunity, by ensuring strong economic growth and by reducing mass poverty in the developing world.

Expanded Bank Environment Effort

We are all very much aware of the great environmental challenges facing the world. The Bank is taking new initiatives in what is now a common international effort. We are urgently adding to our skills and knowledge, and we have greatly expanded the environmental values in our lending. A third of all our projects, half of our energy projects and 60 percent of our agricultural projects last fiscal year contained specific environmental components. We will lend $1.3 billion for free-standing environmental projects over the next few years and will triple our forestry lending.

The Bank has greatly expanded collaborative work on the design and financing of environmental programs. We are actively involved in joint programs with member Governments and with others, such as the United Nations Environment Program, the European Investment Bank and the regional development banks. As part of these efforts, we are building the foundations for better management of tropical forests in Ghana and Sri Lanka, for stronger protection from pollution of water supply and coastal waters in Chile and Yugoslavia, and for international collaboration on schemes such as the Environmental Program for the Mediterranean and the Asian Capital Cities Clean-Up Project. These are just a few examples.

My main purpose today, however, is not to report on our current programs. Instead, I wish to emphasize what I see as the key environmental task for the coming decade: to bring together the world's need for collective environmental security, and the need of poor people to be able to choose better lives for themselves and their families.

Population Policy

Nowhere is the connection between poverty, individual potential and the environment more dramatic than in population policy. Rapid expansion of population endangers growth in individual incomes and improvement of the quality of individual lives.

This is not only, or even primarily, an aggregate problem of "too many people". The real concern is that excessive population growth puts heavy, sometimes intolerable, strain on the pressure points of urban and rural environments that are least able to bear it. The consequence is to further undermine the ability of hundreds of millions of people to escape from poverty.

The solution to this exceptionally difficult and sensitive problem does not lie in attempts at massive social engineering by Governments or by the international community. Population figures reflect decisions by millions of individuals and couples as they confront the everyday realities of life: work, health, the survival chances and economic prospects of prospective children, their own old age. But we can help to make available to women, and to

men, the ability to make decisions which will meet the needs of individual families, and serve the wider society as well.

No single step will provide the answer. Approaches must be adapted to each country's circumstances. Direct support for family planning programs and policies is essential, and must go hand in hand with action to increase productivity and welfare—especially for women—through better access to education and health services, better jobs, and higher incomes.

Greater access to family planning information and services can be provided through many different channels: through Governments' primary health care services, through the private sector, and through voluntary organizations. Countries such as Indonesia, Zimbabwe and Botswana have demonstrated that family planning programs work—not only as an instrument of population policy, but as a way to improve the welfare of everybody—men, women and children. Indonesia's family planning program has grown from a coverage of 50,000 couples to over 17 million couples in less than 20 years. Zimbabwe and Botswana have stressed human resource development, along with family planning. As a result, many of their people are educated, health services are widely available, and mortality is among the lowest in Africa. Other countries with active family planning programs have been equally successful.

Helping to reduce population growth is a priority for the Bank. We lent over half a billion dollars for population projects over the past five years. We expect to raise this level to $800 million in the next three years. This constitutes nearly a tripling of our population lending on an annual basis.

Families need to feel confident that their children will survive and lead better lives. Households need the assurance of economic well-being which comes with secure property rights, a decent education, and basic income-generating skills. Poor people—especially when they live in environmentally or economically precarious conditions—need to be able to spread their risks, to take advantage of economic opportunities and, above all, to have secure access to food.

Sustainable Agriculture

This brings me to a second fundamental environmental task for the decade ahead: the promotion of sustainable agriculture. Despite the growth of cities, the coming decade will see many more people in the rural areas of Africa and Asia, and an even larger growth in the workforce which rural areas will have to absorb on and off the farm.

Governments will face these pressures—and the accompanying degradation of natural resources—with little prospect of a leap in yields such as the Green Revolution provided 20 years ago. We have to find ways of raising farm output which are within reach of poor people—techniques which do not rely too much on chemical inputs and engineering investments. Other-

wise, the present frightening rates of soil and water depletion will continue, and the livelihoods of millions of people, from the Yangtse River system to the African savannah, will be endangered.

Government policies must play a major role. Underpricing of chemical fertilizers and pesticides can lead to poisonous over-use, and it discourages better methods of restoring essential nitrogen to the soil and of controlling pests. Improper pricing of water leads to waste. Subsidized electricity results in overpumping of groundwater aquifers. Unrealistic stumpage rates lead to overcutting rather than conservation of forests.

Changes in such policies should aim to reflect the true economic value of land and water resources. Reform would save Governments money which they now spend on subsidies and incentives, and it would also encourage the better use of all the resources that contribute to agricultural growth.

In dealing with the new challenges of sustainable agriculture, we must always be willing to re-examine existing attitudes and conventional wisdom. For instance, experts in the field of agricultural development are beginning to pay more attention to the ability of small-scale farming to spread risks and conserve biodiversity. We need to support small farmers by promoting the broader application of some basic "benign" technologies. We need to reinforce the diversity of such farms, rather than encourage dependence on a single crop.

In agriculture, as in the population issue, there is a strong link between policy reform, improving the incomes and economic security of poor people, and safeguarding the environment. If we can forge those links effectively and increase attention to nutrition and health, we can in the upcoming decade make great progress toward ending hunger in the world.

The Importance of Education

Mr. Chairman, development must expand people's horizons. It must expand opportunities—but it must also endow each individual with skills and with knowledge of how the world works, so that those opportunities can be seized. People, as I have said before, are our most precious resource.

In the new century, the dividends from knowledge will grow as dramatically as the penalties of ignorance increase. Much of the gulf between misery and opportunity, squalor and hope, can be bridged by education, by investing in the bright inquisitiveness of children and the thirst for knowledge of enterprising adults.

Education, and human resource development more broadly, must be a central focus of the development effort in the 1990s. Education adds to the choices people can make. At the very least, we must ensure the availability of primary education for all children, boys and girls alike. In this, the World Bank will play a growing part.

So far I have talked of environmental problems which are essentially national in character: they mainly affect the quality of individual and community life within countries, and their solution lies within the grasp of national authorities. But in the new decade the world must also deal much more effectively with problems which are regional and global in reach—acid rain, ocean pollution, nuclear hazards, ozone depletion, climate change.

At the heart of many of these global problems is energy. This is a vital issue for developing countries, given their vast energy needs. Fossil fuels are the main source of the gases which may produce long-term global warming and changes in the climate. If these changes occur, the poor in developing countries would be least able to cope.

Most of these fuels are now burned in industrial countries. Industrial countries account for over 75 percent of carbon dioxide emissions, the main cause of global warming. And virtually all of the CFCs escaping into the atmosphere and depleting the ozone layer come from industrial countries. Clearly, therefore, the major responsibility to reduce emissions rests there.

But plans for electrification and industrialization of major developing nations over the next decade call for big increases in the burning of coal, the least carbon-efficient of the fossil fuels. On present trends, the developing world will double its share of carbon dioxide emissions from coal-fired power plants by the turn of the century—in contrast to the strong move away from coal-based power generation in industrial countries. China and India alone plan coal-based thermal power plants with a combined capacity around 150,000 MW. Wood burning for land clearance and fuel is another potent source of developing countries' emissions of greenhouse gases.

If the danger of global warming from present and future energy use is to be reduced, international cooperation will be indispensable. We cannot now know the precise timing or extent of the threat. But we cannot let that be an excuse for inaction.

Greater efficiency in the use of energy is a fundamental requirement for all countries, and is amply justified on purely economic grounds. Too many countries still subsidize the profligate and environmentally harmful use of energy by industry and by households, and provide few incentives for the introduction of more efficient technologies. A complementary approach in the 1990s would be to encourage the use of gas, a plentiful and relatively "clean" fuel, while vigorously pursuing research and development of more ambitious energy alternatives for the new century. Taken together, increased efficiency and increased use of cleaner fuels could greatly reduce greenhouse gas emissions from developing country plants—perhaps by as much as a third by the end of the century.

Energy is vital to development. We cannot turn our backs on the needs of the poor countries. Unlike industrial countries—which, as we all know, are the source of most of the environmental damage in the world today—developing countries cannot forego growth or switch to more expensive fuels without help. Unless the necessary resources are made available, they will be compelled to use energy sources which seem cheapest in the short term. In the same way, poor people cannot switch to cleaner and more efficient means of cooking and heating unless new technologies are brought within their economic grasp.

Closer international collaboration is needed to tackle these growing problems of the global environment. Industrial countries should accept their own long-neglected responsibilities and put their environmental house in order. Developing countries need to put aside any remaining defensiveness and recognize that determined action is in their own national interest. The key will be to think globally and act locally. If that can be done, we will help the developing countries to avoid repeating the damaging mistakes of the industrialized world. Extending the necessary help to make this possible is in all our interests.

Shared Responsibilities for the 1990s

Mr. Chairman, my address today has been about the basic goal of development—enhancing the quality of hundreds of millions of individual human lives. No amount of statistical argument will help the cause of development, unless individuals find better lives.

Our work, in the words of Pericles, must be "woven into the stuff of other (peoples') lives." This is what makes development work challenging and singularly exciting. If the international community can concentrate its effort on that simple and inspiring goal, the 1990s can be a decade of great hope and achievement.

I have argued that we must build on the new atmosphere of reduced international tension and the emergence of more pluralistic societies to create a more open world economy, in which developing countries can participate as productive and efficient partners. Despite the scarcity of additional external finance, we must creatively mobilize resources and ensure that these are used for high-priority investments and social services. We must meet the growing environmental challenge through closer international cooperation and by expanding the opportunities and economic freedoms of people everywhere, particularly the poor.

All this requires action now—on development resources and growth, on population and education, on renewed agricultural development, on preserving our common global heritage—if we are not to return to these meetings year after year to review an ever-worsening picture.

If we do act, I believe we can help developing countries to assume fuller responsibility for their own economic destinies, even as they participate more actively in a growing global economy.

We can reduce poverty and protect the environment in ways which respect the rights and hopes of individual people.

We can meet the global environmental challenge while respecting the sovereignty of poor countries.

And we can encourage greater diversity in economic and social institutions, so that the abilities of every single one of us can flourish to enhance all our lives, and not be stifled or brushed aside.

If we do act effectively together, I believe we will be able to look back on this time as a turning point. We will have laid the ground for nations and peoples to work together in building an efficient, peaceful, and unpolluted world economy.

In tackling the problems of the coming decade, the World Bank is just one institution—but a powerful and resourceful one. In partnership with other multilateral institutions and with you, our shareholders, we will meet the challenge.

REPORT BY B. T. G. CHIDZERO
CHAIRMAN OF THE DEVELOPMENT COMMITTEE

The Annual Report on the work of the Development Committee for the year ending June 30, 1989 has been formally submitted to the Chairman of the Boards of Governors. The main focus of the Committee's attention this year was on problems and issues in structural adjustment, development prospects for severely indebted countries and the evolving debt strategy, the promotion of economic recovery and development in Sub-Saharan Africa, and the World Bank's support for the environment. In addition, the Committee discussed international trade developments, the Ninth Replenishment of IDA, and trends in the transfer of real resources to the developing countries.

Problems and Issues in Structural Adjustment

The Committee conducted the first global review at ministerial level of experience with growth-oriented structural adjustment programs supported by the Bank and the Fund. The essential ingredients for the achievement of successful and sustainable programs were identified and included, in particular: political commitment, broad public support, integration of poverty considerations, adequate and timely financing, and supportive external economic conditions.

Members concluded that while growth-oriented structural adjustment can yield positive results even under unfavorable external conditions, the pace, scale, and sustainability of benefits could be adversely affected by an unsupportive external setting. The industrial countries were accordingly called on to adopt economic policies supportive of developing countries' adjustment efforts.

I would stress the importance of ensuring that the conclusions that the Committee reached on the question of structural adjustment programs are translated in practice into Bank- and Fund-assisted programs, and that these be monitored by the Committee.

Development Prospects for the Severely Indebted Countries

The problems of all groups of severely indebted countries were discussed at both meetings. The Committee continued its review of the debt strategy of the middle-income heavily indebted countries. It expressed concern at the decline in the prospects for growth and development of these countries. Members, therefore, welcomed proposals to strengthen the debt strategy by including debt and debt service reduction. Members called on the World Bank and the Fund to offer assistance for adjustment programs and to support voluntary market-based debt reduction transactions and debt service. The Bank and the Fund were asked to develop and implement specific

proposals to achieve these objectives as expeditiously as possible. In September, the Committee reaffirmed its support for the strengthened debt strategy and commended the Fund and the Bank for taking prompt action. Members were encouraged by the progress made in several cases in the negotiation of debt and debt service reduction arrangements with banks.

In the case of the low-income debtor countries, the Committee welcomed the arrangements worked out by the Paris Club to provide concessional debt relief. Members also agreed to continue the collaborative framework for donor action under the Special Program of Assistance coordinated by the Bank and to discuss in the spring of 1990 the long-term perspective for Sub-Saharan Africa. The Committee welcomed measures announced recently by several donors to forgive official development assistance debt owed by low-income countries in that region. It noted steps taken by the Bank to support commercial debt reduction in eligible IDA-only countries. As the debt problems of these countries remain severe, the Committee requested the institutions to undertake an evaluation of the impact of the various debt relief measures taken so far. The members also drew attention to the external financial problems of countries that had avoided debt service difficulties and urged that efforts be made to maintain an orderly and adequate flow of finance to these countries.

Environment and Development

A report by the World Bank on its efforts to support the environment and to increase public awareness of Bank environmental activities was reviewed by the Committee at its September meeting. Members commended progress achieved so far, including the preparation and release to Executive Directors of environmental impact assessment guidelines. The Bank was encouraged to increase public access to environmental information on projects and programs. The Committee recognized that additional external financial and technical support on appropriate terms was needed by the developing countries to help meet the costs of integrating environmental considerations into development projects. The Bank was asked to prepare a study of the mechanisms and financial requirements that may be needed.

The Committee also emphasized the links between population growth and poverty and environmental degradation and called on governments, multilateral development institutions, and bilateral agencies to strengthen their efforts in the field of population.

Other Issues

The Committee reviewed current international trade developments, noting that the Uruguay Round had now entered its final and critical phase. All countries were called on to take the fullest advantage of the unique opportunity provided by the Round. The Bank and the Fund were requested

to keep under study, in close consultation with the GATT, the possible implications of regional trading arrangements for developing countries for discussion at a future meeting.

In reviewing the status of trends in the transfer of resources, the Committee noted the continued decline in net flows to the developing countries. Donor countries below the 0.7 percent ODA/GDP target were urged to redouble their efforts to increase assistance levels. The Committee made a strong call for a substantial replenishment of IDA to meet the pressing needs of IDA recipients for concessional assistance.

Concluding Remarks

The Committee has come to grips with the key issues outlined above and has, I believe, cast its net wide in coverage of different groups of countries and their pressing problems in a policy- and action-oriented manner. The work of the Committee has, therefore, become more relevant than ever.

STATEMENTS BY GOVERNORS AND ALTERNATE GOVERNORS[1]

AFGHANISTAN: HAMIDULLAH TARZI

Governor of the Bank

Mr. Chairman, on behalf of the delegation of the Republic of Afghanistan I would like to join the previous speakers in extending my congratulations on your assuming the Chairmanship of the forty-fourth Annual Meetings.

We are aware that the outcome of our deliberations in the banking and monetary field will have a crucial bearing on the hopes of millions of people, especially those living in the developing and least-developed countries. We are confident, however, that under your able and committed guidance, the work of this most important Annual Meeting will prove successful in the sense that—as Mr. Conable of the World Bank put it in his recent speech—we will work for the future welfare of all people.

My delegation has come to this meeting in a spirit of understanding and cooperation and to contribute constructively toward finding solutions to problems facing the world economy—within the global context characterized by the deterioration of the trade and financial environment. In order to stimulate recovery and thus revitalize development, the most serious attention should be devoted to the three key interrelated sectors: commodities, trade, and finance.

With regard to commodities, it is common knowledge that this sector constitutes the principal domestic economic activity for many developing, and almost all least-developed, economies and that its importance cannot be overestimated.

Speaking about trade, due to the current unfavorable situation of serious decline in real resource flows, the developing countries are obliged to increasingly depend on trade. However, the various protectionist measures and large financial imbalances of the developed countries tend to undermine the development role played by exports in this field. It may be recalled that the liberalization and facilitation of international trade and the removal of subsidies were explicitly emphasized by Mr. Camdessus, Managing Director of the IMF, in his very eloquent speeches both in Berlin and at these present Washington Annual Meetings. This holds true especially in the agricultural sector, which, beyond doubt, is the most significant for the developing countries, although, of course, textiles and other semi-manufactured items cannot be excluded.

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[1]*Comprising statements relating to the work of The World Bank Group. Omitted passages are indicated by dots (. . .). Statements relating to the International Monetary Fund are produced in the IMF Summary Proceedings.*

Moreover, the least-developed countries have been increasingly marginalized in world trade. Based on UNCTAD estimates, their share of world exports declined from 1.5 percent in 1950 to an insignificant 0.4 percent in 1986—principally because of structural and geographic handicaps, such as being landlocked or a remote island country. These geographic disadvantages, being unique, should be evaluated and treated on a quite different basis than chronic underdevelopment. Unfortunately, due to the lack of political will the whole issue of landlocked and island developing countries is being put on the international shelf—abandoned and forgotten. This can also be said for the halfhearted implementation of the Substantial New Program of Action (SNPA).

In the arena of finance, the fall in export earnings, the heavy burden of debt servicing, and the contraction of private bank lending, combined with the nonimplementation of official development assistance (ODA) commitments and International Development Association (IDA) resources, have resulted in severe liquidity problems for the developing countries. This at times even affects their political stability.

Moreover, the detrimental and corroding effects of external debt are posing for many developing countries a continuing impediment to access to international lending and to a revival of their imports. This is combined with an ever-increasing and alarming depletion of scarce and meager foreign exchange assets.

However, the fluctuations in the major world currencies seriously endanger international exchanges, lead to considerable speculative surges on the money market, and sustain protectionist trends. Thus, it is clearly the task and moral responsibility of the leading international financial institutions, such as the World Bank and the IMF, to regain their pre-eminence as truly development-oriented financing agents and to find viable solutions, perhaps by means of political dialogue in a forum such as UNCTAD, to the debt problem, which is mainly the result of the developed countries' macroeconomic policies. In this context it cannot be overemphasized that interest payments on external debts should take into account the actual foreign exchange available to the developing and least-developed countries. Otherwise it will result in a debilitating reverse flow of real resources from the developing to the developed countries.

At this point it should be underlined that the usual IMF procedure for ad hoc debt relief—whereby the debtor country in most cases is required to make a stand-by agreement with the IMF as a precondition to obtaining debt relief oriented toward medium-term balance of payments support to temporarily enhance the debtor country's debt-servicing capacity—does not take into consideration the basic cause of the debt crisis because it fails to distinguish symptoms from underlying causes. These causes—all of which are beyond the control of the developing countries—include shortfalls in export revenue, decreases in multilateral and/or bilateral financial inflows,

tariffs, subsidies, and other trade restrictions imposed by the developed countries on the developing countries' trade, especially in regard to agricultural products.

It may be recalled that in the early 1970s—when the total external debt of the developing countries stood at only US$21.6 billion according to IBRD figures—the UN General Assembly adopted Resolution 3039 at its twenty-seventh session, which states, inter alia, and I quote:

> 1. Requests the Trade and Development Board to study, through its Committee on Invisibles and Financing Related to Trade at its sixth session, the problems deriving from the burden for the developing countries represented by the servicing of their external debt, including the desirability and feasibility of the establishment and operation of a special fund for the financing, and/or compensation, of the interest on that debt;
> 2. Further requests the Secretary General of the United Nations Conference on Trade and Development to prepare, after consultation with the President of the International Bank for Reconstruction and Development and the Managing Director of the International Monetary Fund, a study on the matters referred to in paragraph 1 . . .

Therefore, our delegation proposes that, based on the aforementioned United Nations General Assembly resolution, the IBRD and the IMF attempt a serious followup on this interest-subsidy scheme.

Much has been said by the IMF authorities and especially by Mr. Camdessus, Managing Director of the IMF, on the need for structural adjustment policies on the part of developing countries. While not discounting or denying the validity of this line of thought and despite Mr. Conable's observations in his recent speech in Washington D.C. on the diminishing political and economic power, the fact remains that the debt problem, including other chronic economic and financial ailments of the developing countries, emanate, for the most part, from the macroeconomic and financial policies of the major industrial countries. Therefore we believe that *without* political will and real reform in the overall economic and financial policies of the major developed countries—the efforts of the developing countries toward structural reform or adjustment, better economic management, and the disciplined monetary and fiscal policies mentioned in Mr. Camdessus' speech, especially under imposed wartime economic conditions, could prove to be more of an academic than a practical exercise.

That is why the developing countries, since the establishment of the World Bank and IMF, the two most powerful international organizations, have consistently called for realistic reform in the monetary, financial, trade, and service sectors of the world economy; in the absence of a frank joint effort toward this goal, efforts made by the developing countries' economies to increase the volume of exports and other measures are, in the end, nullified

as a result of protectionism and other trade practices and policies of the industrial countries.

Despite the fact that our Revolution is entering into its eleventh year, contrary to the provisions and articles of the Geneva accords to which Afghanistan has faithfully abided, and notwithstanding the agreed-upon goals and aspirations of the recent meeting of Heads of State or Governments in Yugoslavia—whose main premises recommend nonalignment and noninterference and in which our Head of State, Dr. Najibullah actively participated—nevertheless, our country is still confronted with foreign-instigated and extremist-perpetuated, large-scale human and material losses.

Notwithstanding these internal and external obstacles and impediments and large-scale armed confrontations and destructive activities carried out by the aforementioned elements, Afghanistan has and is carrying out an impressive program of reconstruction, rehabilitation, and general regeneration of the national economy.

In the economic arena the Republic of Afghanistan is making every effort to further strengthen the state sector, whose role in the overall socioeconomic development aimed toward promoting public welfare is undeniable. However, concurrently, the Government is attaching great importance to the further promotion and participation of the private sector in the country's socioeconomic development. For example, various incentives—such as tax holidays, custom duty exemptions on raw materials, ample foreign exchange allocations, and, above all, the newly promulgated Foreign and Domestic Investment Law, which provides vast possibilities for joint initiatives in the commercial and industrial fields—indicate the Government's desire for the further expansion, promotion, and development of the historic role of private enterprise in the overall development of the national economy. In order to substantiate the above statement, let me give a few figures: over 60 percent of foreign trade, over 70 percent of GNP, and over 90 percent of agricultural production and activities relate to the private sector.

According to the studies made by the Office of the UN Coordinator for Humanitarian Assistance, Afghanistan, as one of the lowest per-capita-income countries in the world, would be entitled to a total aid package of more than US$2.5 billion during the 1980-87 period, based on an annual average of US$17 per capita. However, it is not only ironic but lamentable that, with the exception of the very substantial, appreciable, and timely bilateral and multilateral financial and technical assistance made available to us by the U.S.S.R. and some other friendly countries, aid as a whole virtually halted beginning in 1979; during 1980-86 Afghanistan received only the equivalent of US$1 per capita in contrast to the US$17 per capita it is due as a developing country.

Before concluding my remarks as Minister of Finance and Governor of the Bank for the delegation of Afghanistan, I feel it is my duty to recall the fact that a few weeks prior to the current Bank and IMF meetings, a bank-

related source saw fit to widely publicize some inaccurate information concerning my country's being in arrears in IDA obligations and thus excluded from further financial assistance. As things turned out, this unfounded expostulation was later belatedly retracted by the same source that had initiated its publication through the mass media.

My delegation, representing the Republic of Afghanistan, as a loyal, true, and long-time member of the Bank and Fund, deplores this indiscreet and untimely action, which tended to cast doubt on the financial integrity of its faithful member. We sincerely hope that in the future the concerned honorable authorities of the Bank and IMF will see to it that similar unsubstantiated and misguided comments, incompatible with the worldwide reputation and undeniable international prestige of such august and respectable world institutions, are not repeated to the detriment of the reputation of one of its, perhaps materially poor but true and loyal, members.

ANGOLA: AUGUSTO TEIXEIRA DE MATOS

Governor of the Fund

I would like to begin by thanking all those present for having made possible the presence of delegates from the People's Republic of Angola at these meetings for the first time, an event marking a new stage in the recent history of Angola.

I would like to take advantage of this opportunity first of all to share the message of peace that the Government of my country has been repeating to the world. Most of the countries of southern Africa have become independent only recently, and sources of instability left over from the colonial past still remain. Our experience shows that only a combination of domestic policies of national reconciliation and a foreign policy of cooperation for development can bring lasting peace to this region.

The only realistic path to the peaceful cohabitation of the peoples of southern Africa is respect and a strengthening of the national sovereignty of the existing states. The reconciliation, under international law, of all legitimate national interests is unquestionably the path to take, even if, in the long term, only the economic development of the region as a whole can consolidate the political initiatives for peace. The past has shown, and the present has borne out, that Angola, owing to its transportation network and productive potential, especially in the field of energy, constitutes an essential ingredient in the balance of the region. Angola's restoration of economic relations with its neighbors is an essential step if we wish to avoid the situations of dependency which are today a source of mistrust and instability. We are aware of the responsibilities we have as a result of our geopolitical position, which is why we call upon the international community to give the Government of the People's Republic of Angola the support it needs to play its proper international role. Our commitment to a path of national recon-

ciliation and international cooperation is serious; it is not by making the economic life of my country difficult, but rather by treating Angola as a reliable economic partner, that it will be possible to help achieve peace.

If I may, I would like to dwell for a moment on the reasons taken into account by the Government of my country in submitting its application for membership in the Bretton Woods institutions.

Although various economic problems led us to favor negotitaions with the IMF over other economic policy actions, the decision behind the presence here today of an Angolan delegation was based on a series of principles. And it is on the basis of these principles that we have already begun to restructure our national economy. Angola's nonparticipation in the international financial organizations has meant that we have been unable to avoid falling into situations of financial dependency, and as a result our foreign trade is today to an alarming degree bilateral.

Being forced to purchase at high prices and unable to sell at better prices, Angola found itself the victim of increasingly uneven trade, year after year. To break this cycle of impoverishment would in itself have been sufficient reason to join the IMF as quickly as possible, but we were also motivated in our decision by our domestic problems. At national independence, the Government of the People's Republic of Angola chose to leave the escudo zone and to adopt an independent national currency. Since then the Angola banking system has issued our currency—the kwanza, which will soon form part of the IMF reserves—independently.

Initially, and for a long time, we did not have enough experience in managing our national currency and were consequently unable to avoid serious monetary imbalances, the most obvious and harmful of which was undoubtedly the considerable gap existing between the official and unofficial exchange rates.

We believe today that these imbalances—which, according to the leading economic indicators, led to the poor performance of our economy—were unavoidable, as we did not have specialized banking institutions or financial instruments adapted to the financing needs of the major economic sectors. We certainly do not wish to deny the pertinence of these indicators, but we do feel that our current problems are not so serious that they prevent us from considering the future with optimism. The frequent reference made by our international partners to our economic potential supports us in this view. It is this confidence in the economic future of Angola which has led us to begin the rehabilitation of our economy. In the area of economic management we have adopted the principle of monetary stability, even if the current situation of our country means that we must consider this objective a serious challenge.

During the past two years, the Government of the People's Republic of Angola has passed laws and regulations that will permit the establishment of a network of diversified banking services, and has identified the kinds of

banking instruments which will help channel savings to public investment in an orderly fashion. Other laws and regulations will be passed to give all enterprises, whether they be public, semipublic or private, national or foreign, free access, without discrimination, to the financial market as soon as possible.

In addition, recently approved legislation on foreign investment is promoting initiatives in the fields of banking and insurance, which will facilitate the influx of foreign capital on the domestic market. National production and distribution companies will thus benefit from critical new opportunities. The rate at which all of this will be achieved will depend, inter alia, on the reorganization of the public treasury and the central bank. We do not feel that these tasks call for solutions unique to Angola, as a general framework to be followed can be taken from the experience of countries which today have solid monetary institutions. It is for these reasons as well that we hope to call upon the undeniable expertise of the IMF and the World Bank to help us build up the Angola economy on sound monetary bases.

It should not be surprising to you that we share the currently widespread opinion that the external debt lies at the heart of the problems threatening the functioning of the world economy. This is a central issue in the design of our economic policy and we refer to it without hesitation, for, as everyone knows, in its relations with creditors the People's Republic of Angola has adopted the principle—which I reaffirm here today—of treating external financing for what it really is, namely contracts which must be respected. Fairness and common sense both lead us to this attitude: we realize that no foreign investment will flow into a country unless it can earn a normal return there. Accordingly, we plan to adopt in the near future a system for recording exchange operations which will enable Angola to honor its regular external debt service payments without necessarily having to incur net capital exports. In this way, the obligation to provide a return on capital already invested in our country will be reconciled with the need to attract a regular flow of new capital for the development of the agricultural, handicrafts, industrial, commercial, and services activities now lacking for our people.

Our request to join the IMF and the World Bank was made responsibly, and we will do everything in our power to measure up to our new membership status. I would like to repeat our thanks to all the governments which have permitted us to be here among you in Washington today, and I must also mention the gratification felt by all the members of my delegation since our arrival in this great and beautiful country in seeing for ourselves the truth of the image of U.S. hospitality.

We, the representatives of the Government of the People's Republic of Angola, are thus among you today, prepared to fulfill all the duties and assume all the rights set forth in the Articles of Agreement of the International Monetary Fund and the World Bank.

ARGENTINA: NESTOR RAPANELLI

Governor of the Bank
(behalf of the Fund Member Countries of Latin America)

We are addressing this Annual Meeting of the International Monetary Fund at a particularly important time for our region and for the entire world. International relations are undergoing unprecedented and dramatic changes, of proportions unheard of in the postwar period. Industrial countries are joining together in trading zones the size of continents. Fiscal and external imbalances persist among the major developed countries and are transmitting instability and rigidities to the international monetary system. The incessant and increasing impact of science and technology continues to be the principal source of international economic growth and a source of profound changes in the productive structures of both the industrial countries and newly industrializing countries.

A new decade is beginning, and beginning in a world that is quite different—politically, economically, and socially speaking—from the one we now live in and have been living in. Considering these enormous changes, what is there left for a representative of Latin America to say in his annual message here? Where does Latin America fit in the multifaceted development process that is taking shape before our very eyes? Or are we moving toward a world of large, insulated centers of growth and prosperity surrounded by vast, arid expanses marked by abject poverty, living on the edge, and underconsumption?

The answer to these questions is categorical and unequivocal. All people on Earth want to be a part of the virtuous circle of economic progress. Everyone, even those governed by doctrines which exalt central planning, now recognizes the virtues of free trade, private initiative, the allocation of resources in a manner consistent with prices freely determined by the market, and, finally, the potential for change that human beings have when freed from overregulation and excessive constraints.

The Latin American countries are also attracted by development and share both the desire to achieve it and an understanding of the effort they will have to make. Their peoples are working with perseverance and courage to streamline their economies, improve productivity, create the security and stability needed to promote domestic and foreign investment, and, by establishing clear rules of the game, to end the problem of capital flight. Finally, and above all, they are working to overcome inflation, our continent's endemic ill, which is corroding and destroying the very foundations of economic and social coexistence.

The fiscal effort being made by our countries to attain this objective is unprecedented in the world. We must not only eliminate the deficit, which comparative statistics show is no easy task anywhere in the world, but also

must generate a current account surplus so that we can fight the external debt problem with real resources.

The problem is that, in many countries in our region, export earnings as well as the proceeds from assets held abroad go to the private sector, while the Government bears the burden of the external debt overhang.

In fact, the extreme difficulty of achieving a fiscal surplus has led countries to issue domestic currency with which to purchase the foreign exchange needed to make debt service payments. This has again and again unleashed high inflation and even hyperinflation in some of our countries.

Many social programs must be put aside, and important functions forgone by the Government, in order to obtain the required surplus.

Just as difficult as achieving a budgetary surplus is attaining a positive trade balance, in that our efforts to export are increasingly impeded by protectionist measures adopted by our potential purchasers. In some cases we must compete with the subsidization of domestic industry in the developed countries; in others, there are tariff and nontariff barriers to imports from our countries.

If we add to the cost of debt service the obstacles to international trade, it is clear that the future is quite problematic, if not to say virtually impossible.

In addition, the high interest rates on our external liabilities, more than reflecting supply and demand on the international market, are a reflection of policies implemented by the developed countries to solve their own fiscal and trade macroimbalances. By placing excessive emphasis on the use of monetary instruments, such policies tend to draw attention away from the need for such countries to make fiscal adjustments themselves, even as our adjustments must be effected without any allowance for extenuating circumstances.

The debtor countries thus find themselves obliged to bear the burden of their own adjustment and, through interest rates which swell the external debt, to bear part of the adjustment burden of the industrial countries.

On the subject of the solution to the debt problem, I would just like to emphasize a few basic points: the need in the debtor countries to implement macroeconomic adjustment and structural reform programs that are aimed at achieving sustained economic growth and improving their external accounts; the need for the creditor countries to contribute by modifying domestic regulations so as to promote debt reduction operations and by providing larger financing flows; the need for the multilateral organizations, particularly the World Bank and the Fund, to play an active, leading role, and for them to be provided with the resources they need to take on this important task. I would like to take this opportunity to confirm our support for a substantial increase in Fund quotas. Finally, I would like to emphasize the need for greater cooperation on the part of the commercial banks in

financing our programs and in implementing debt and debt-service-reduction operations.

All things considered, as President Menem has just said, this is a typical case of "mutual guilt": we happily and irresponsibly ran up our debt, but real interest rates on these loans also rose unfairly. We must all cry "mea culpa" and assume our share of the responsibility—debtors and creditors and the governments of both. If we do, the solution will be an intelligent response by all to the realities of the situation.

We believe that at this juncture there can be no doubt that approaches toward a definitive solution to the debt problem must inevitably include a substantial and realistic reduction in the level of debt and debt service. Perhaps this is a new name for a new Marshall Plan—from which Latin America never benefited—because the past and present impact of the debt on our people has been every bit as lethal as war.

I would like to underscore the spirit with which our countries, particularly Argentina, are doing their share in solving the crisis.

Our starting point is our awareness of the enormous changes taking place in the world and the basic prerequisites for entry into the international currents of growth, technological progress, and trade.

In the case of Argentina, the point of departure for our Government was a flare-up of hyperinflation resulting from many years of successive and painful adjustments and collapses and from a long period of what could almost be called structural stagnation.

The people of Argentina have understood the need for drastic change. We have undertaken sweeping and definitive fiscal reforms that will bring us in what remains of 1989 and throughout 1990 a surplus compatible with the proper functioning of the economy. All state subsidies have been eliminated, except for minimum allocations to the poorest sectors and those aimed at achieving equal opportunity in the education system. Emergency taxes have been introduced, along with sharp increases in the rates for public services. The domestic public debt has been rescheduled. We are in the process of making the running of the Central Bank independent of the decisions of the executive branch. Last, we are laying the basis for a sound and solvent public sector over the long run. This will once and for all remove the danger of inflation.

We are proposing a production revolution through a new economic system that will operate with the greatest possible freedom and only the necessary minimum of regulation.

A broad-based market economy, combining economic freedom with social justice and personal interest with solidarity, will be the vehicle for promoting competition amid stability and consolidating the conditions for economic takeoff.

This will be achieved through broad privatization of public enterprises; the lifting of restrictions on imports and exports of goods and services;

deregulation of the exploitation of natural resources; customs reform that stimulates production, on an equal basis and without subsidies, for both the domestic and export market; tax and labor reform; modernization of the social security system; the dismantling of public and private monopolies; deregulation of the local capital market; and, last, the definitive establishment of equal rights and obligations for domestic and foreign investment.

This is a bold and drastic program, being implemented by a government of the people chosen in free elections, democratically succeeding another government, also freely elected in accordance with our Constitution.

We are thus bearing witness to a qualitative change, a watershed in our history, a true and authentic effort to put the past behind us and face the future resolutely.

The first fruits have already been reaped. Whereas inflation in the month of July was more than 200 percent, the September figure will be a single digit and that projected for 1990 will not exceed 15 percent a year, which makes us once again part of the civilized economic world. Stability is a public good that we shall consolidate.

The firmness of our people's resolve is in direct proportion to the depth of the crisis. They have lined up behind a disciplined program for revolutionary change.

We have been trapped for too long in a vicious circle of debt, inflation, and stagnation. We know this vicious circle by heart:

- fiscal deficits that bring in their wake inflation, capital flight, falling investment, and declining economic growth, which erodes fiscal revenue and triggers even greater inflation;
- growing external debts with increasingly costly refinancing operations to pay new and higher interest charges on loans secured long ago, perhaps too long ago;
- public services steadily deteriorating under growing disinvestment by the private and public sectors; and
- social alienation, with the poor becoming increasingly poor, watching in a daze as the train of prosperity rushes through their lives without stopping and disappears inexorably into the distance.

The people of Argentina have now cried ENOUGH. "We shall speak with deeds and not just with words," said our President Menem—deeds, daily deeds—large and small—that restore the confidence of local and foreign investors, stem capital flight and increase investment, growth and employment; deeds that make it possible for the State to develop a tax base enabling it to finance its operations and achieve its basic purposes; deeds that bring Argentina back into the mainstream of the major trade and technological forces that spur global growth.

We have not remained buried in the crisis. We are not willing to perish as did Lot's wife in Genesis, transformed into a pillar of salt, for having looked back upon a past of ashes, ruin, and death. The people of Argentina

wish to become part of the virtuous circle of economic progress and stability, with the unshakable will of a nation that has endured great suffering and whose natural riches have been left idle for too long. We are resolved to mold our own future, to enter fully into the 1990s, turning the page on the past, on inflation, and the specter of debt.

As Minister of the Economy of the Argentine Republic, I ask for your sympathetic understanding in this effort, and for the willingness to open economies so that the large markets receive our products as freely as we will receive theirs. We must work together to resolve the debt problem for which there will be no lasting solution until economic growth, increased commercial and technology exchanges, and the flow of productive investments make our Latin American countries not a bank account that must be paid off as soon as possible, but creditworthy nations to which potential suppliers of funds again compete to lend.

This is the path for Latin America as it leaves the 1980s and enters the 1990s—from the decade of indebtedness to the decade of growth, from a decade of sovereign debt and fiscal bankruptcy to a decade of solid and powerful private initiative as an agent for change, from a decade of failure and stagnation to a decade of competitiveness, technology, and efficiency.

AUSTRALIA: J. S. DAWKINS

Governor of the Bank and Fund

Australia joins with other members in welcoming Angola as a member of the Bretton Woods institutions.

The outlook for the world economy remains generally favorable. The rate of growth in world output and trade is expected to be slower than experienced in recent years, but the present consensus is that the moderation in the pace of activity is unlikely to develop into a pronounced cyclical downturn. The slowing will be welcome for its dampening effects on inflationary pressures.

The achievements of the past years have been substantial. The high rate of investment in the industrial countries has been a notable feature. The strength of business confidence in part reflects the success of the sound and stable macroeconomic policies pursued by many countries in recent years. The growing emphasis being given to structural reform is laying the foundation for sustained growth at levels higher than we were able to achieve throughout the 1970s and early 1980s.

The continued success of past efforts will depend largely on our ability to deal with a number of emerging challenges to the world economy. Foremost among these is the threat of inflation.

The average rate of consumer price increases in the industrial countries is expected to be well above the outcome for recent years. Many countries

have already experienced significant increases in unit labor costs. If these pressures get out of hand and lead to a wage and price spiral, the achievements of past years would be eroded. Gains in employment, structural reform, and the liberalization of world trade would be set back. The unavoidable rise in interest rates would have a particularly negative effect on investment and on the debt-servicing burden of the highly indebted countries. The role of governments and of central banks is therefore to adhere to their medium-term perspective and remain vigilant against price pressures.

The continued existence of the large external account imbalances of the major industrial countries continues to be a serious cause for concern. A gradual moderation in the pace of economic activity in countries where demand has been running excessively high will work in favor of narrowing external account imbalances. A significant reduction in the U.S. fiscal deficit also remains important because of the contribution it can make toward increasing national savings and reducing that country's large external deficit.

International economic policy coordination has an important role in meeting the challenges still facing the world economy. The Fund has an important role in that process. However, the fundamental prescriptions remain unchanged. There can be no lasting benefits from international policy coordination that do not go hand in hand with domestic economic policies that are sound, well-directed, and, at times, courageous.

One of the most pressing areas for policy reform is agricultural protection. In addition to its manifest benefits for consumers in the industrial countries, the liberalization of agricultural trade is among the most important means of assisting developing countries. It is important that the Uruguay Round negotiations produce significant progress with trade liberalization and reform, particularly for agricultural trade.

It is worth relating that agricultural exports figure prominently for many highly indebted countries, and industrial countries can hardly condemn high debt while their own distorted domestic policies prevent these countries from benefiting from their efficient unsubsidized agricultural products. It would do well for our remarks on debt and its solution to take account of the importance of substantial liberalization in the international trade system—access and subsidies. How incongruous it is to hear Europe's exhortation for the adoption of free market policies in other countries and their admiration for reforms in Eastern Europe, while remaining wedded to the quaint excesses of the CAP. . . .

. . . The problem of overdue obligations to the Fund is a pressing one. Australia supports the measures which the Executive Board is now taking to counter new arrears, to reduce existing overdue obligations, and to bring back into current status those members with long-standing arrears. Although the problem is not as serious for the Bank, arrears have expanded

rapidly in recent years and will need to be reversed, if they are not to undermine the Bank's capacity to assist all its members. The Fund and the Bank will need to cooperate closely in addressing the arrears problem.

The developing countries have shared only unevenly in recent world economic growth, not least because of the barriers to access erected by the industrial countries to their participation. I have already spoken about the contribution that liberalization of agricultural trade could make to developing countries. Developing countries also need to undertake adjustments in their domestic policies. The experiences of a number of adjusting countries, especially in Asia, suggest that growth-oriented adjustment programs can yield substantial benefits, even in an unfavorable external environment. Indeed, the justification for such programs becomes even greater as the external environment worsens. We would therefore encourage the developing countries to increase their efforts to adopt comprehensive adjustment programs.

Of the difficulties facing the developing countries, the problems of the heavily indebted are among the most pressing. It is now widely accepted that the debt problem can only be resolved through a cooperative approach which produces debt and debt service reduction on a scale which is significant enough to reduce obligations in line with the service capacity of the debtor countries and encourages growth and a resumption of normal market access. To this end, we support the objectives of the Brady Plan and welcome the measures taken to implement it by the Fund and the Bank. The resources of these institutions should be applied with the maximum possible leverage, and we would welcome further contributions from major creditor countries. At the same time, we are concerned that the participation by the Fund and the Bank in the resolution of the difficulties faced by heavily indebted countries not lead to a shift to the public sector of private sector risks, impairing the financial strength of the institutions and their ability to assist other members in need. The contribution that tax and regulatory changes in major creditor countries can make to the willingness of the commercial banks to participate in debt and debt-service reduction should be examined. Given these concerns, we support the strategy which is cautiously evolving in the light of experience.

The debt problems of the low-income countries require a different response. Concessional Toronto terms for official commercial debt are appropriate for the poorest, most heavily indebted countries. The benefits have so far been concentrated on Sub-Saharan Africa. IDA-recipient low-income countries in other regions should receive similar consideration in the context of strong adjustment programs. However, we do not consider that a case has been made for the extension of these terms to other countries.

In addressing the international debt problem, the Fund and the Bank should not lose sight of countries that have strived successfully to remain current in their debt servicing. The Bank's expanded cofinancing operations

are a welcome addition to the instruments of catalytic support for these countries. However, their use should not be viewed as a substitute for conventional lending to these countries.

We believe that the Fund and the Bank are now working effectively together. Their cooperation has been especially fruitful in their work in debt strategy, guidelines, and operations. This is a welcome contrast to the difficulties that appeared in the relationship in 1988. We welcome the agreement reached between the Managing Director and the President in March 1989, which has clarified the respective responsibilities and relationships of the two institutions.

Global environmental problems are a major source of concern for the Australian Government. We are actively supporting international initiatives to find solutions, including the promotion of environmentally sound development activities funded by multilateral development institutions. Concern for the environment must become a central and integral part of economic thinking and practice, and environmental concerns should be integrated fully into the design, implementation, and evaluation of all Bank programs and projects. We welcome the progress made by the Bank in this area and in increasing public awareness of its activities.

The Bank needs to pay more attention, however, to the link between macroeconomic, sectoral, and population policies and the environment. A way also needs to be found to increase project-specific information in a timely fashion, while respecting the Bank-borrower relationship.

IDA is an efficient and effective vehicle for development assistance to the poorest countries. Australia is a strong supporter of the Association, and hopes to see a prompt and generous Ninth Replenishment. The application of IDA's scarce resources is as important as the size of the replenishment. One important criterion is that the availability of funds to borrowers be determined by uniform criteria based on the effective use of funds, rather than by arbitrary regional or country allocations.

Looking forward, there are grounds for cautious optimism. We can see many of the problems which confront us and we have the capacity to deal with them. Working together through the Fund and the Bank, we can ensure that our solutions benefit the world as a whole.

AUSTRIA: FERDINAND LACINA

Governor of the Bank

Let me begin by welcoming Angola as a new member of the International Monetary Fund and the World Bank.

The picture one gets from looking at the world economy is more positive on balance than had been expected a year ago. Growth in the industrial countries has been high, and productive investment has been vigorous. Unemployment has come down, although not as much as might have been

expected in a booming economy. My country, Austria, is a good example of successful development. We have acheived above-average growth rates without endangering price stability, while our unemployment rate is about one-third the average for Western Europe.

In several Eastern European countries we see efforts toward a fundamental reform of the economic system, while in others this reform process has not yet started. A difficult period lies ahead for those countries which are engaged in restructuring both their political and their economic systems, a process which entails many risks. The advice and support offered by the Bretton Woods institutions to countries like Hungary and Poland could, in my view, at least minimize some of the hardships of the painful transition from centrally planned to market economies.

Among the developing countries, a rather small group of dynamic economies enjoys high growth rates, but a large number of countries suffer from a variety of internal and external problems. Because wide variations in these countries' individual situations rule out any common solution, we will have to continue dealing with these issues on a country-by-country basis.

Developing countries need increasing access to the markets of the industrial countries, not only to provide jobs for their quickly growing labor forces, but also to enable them to grow out of their debt. It is my strong conviction that now, when many developing countries are liberalizing their trade and foreign investment policies, it is high time for industrial countries to respond with significant initiatives of their own in liberalizing their trade relations with the developing countries.

Given trade's great importance for development, I urge the industrial countries to seize the opportunity offered by the present favorable economic climate to roll back protectionism and liberalize trade with developing countries. Progress in this field is as important as progress in increasing development assistance.

In the financial sector, too, we should appreciate the liberalization efforts made by several developing countries. The adjustment programs pursued by developing countries often require them to shift from negative to positive real interest rates in order to promote domestic savings and reverse capital flight. This is a situation quite different from that of the industrial countries, where the level of real interest rates has been high for several years. In order to help reduce the debt burden of the developing countries, industrial countries should aim at lower interest rates. Reducing their external trade imbalances, and also their public sector imbalances, could help the major countries to reach this goal.

We all agree that the Fund and the World Bank Group have a central role to play in the adjustment process, not only as providers of technical assistance, but also as advisers armed with their own resources which they can use to catalyze additional resources from other financiers.

I support the modified approach to the debt strategy, although the experience gained so far is insufficient to permit evaluation. To ensure success, the debtor countries will have to continue, and in some cases to strengthen, their adjustment policies for a long time to come, and financiers will have to support them by extending assurances with respect to the provision of future resources.

There is no question that the Bretton Woods institutions have responded quickly. But their exposure to a number of countries cannot be further increased without affecting the structure of their portfolio. Efforts are therefore needed to mobilize financing from other sources for countries that have already obtained quick Bank-Fund assistance, and permit the extension of the strengthened debt strategy to other countries.

To enable them to fulfill their role in the adjustment process, the Bretton Woods institutions must be provided with adequate financial means. The delay of one-and-a-half years now in completing the Fund's Ninth Quota Review threatens to undermine the Fund's position in the international monetary system and to have an adverse effect on commercial banks' attitude toward the modified debt strategy.

I therefore urge all Governors to agree on a very substantial quota increase at these Annual Meetings so that further formal steps toward concluding this quota increase can be taken between now and the end of the year. By the same token, timely approval of a substantial replenishment of the resources of IDA is required. In this connection, I would like to announce that Austria is prepared to increase its share in those resources.

Finally, let me come to a subject of global importance: the preservation of our natural inheritance. The population growth of recent decades has increased the demand for living space and arable land and has quickly raised our awareness of the constraints of natural resources.

In densely populated industrial areas, concerns about pollution have been with us for quite some time. During recent years, however, public sentiment opposing further damage to the environment has risen worldwide. And now we see what I consider a precondition for any change toward a new environmental policy, namely, ongoing public discussion of environmental issues all over the world, in both urban and rural areas, and in both the industrial and the developing countries.

In conclusion, let me stress my conviction that the current improvement of the economic situation in the industrial countries provides better prospects for the world economy as a whole. Enlarging the room for maneuver should make it easier to equip the IMF and the World Bank with adequate resources, enabling them to function as efficient instruments of international solidarity.

BANGLADESH: A.K. KHANDKER

Governor of the Bank

At the outset, may I join my fellow Governors in expressing our deepest condolence at the sad demise of Bank Governor Mr. Mahamat Soumaila and Mr. Midallal Ali Abakar of the Chad delegation.

I congratulate you, Mr. Kyu Sung Lee, on your election as Chairman of the Annual Meetings. We welcome Angola as a new member of the Bretton Woods institutions.

The current international economic situation is still characterized by uncertainties; the world economic outlook over the medium term appears to be a slackening of growth with little prospect for sustained growth for the developing countries. The industrial countries witnessed sustained rapid growth for the seventh year in a row, but this strong growth and their large and widening external imbalances have given rise to renewed concerns for inflation leading to restrictive policies. In the developing countries, growth was inadequate and marked by significant disparities between regions and groups; the heavily indebted countries continue to stagnate; in Sub-Saharan Africa, the downward trend of real per capita GDP is yet to be arrested; and the low-income developing countries are groping with the abject poverty of their populations.

Nonetheless, this year has also seen some positive developments—resolution of the debt problem now enjoys official support, and there is a growing consensus among the international community for concerted actions to protect the environment.

Our country, Bangladesh, is a victim of serious environmental degradation. It is heavily populated, with low per capita GDP and limited natural resources. The country is characterized by a fragile ecosystem susceptible to disruption and damage by human activities and interference with nature both within our borders as well as in the region. Our efforts to attain sustainable growth and alleviate poverty are offset by frequent visitations of devastating floods. The Government's prompt relief and rehabilitation measures and the courage and resilience of the people during the 1988 floods avoided a catastrophe that could have had far worse consequences. In this, we gratefully acknowledge the help and understanding of the international community.

It is not possible for the country to bear this recurrent scourge. The Government of Bangladesh has already initiated some projects to mitigate the adverse effects of floods, but the solution of the problem will need extensive international help. At the initiative of the UNDP and the governments of France, the United States, and Japan, four major studies on flood problems in Bangladesh have been completed. We are grateful to the World Bank for its role to bring about a synthesis and integration of the major recommendations of these studies. An international conference under the

auspices of the World Bank and Bangladesh, hosted by the Government of the United Kingdom, will be held in London on December 11 and 12, 1989, to present an integrated action plan as well as to mobilize financial resources required for flood control in Bangladesh. We are looking forward to the successful conclusion of this meeting. In this context, I would like to express, on my behalf and on the behalf of the Government and the people of Bangladesh, our gratitude to the Group of Seven for their call on the international community, at the 1989 Paris summit, to support the Government of Bangladesh in finding a solution to this major problem. I would urge the donor countries to actively support our efforts.

We are launching the Fourth Five-Year Plan in July 1990. The central strategy of the plan is poverty alleviation through human resource development and participatory decentralized planning. The plan also emphasizes greater self-reliance through substitution of scarce capital for abundant labor. Structural reforms, including deregulation and privatization will be deepened, and measures for increased production in agriculture and industries will be intensified. The successful implementation of this plan will move the poor and disadvantaged groups from the periphery to the center of the economic process.

The problems confronting the developing countries are many and varied. Most of them undertook structural adjustments and reforms at considerable social and political risk to attain sustainable growth paths. Their efforts have been offset by deteriorating terms of trade, protectionism, higher interest rates, growing debt burdens, and negative resource flows. As a result, no significant growth has been achieved in many developing countries, and the crisis has become more acute, especially in the least-developed countries (LDCs). Structural adjustment has proved to be a complicated, slow, and painful process, and its success and sustainability require a more favorable international environment and symmetrical adjustment and enhanced policy coordination by developed countries. Further, the program should incorporate contingency measures for coping with any unanticipated shortage of funds. IDA and the IMF should, in their operational programs, pay more attention to the special needs of the LDCs in the light of the Substantial New Program of Action (SNPA) for these countries. It has to be clearly recognized that there are qualitative differences in the economic characteristics and problems of the LDCs. We hope that the Second UN Conference on LDCs in the 1990s will succeed in formulating and adopting appropriate policies and a program of action for accelerating the development process in these countries.

Declining terms of trade and rising protectionism in the 1980s have been a source of concern for the developing countries; the 1980s have also witnessed a continued worsening of the debt crisis, resulting in low levels of investment and low growth rates in many developing countries. Following the Toronto economic summit in June 1988, some progress has been made

in reducing the debt burdens of many severely indebted low-income countries, but more is required to be done. We appreciate the initiative of the Bank for reducing the private debt of eligible IDA-only countries by setting aside US$100 million from IBRD net income. We also appreciate the new debt strategy of the Bank and the Fund in support of private debt and debt service reduction of the severely indebted middle-income countries and hope that the commercial banks adopt a realistic and constructive approach and channel new money for growth in these countries.

One key constraint of world economic growth has been the insufficient flow of capital to the developing countries. There has been a continuous decline of the net resource flows to the developing countries—it stood at US$45 billion on average in 1986-88, compared with US$110 billion in 1980-82, measured in constant 1986 prices. The decline is due to sharp contraction of private flows to the developing countries. The President of the Bank, in his report to the Development Committee, has indicated that the overall magnitude of net resource flows to developing countries is clearly inadequate given the needs of achieving adjustment, sustained growth, and poverty reduction. There is, therefore, a need for taking further steps to increase the flows.

Of particular concern is the near stagnation in the flow of official development assistance (ODA), which is the major source of concessional resources for the low-income developing countries undertaking structural adjustment and reforms and promoting growth and alleviation of poverty. There was an increase in the flows in 1988, but the level of net flows still stands at the 1984 level. We join the Development Committee in urging the donors, especially those whose assistance levels are below the 0.7 percent ODA/GNP target, to reverse the current declining trend in overall financial flows and the negative transfers of several developing countries. In this context, I need hardly stress the importance of a substantially larger IDA-9 replenishment, commensurate with the needs of the IDA-eligible countries, and look forward to its successful negotiation.

We welcome the Bank's efforts to reduce poverty and protect the environment. Since the bulk of environmental degradation has been caused by the industrial countries, they are required to act on their environmental shortcomings; for the developing countries, environmental degradation is the result of overpopulation, poverty, lack of development, and paucity of resources. There is, therefore, need for renewed emphasis and thrust on accelerated growth and development through additionality, along with environmental protection and upgrading, and not for making the environment a vehicle for further conditionality in Bank lending.

Fiscal 1989 saw significant improvement in the IBRD and IDA lending activities. It was also a very successful year for IFC. We would, however, like IFC to expand its activities to more countries and to have a more

balanced regional distribution of its operations. We hope some of MIGA's proposals for promoting foreign investment will materialize soon. . . .

. . . A large segment of the population of the developing countries is living in absolute poverty; the environmental degradation is threatening the global ecological balance and the very survival of humanity. These are big challenges and need to be addressed jointly both by the developed and developing countries. Let us recognize these and resolve to act. Let posterity not say we left behind a world not worth living in.

BELGIUM: PHILIPPE MAYSTADT

Governor of the Bank

We have seldom met in an atmosphere of euphoria like that which pervades the corridors of these Annual Meetings.

Beyond doubt, we can congratulate ourselves on the uninterrupted continuation of growth in spite of the stock market crisis of October 1987. The growth of the industrial countries has been wholly satisfactory and the danger of inflation has so far largely been contained. Moreover, the large balance of payments disequilibria, which persist among the industrial countries have easily been financed by the markets.

This euphoria will nonetheless prove treacherous if it obscures the potential risks connected with the persistent large payments imbalances which already show a tendency to snowball, and if it gives us the illusion that a global, definitive solution to the debt crisis has been found.

More generally, economic policy and international cooperation cannot be reduced to crisis management. We must possess, at both the international and national levels, an adequate arsenal of economic policy instruments and institutional mechanisms which are capable not only of reacting to crises but also of promoting, over time, the necessary adjustments.

At the national level, we must avoid overloading monetary policy; besides budgetary policy, whose contribution to the adjustment remains crucial, it is in our interest to retain the incomes policy instruments needed to prevent cost slippages, as well as instruments for setting structural reforms into motion.

The same need also exists at the international level. Independently of crisis situations, we must possess clear rules of play and appropriate institutional mechanisms which will help create confidence, reduce uncertainties, encourage sound economic policies, and create the kind of environment in which market forces can best realize their potential.

Let me illustrate this point of view with particular reference to exchange rate discipline and the debt strategy, and indicate its implications with regard to the increase in the Fund's resources. Finally, I will discuss two important dimensions of the development problem—the struggle against poverty and

the protection of the environment—which also require voluntary actions that cannot be left to market forces alone. . . .

The Debt Strategy

. . . Mr. Brady has given a decisive impetus toward a more dynamic approach to the debt strategy. Belgium supports this approach, and at the same time would like to shed some light on the conditions needed for this approach's potential benefits to be fully realized.

First of all, we have to maintain an equitable balance between the heavily indebted countries, which will probably benefit from the new emphasis on debt or debt service reduction, and the other developing country members of the Fund and the Bank which, out of respect for their financial obligations, have made often considerable sacrifices to preserve or regain access to the financial markets. This means that we must not give the impression that debt reduction strategies are necessarily preferable to strategies involving new loans. Strategies based on a judicious assumption of new borrowing should continue to be encouraged whenever favorable conditions are present, in particular the prospect that debt ratios will be stabilized at a sustainable level. Even for the heavily indebted countries which do not yet meet all these conditions, debt reduction should continue to be considered a complement rather than a substitute for additional borrowings.

In the second place, the success of the new debt strategy will require us to give an enhanced leadership role to the Bretton Woods institutions:

a) To restore confidence to the relations between the heavily indebted countries and their creditors, each of these countries should prepare, in close cooperation with the Fund and the Bank, first, a medium-term scenario which would cover both the totality of the adjustment measures and development policies it intends to implement; and, second, a financing plan identifying the financial flows which will be required to restore its balance of payments to a position of viability capable of ensuring their return to normal access to the international financial markets. This medium-term scenario would include targets for the repatriation of flight capital.
b) The intellectual leadership of the Fund is also needed to help the heavily indebted countries and their creditors arrive at a well-informed judgment about the best strategy for achieving a sustainable debt service position in the medium term. Left entirely to themselves, the markets are unlikely to be able to organize an optimal choice or balance beween new loans and the reduction of pre-existing debts.
c) It would be unwise for the Fund and the Bank to commit large amounts of resources to the debt strategy very early in the game unless their role in the organization and coordination of the financial efforts required from all participants has been clearly accepted from the outset.

d) The involvement of the Bretton Woods institutions in the debt strategy must be sufficiently long-term in nature. From this standpoint the Bank is especially well placed to ensure that the debt strategy and the development strategy are linked. The dialogue it maintains with the indebted countries on all aspects of their development strategies, and its assurances that it stands ready to continuously support the debt strategy with advice and financing, can only help in the restoration of stable financial relations between the countries concerned and all their creditors. In the case of countries which have lost all access to the financial markets, the Bank is called on to play a larger role; it alone can obtain from these countries their commitment to long-term development strategies capable of forming a basis for catalyzing financing commitments of a similar long-term nature from the lending community.

e) As part of a long-term strategy for addressing debt and development issues simultaneously, I would suggest that the Bank and the Fund should exercise their intellectual leadership on the complex question of the connections between the distribution of wealth and income, taxation, and capital flight. At first glance, there seems to be a correlation between the phenomenon of capital flight, excessive concentration of wealth and income in a limited part of the population, and serious deficiencies in taxation systems. Reforms aimed at a better distribution of wealth and income and more equitable, efficient taxation systems should be included in the conditionality of the Bretton Woods institutions and would contribute to the establishment of a macroeconomic framework favorable to long-term local investment of these countries' available savings.

In the third place, complementary initiatives seem needed to encourage the commercial banks to play the important role expected of them under the enhanced debt strategy.

a) First of all, we must take still greater care to ensure that there is nothing in our accounting, prudential, or fiscal regulations which lessens the banks' willingness either to lend new money or to accept reductions in debt or debt service, in accordance with the individual circumstances of each debtor.

b) In addition, the Fund might introduce into its arrangements a performance clause under which a country's access to the Fund's resources would be suspended if it failed to honor fully its obligation toward those commercial banks which had not only agreed to extend new loans in support of a structural adjustment program but had also agreed to assign to these loans a repayment schedule to be modified as a function of certain parameters affecting the debtor country's balance of payments (interest rates, certain primary commodity prices, etc.). Experience has shown that adjustment programs are more likely

to be sustainable if uncertainty concerning their future financing can be reduced. The compensatory and contingency financing facility added to the Fund's instruments last year works in this way, but its impact would be significantly increased if the commercial banks could be persuaded to include similar contingency clauses in their loan agreements.

Fourth and finally, we must be ready to take initiatives complementing the decisions of the Toronto summit in favor of the overindebted low-income countries which demonstrate perseverance in the implementation of structural adjustment programs. In this spirit, Belgium has taken three measures:

—cancellation of debts it had made to 13 poor countries of Sub-Saharan Africa in the form of state-to-state loans;

—a combination of several of the options adopted at the Toronto summit for its largest African debtor; and

—acceptance of interest and principal payments in local currency from that same debtor, these payments being earmarked for the financing of jointly selected priority development projects in that country.

This last formula should doubtless be added to the Toronto "menu," since it establishes a direct link between debt reduction and development by guaranteeing that the resources freed by debt reduction will be used for investment in the country concerned. . . .

Protection of the Environment and the Struggle Against Poverty

. . . In my speech at the Annual Meetings in Berlin (West), I stressed the continuing major challenge with which the struggle against poverty confronts our international institutions, and I suggested that the World Bank should more systematically incorporate the poverty dimension into the advise it gives to countries.

In this year's discussions, special attention is being given to problems of the environment, for which I am glad. I can only encourage the World Bank in its efforts to take the lead in this area and to integrate environmental concerns systematically in the design of the projects and programs which it finances.

In fact, there should be no conflict between the objectives of development, sound resource management, and protection of the environment. From a long-term standpoint, these objectives are convergent rather than competing.

Such conflicts as may exist, exist in the short term. It is true that some observers have established a link between overindebtedness and excessive exploitation of tropical forests. It is precisely the aim of our debt strategy to reduce the pressures which lead to such overexploitation, to unblock external constraints, and to restore growth. Nonetheless, it is clear that

growth alone cannot suffice to reduce the pressures on the environment. Protection of the environment in fact requires that the distribution of the benefits of growth should be sufficiently equitable, and that no group should remain in a situation so precarious that its subsistence depends on activities which damage the environment. To address these complex situations, it is desirable for the Bank to involve itself more deeply in the formulation of the development strategies of the countries concerned, and to ensure that these strategies pay more attention to the objectives of the struggle against poverty, to reforms in taxation, and to the other measures needed to promote a more equitable distribution of wealth.

The decade of the 1980s witnessed, all over the world, an unleashing of the dynamism and the creativity of the markets. The economic performances of the industrial countries, the "quiet revolution" at work in the developing countries, and the astonishing transformations of which we are spectators in certain countries of Eastern Europe suggest that this fundamental choice was the right one. Nonetheless, to enable this same dynamism and this creativity to fully realize their potential in the 1990s, we will have to find a new balance between the forces of the market and the interventions by public authorities which are needed to create stable, pertinent, and fair rules of play, and to inspire the confidence of all participants in the world economy.

The Bretton Woods institutions, by their nature, are beyond doubt the best placed to create these rules and inspire this confidence. To aid their efforts they can count on Belgium's active and resolute support.

BRAZIL: MAILSON FERREIRA DA NOBREGA

Governor of the Bank and Fund
(on behalf of the countries of Latin America and the Philippines)

It is an honor to address this meeting of the Governors of the World Bank on behalf of Argentina, Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Brazil.

I should like to address three main items; (1) policy problems and policy issues in structural adjustment, (2) the debt situation in Latin America and the current debt strategy, and (3) the World Bank's support for the environment.

With respect to the first point, the fundamental problem has been forcefully presented by the Managing Director of the Fund in his written submission to the April 1989 meeting of the Development Committee.

> Recent experience in the implementation of structural adjustment policies has been sobering. All too often, setbacks in economic progress have interrupted the implementation of adjustment policies, resulting

not only in a loss of momentum, but actually in a loss of ground painfully gained.

The record is indeed a rather mixed one. There have been a few successful experiences, some dismal failures, and, for the most part, a wide gray area of outcomes, which have not allowed for sustained growth and the resumption of investment. A recent empirical analysis, for example, indicates that out of 83 developing countries, only 13 (of which 2 are in Latin America) could be considered as high-performance countries (in 1987 and 1988), in the sense of having satisfied predefined criteria for both growth and investment. At least 58 developing countries failed to satisfy both criteria in 1987 and 1988.

The reasons for this, of course, vary from country to country, and involve problems in (a) the *design* of programs, (b) sustainability in their *implementation*, (c) the *external environment*, and (d) *financing external requirements for adjustment with growth*. It should be clear, however, that the four aspects are interrelated and must be addressed jointly in considering the experience of any single country.

The statement of the Minister of Finance of Ecuador, on behalf of our chair, to the Development Committee meeting, has touched on these points. We fully share the view that there could hardly be an effective design or sustainable implementation of growth-oriented structural adjustment programs without squarely addressing the problems posed by the debt overhang, as well as the crisis of the public sector facing many of our countries.

Let me comment on these issues, before turning to the debt situation in Latin America, its interactions with the crisis of the public sector, and the current debt strategy.

(a) Improving the *design* of macroeconomic and structural adjustment policies could help to establish policy credibility at an early stage. However, policy credibility cannot be established without taking fully into account—in the very act of designing the programs—the legacy of real or perceived structural weakness of the country in question. These could be deep-rooted structural problems, such as inadequate infrastructure, poorly developed markets, institutional and managerial weaknesses in the public and private sectors, lack of critical skills or poor base of human resource development, and undiversified productive base with limited potential for quick supply response. The *design* of macroeconomic and structural adjustment policies will not be effective if these economic and social realities are not taken into account in establishing the conditions and performance criteria attached to the operation. These conditions should be focused, able to be monitored, reduced in number, properly sequenced, and circumscribed to variables that are under the effective control of the authorities of the country in question.

(b) The degree of political commitment to, and *public support for* structural reform in the adjusting country is an essential element for the *sustainability* of the adjustment process. But it should be noted that both commitment of the authorities and support of public opinion will be progressively harder to maintain, while adjustment continues without payoffs in terms of growth and while human and social conditions deteriorate. In addition, there is a consensus that the primary responsibility for the design of structural adjustment programs should remain with the national authorities of the country in question, which, after all, must implement the program. Although the policy advice and the policy dialogue with the Bank and the Fund are surely welcome, the national authorities must be satisfied that these programs represent an appropriate, realistic, and feasible course of action.

(c) The existence of an *external environment* supportive of structural adjustment is necessary—albeit not a sufficient—condition for sustained domestic reform programs. Four elements are particularly crucial: (i) the provision of adequate medium-term external financial support for serious adjustment efforts, adequately defined in terms of volume, terms, and conditions; (ii) nonrecessional adjustment in industrial countries as well; (iii) reduction of protectionist barriers in industrial countries; and (iv) *lower* real interest rates. Given the enormous uncertainties now prevailing, it is imperative that the contingency mechanisms be incorporated in the design of adjustment programs.

(d) Last, but by no means least, is the crucial importance of estimating the *external financial requirements for growth-oriented adjustment*. It is clear by now that the external financial assistance that will be required by developing countries, even if they manage to step up their domestic savings, will have to involve, in the years ahead, a vastly increased role for the official sector. This is not necessarily a transfer of *risks* from the private to the official sector, as it is usually understood, but surely a transfer of *tasks* from the private to the official sector.

Part of these tasks will involve accelerating steps to reduce debt and debt service burdens as an essential ingredient in the design and implementation of effective and sustained adjustment programs.

In this connection, both the Bank and the Fund will have to pay increased attention (a) to realistic estimates of sustained current account deficits and especially of feasible balances in trade and nonfactor services and (b) to an internal adjustment program consistent with growth, that is, a set of policies that will bring about a matching *financeable* fiscal deficit *plus* a private savings surplus over investment *at levels of investment high enough to sustain output growth*, which is *not* the case for the indebted countries at the moment, given the magnitude of the net real resource transfers abroad.

For these countries, there could hardly be an effective design or sustained implementation of growth-oriented structural adjustment programs without squarely facing the problems posed by the debt overhang in the very design of the program. This means that, for many countries, we will have to evolve toward *official* estimates of the magnitude of debt and debt service reduction that are consistent with the achievement of sustained growth (in the sense described above), instead of leaving this entirely to protracted, voluntarily negotiated schemes between each individual debtor and its commercial bank advisory committee. This approach has been tried for seven years. It has led debtors nowhere.

Let me turn to the debt situation in Latin America, its interactions with the crisis of the public sector, and the current debt strategy. After experiencing an average rate of growth of nearly 6 percent per year in real terms during the previous two decades, Latin America stagnated in the 1980s. The projected rate of growth for 1989 is *zero* for the region as a whole. In per capita terms, there is likely to be a *fall* of about 3.5 percent in the two-year period 1988-89, by far the worst performance among all regions of the world.

Although it will be an oversimplification to attribute this dismal performance solely to the burden of external debt, it cannot be denied that transferring abroad an annual average of around 3 percent of GDP for nearly a decade had deep *domestic* adverse implications for the debtor countries of Latin America.

In fact, the attempt to service external debt by transferring abroad unprecedented and unsustainable shares of GDP further depresses national disposable income, particularly of the public sector—which has been made responsible for virtually all foreign debt, while foreign exchange is mostly privately earned. The buying of foreign exchange by the public sector causes domestic public debt to soar and keeps sustained upward pressure on domestic interest rates, always affected by the expected rate of devaluation.

The ensuing uncertainty leads to a dramatic shortening of the time horizons of the relevant economic agents. Private productive investment is postponed, while private savings and retained earnings are applied in short-term financial instruments, purely speculative activities, or assets held solely as a temporary hedge against inflation. Furthermore, public investment is sharply curtailed because the financing capacity of the public sector (internal and external) has virtually disappeared.

I should note, however, that there is an emerging consensus in Latin America on the need for a deep reform of our public sectors. The focus on the fiscal budget and on the financial disequilibrium of the public sector, broadly defined to include public enterprises, has come to stay as a critical element in any sound, growth-oriented adjustment program. Likewise, there is a growing degree of political support for a comprehensive modernization of public administration, the efficiency of which must be urgently increased

if we are to face the challenges involved in achieving noninflationary, sustained growth in the years ahead.

Compounding the serious problems posed by the crisis of the public sector and the legacy of too high *stocks* of debt is the observed sharp fall in the net *flow* of financial resources. For all debtor countries, net borrowing from commercial banks, which had reached the unsustainable figure of US$91 billion in 1981, declined to less than US$6 billion in 1985, and was more than US$9 billion negative in 1988.

For Latin America, borrowing from commercial banks declined from US$55 billion in 1981 to *minus* US$13 billion in 1988, in sharp contradiction with the expectations generated by the Baker initiative of 1985. It is unsustainable—economically, socially, and politically unsustainable—a situation in which a poor region finances rich countries for such an extended period of time. At the close of the 1980s, Latin America is in a state of siege. On the one hand, external debt pressures have both international and domestic implications. On the other hand, protectionism in industrial countries and the regionalization of international trade represent a new constraint on the expansion of trade and trade-related investment in the region. The combination of these constraints poses serious threats to the integration of Latin America into the international economic system.

Latin America is not, however, only a problem region. It is, at the same time, and perhaps more important, a continent of opportunities. It is completing a successful process of political transition toward democracy. It is in the midst of opening up to the world, gradually liberalizing its trade regime, and modernizing its industry. In this endeavor, it counts on an extensive and diversified productive structure, on a considerable technological capability, on a high level of potential savings, as well as human and natural resources, which, together, could support a new wave of prosperity. Given the appropriate domestic and international conditions, the desired change would not be more difficult to achieve than, for instance, the ones observed in major countries devastated by the last World War, countries that not only achieved reconstruction but also formed a base for expansion of the world economy, of which they are now major pillars.

The dismal 1980s have been marked by the legacy of the problems and attempted policy responses of the 1970s. How can we avoid having the 1990s being held hostage to the problems and attempted solutions of the decade coming to an end?

First of all, it is important to continue with the policies for structural adjustment, particularly those related to reform of the public sector. But in the 1980s the burden of adjustment was concentrated on the debtor countries. Now it is necessary to achieve more symmetry in the adjustment between debtors, creditors, and commercial banks. Policy coordination among industrial countries has been inadequate and insufficient to achieve this objective. Too much reliance on monetary policies, without the required

complementary actions on the fiscal front, has put an upward pressure on interest rates. A great part of the positive results, achieved at high social costs by the adjustment policies of debtor countries, has been offset by the lack of adjustment and macroeconomic policy mismatches among major industrial countries.

The other area in which the need for more symmetry in the adjustment is clear is trade. This is a vital area for debtor countries forced to generate sizable trade surpluses to attempt to keep current on external debt obligations. Many of these debtors have been implementing trade liberalization measures. Nevertheless, protectionism in industrial countries, words notwithstanding, has increased precisely in relation to trade in products that are of interest to developing countries. Such products have been subjected to administered trade and have faced an increase in nontariff barriers, which are becoming progressively less transparent. In addition, they have been hit by unilateral measures and by attempts to establish bilateral mechanisms for resolving disputes, outside the scope of the existing multilateral framework. One striking outcome of this situation is that the increase in the volume of international trade in the past two years had a limited impact on developing countries.

In the second place, if we really want to avoid having the 1990s see a continuation or even a deepening of the problems of the 1980s, it is essential to move toward a definite solution to the international debt problem. The gradualist approach has been shown to be insufficient—merely postponing the problems and often aggravating them.

The Brady approach should be seen as a right step in the direction of solution to the international debt crisis. We are encouraged by the positive initiatives, particularly of the Japanese Government, to increase the resources available to debtor countries in the form of parallel financing. We also welcome the involvement of the Fund and the Bank in the efforts to reduce debt and debt service, by rapidly approving specific guidelines and identifying available resources.

It is important to consider the Brady approach as an evolving strategy. Accelerating the implementation of the first agreements is important, but so is the need to avoid too modest results, with discouraging effects on other countries.

The Brady initiative must be strengthened. This strengthening will require a more direct and active involvement of international financial institutions in the negotiating process, the mobilization of a more significant volume of resources, and *official* estimates of the requirements for growth-oriented adjustment. The Fund and Bank guidelines for debt reduction operations need to incorporate, among other things, a front loading of the enhancements and to allow for the fungibility of resources aimed at debt and debt service reduction. The Bretton Woods institutions have a major role to play, particularly the Fund, which is responsible for a sound global

economy and a stable international monetary system. These institutions must take a more active role in signaling the process and in taking an overall systematic view of the problem, instead of concentrating solely on monitoring the domestic policies of *each* individual borrowing country.

The strengthening of the Brady initiative also requires a more active role on the part of *governments* of industrial countries. These countries need to adopt changes in regulatory tax and accounting frameworks to facilitate and stimulate debt and debt service reduction operations. While some "carrots" are there in terms of enhancements through official resources, there seems to be the need for both "sticks" and carrots to lead commercial banks toward more effective debt relief. Governments should also be involved in increasing the flexibility of mechanisms for Paris Club negotiations. In this context, the question arises whether such operations should not also comprise debt reduction instead of only principal and interest rescheduling. Such action would serve as an effective demonstration to the commercial banks that governments are prepared to do what they are demanding from commercial banks. Stronger efforts to waive sharing and negative pledge clauses are part of this cooperative undertaking.

Without such concerted efforts, a generally agreed framework, and official guidance through the exercise of clear and bold leadership, the risk is high that we will continue muddling through, with marginal improvements in the situation of a few debtors after long and protracted negotiations with commercial banks, with no clear mediating role by the official sector.

A substantial change will be one that signals to the market a more durable solution, an increased confidence in the debtors' capacity to repay, the resumption of their growth, and the restoration of their creditworthiness. Solutions that imply a continuation of substantial negative transfers are not solutions, but the continuation of the sacrifices and uncertainties of the 1980s.

Consideration should be given to a carefully prepared international conference to address these issues at a high level.

In short, we should not allow the international economic agenda of the 1990s to continue hindered by the debt problem, dislocating energies that in multilateral and bilateral forums could be used to address problems of the future, rather than concentrating on legacies of the past.

Finally, the time has come to rethink the role of both the Fund and the Bank in the 1990s. In the past few years, there has been a considerable decline in net financial flows from both institutions. Last year, for example, net flows from the Fund to Latin America were negative in the amount of US$900 million. For the World Bank, the figure was a negative flow of over US$1.2 billion. At the same time, conditionalities have been amplified and strengthened, while excessive efforts have been spent in monitoring and attempting to increase the influence of both institutions in domestic economic policymaking.

In the case of Latin America, this behavior has been proving inadequate to the new realities of democratized societies, in which political representation in parliaments has an increased role in the definition of national policies. It is necessary to develop a more positive approach from the Bretton Woods institutions, designed toward effective assistance to the economic efforts of member countries, according to priorities defined by these countries themselves.

My last point is the issue of the environment. Environmental degradation is now an important item in the agenda of the international community. The approach we take toward solving this problem through international cooperation should start from the recognition that the industrial countries have a major responsibility for the global environment problems. As the President of the World Bank stated recently in a speech on the environment delivered in Tokyo: "North America and Europe . . . together are responsible for nearly three quarters of the carbon dioxide emissions that contribute to global warming, while accounting for only about 8 percent of the world's population. The developing world, almost 80 percent of the world's population, is responsible for only 7 percent of the industrial emission of carbon dioxide. Industrialized countries are also responsible for the damage caused by CFCs."

We, in Latin America, have not been shying away from doing our part in preserving our national environment in spite of the serious setbacks to our development efforts in the 1980s. The achievements are many. Laws and regulations have been passed creating a modern legal system of environmental protection. In Brazil, environmental protection is now a constitutional obligation. Institutional reforms have been put in place to guarantee enforcement of legal obligations. A large number of protected areas have been created, covering large tracts of land and providing for the protection of national habitats and important ecological reserves. New experiments in ecological zoning have meant new approaches toward development, mainly in the Amazon region. Efforts to combat fires in the Amazon, recently with the support of the World Bank, have led to a marked decrease in deforestation. The results achieved this year have been extremely important.

In all its efforts in the environmental area, Brazil is striving to make its development objectives compatible with the protection of the environment. That, and not environmental conservation as an isolated objective, is the great challenge before us.

To take into consideration this fact is also to adequately face the problem of the international financial requirements for the environment and the need for the industrial countries to provide an adequate level of additional and concessional resources. To illustrate the need for additional financing, I will mention the fact that in Brazil, for example, total costs for hydroelectric investment projects have increased lately by roughly 20 percent due to environmental concerns.

A second major element of this positive approach has to do with its political framework, both domestically and internationally. Latin America has established democratic political systems, which allow the broad participation in the decision-making process of all those to whom the governmental decisions are directed, including local communities and nongovernmental organizations. The communities and local associations have an important role to play in the national decision-making process, influencing not only the policies adopted at the executive level but also the legislative process.

Internationally, we should avoid having a much unbalanced influence in the policies adopted by the World Bank and other international organizations and avoid creating a situation in which a few countries speak for themselves in the name of humanity. What is in the global interest is in the interest of each sovereign state, and what is in the exclusive national interest has to be decided nationally.

Similarly, we should avoid any tendencies to concentrate important political decisions, disguised as technical, in international bureaucracies, as we discuss policies, measures, and projects that have an impact on the environment. These are questions that have to be decided by those who are closer to the problems, that is, by the politically represented national societies. The Bank should take this into consideration when discussing specific guidelines, so as to avoid bureaucratic solutions for problems that have to be dealt with in a social and political context.

Intergovernmental multilateral cooperation may also be endangered if we allow third parties, usually from a few industrial countries, to interfere directly in the process of negotiations between representative national authorities and the Bank. They could favor a further concentration of power in the hands of those countries that already control much of the international decision-making process or reinforce the centralization of the decision-making process in international bureaucracies to the detriment of the national priorities, set as a result of processes of internal consultation. In line with these ideas, the information related to a negotiating process should only circulate among the parties in that negotiation, which have a responsibility toward the societies they represent.

This positive approach would contrast sharply with tendencies toward an increase in conditionality, which not only may become a dangerous instrument of interference in policies that should be established according to national priorities but could also become an excuse for reducing the amount of resources to be transferred to the countries that need them. In the context of this positive approach, the Group of Twenty-four Ministerial Declaration issued last Saturday, opposed "the use of environmental concerns as a disguised instrument for protectionism and for reducing the net flow of financial resources to developing countries."

In conclusion, new areas, such as the environment, the renewed concern with social issues, and especially the fight against poverty, should open new

perspectives for a positive approach in the 1990s. This, however, may not occur if the tendency prevails to increase conditionalities instead of increasing available resources on adequate terms and conditions, if the emphasis is on belt-tightening adjustment to service external obligations instead of on squarely addressing more deep-rooted problems hindering the restoration of investment and growth, such as the debt overhang and the crisis of our public sectors.

Let us cut the Gordian knots that paralyzed our economies in the 1980s and look ahead with the courage to explore innovative alternatives, which should have the objective of reinforcing and expanding the international economic system, based on solidarity and multilateral cooperation.

CANADA: JOHN MCDERMID

Temporary Alternate Governor of the Bank and Fund

Introduction

It is a great honor for me to have the opportunity to address these Joint Annual Meetings of the World Bank and the International Monetary Fund. I join others in congratulating Barber Conable and Michel Camdessus for their skillful management of our twin institutions through these demanding times. I also welcome the representatives of Angola, which has recently assumed membership in our institutions.

At the meetings of the Interim and Development Committees, my colleague Mr. Wilson and I have spoken of the increasing integration of the world economy and of the challenges this integration poses for policymakers. In our view, the challenges are fourfold:

—First, we need to put in place balanced policies that will provide a stable macroeconomic environment.

—Second, we need to improve efficiency and productivity through market-oriented structural reforms.

—Third, we need to continue to work on the implementation of the strengthened debt strategy.

—Fourth, we need to give a greater role to environmental considerations in our decisions.

The Policy Framework

I am encouraged by the consensus I see at these meetings on the policy framework needed to deal with these issues. It is indeed remarkable that governments everywhere have reached a shared diagnosis of policies needed to strengthen economic performance. The key elements of this framework are a medium-term orientation, policies that will promote macroeconomic stability, and greater reliance on market forces—a view captured by the phrase "structural adjustment."

In the current environment, our first priority in maintaining macroeconomic stability must be to reduce domestic imbalances that have threatened a resurgence of inflation. Higher interest rates have been necessary to confront inflationary pressures. However, monetary policy is being asked to carry too much of the burden. Countries with large fiscal deficits need to implement effective fiscal consolidation measures.

In our April budget, we made clear our commitment to implementing responsible monetary and fiscal policies that work to defuse inflation pressures. Hard as these decisions are, we believe they will ultimately improve the well-being of Canadians.

We have also placed a high priority on the need for structural adjustment. We have privatized many state-owned corporations, implemented the Canada-U.S. Trade Agreement, introduced a new regulatory regime for the financial sector, and reformed the personal and corporate income tax systems. We are moving ahead with a major reform of our system of indirect taxation with the introduction of a new goods and services tax. These reforms are needed to improve the efficiency and competitiveness of the Canadian economy.

Macroeconomic stability and greater economic efficiency are important to all of us as trade expands and the global economy becomes increasingly integrated. The increasing integration of the world economy means that international cooperation in economic policy must be strengthened. We have responded to the need to enhance international cooperation in a variety of ways:

—The Venice summit resulted in the formation of the Group of Seven.

—OECD's "outreach" program is increasing contacts between the industrial countries and the newly industrializing economies of Asia.

—The presence at these meetings of the GATT Secretary-General, Mr. Arthur Dunkel, is a symbol of our determination to strengthen ties between the Bretton Woods institutions and the GATT.

The Fund and the Bank have been at the center of international cooperation for almost 50 years, and I believe that the flexibility and adaptability shown by the Fund and Bank will help ensure that they continue to play a central role as we look ahead to the challenges of the 1990s.

Today I would like to address the needs of our international institutions—their leadership role in the global economy, the resources they will need to fulfill this role, and their priorities, which must reflect the concerns of the shareholders.

Trade

Let me begin with the GATT. Nowhere is the need for increased international cooperation greater than in international trade. Trade liberalization not only breaks down the barriers between economies, but also serves as a

catalyst for freeing up domestic markets. Thus, there is an important synergy between trade liberalization and domestic structural reforms.

Ominously, trade liberalization, which was in the vanguard of market-oriented reforms in the postwar period, has paused in the 1980s. This is why an early and substantial resolution of the Uruguay Round negotiations is critical. Significant progress in agriculture, services, strengthening of the GATT, and trade-related investment and intellectual property concerns are all needed if the trading environment is to complement the forces leading to domestic structural reforms.

Resources for the Bretton Woods Institutions

The Fund and Bank both will need additional resources to discharge their responsibilities as we enter the 1990s. Resources and leadership are inseparable partners for these institutions to work. . . .

. . . The World Bank has played a key leadership role in financing and guiding development for over 40 years. Canada's continuing commitment to development is well known. We are pleased with the Bank's increased emphasis in recent years on structural adjustment, poverty alleviation, and food security—issues that are of high priority for us.

If the Bank is to continue to play this role effectively, it must have adequate resources. In this connection, the Ninth Replenishment of the International Development Association (IDA) is essential, and Canada firmly supports a substantial and early replenishment. It is my strong hope that a replenishment at least as large in real terms as IDA-8 can be achieved. Canada is prepared to do its fair share to ensure that IDA has adequate real resources. Others must do the same. I wholeheartedly endorse the view of the Development Committee that the negotiations must be completed by the November meeting of IDA Deputies in Kyoto.

I share the concerns expressed by many about the growing arrears problem at the Fund and other international financial institutions—a problem that could seriously constrain the resources of the institutions if we allow it to get out of hand. The different approaches currently being explored to address arrears need to be pulled together to give us a cohesive, targeted, and effective strategy for dealing with the problem.

Environment

We must recognize that sustainable development requires a medium-term policy framework where economic and environmental policies are inextricably woven together. Too often we speak of sound economic policies and sound environmental policies as if they are somehow separate issues. Sustainable growth is not possible unless the environmental impacts of our economic activities are fully taken into account.

At last year's Annual Meetings in Berlin (West), Michael Wilson, Finance Minister for Canada, made a number of concrete proposals for improving the Bank's support for environmentally sustainable development. I am pleased with the progress that has been made on these proposals in the past few months. We will continue to look for further action in these areas in the coming year:

—Of particular importance are the recently completed environmental assessment guidelines. We look forward to their early implementation.

—Furthermore, we welcome the publication of the Bank's first annual report on its environmental activities, following upon Mr. Wilson's initiative of last year.

—We also welcome the special program of technical assistance, which was established within the Bank earlier this year for environmental activities. We consider this to be a particularly important initiative, and yesterday announced that Canada will contribute $5 million to this program and its related activities.

Conclusion

The establishment of the Bretton Woods institutions during a period of global strife some 45 years ago was an act of great vision. They have served us well. If we are to prosper in the face of rapid change in the global economy, then the continued leadership of the Bank and the Fund is indispensable. We in Canada look forward to addressing these challenges with all of you.

CHINA: LI GUIXIAN

Governor of the Fund

Mr. Chairman, first of all, please allow me to congratulate you on your assumption of the chairmanship. It is my belief that your wisdom will contribute to the achievements of this year's Annual Meetings. I would also like to join previous speakers in extending a warm welcome to the Angolan delegation, which is participating in the Annual Meetings for the first time.

As the world is entering the 1990s, a major task of this year's Annual Meetings should be to review the developments of the world economy during the past decade and to look to the future with a view to resolving the major problems of the world economy in order to create an environment for sustainable growth during the next decade.

Since the early 1980s, the world economy has undergone seven consecutive years of growth. However, this growth has been unevenly distributed, as most developing countries have not duly benefited from it, particularly

the low-income Sub-Saharan African countries, whose economies have come to a standstill.

Prompted by the growing interdependence of the world economy, the major industrial countries have strengthened their economic policy coordination and have achieved some positive outcome. Nevertheless, external imbalances remain large due to the limitation of such coordination in resolving their underlying economic problems. Moreover, such coordination so far has not given adequate consideration to the interests of the developing countries. Their large external imbalances have been the root cause of volatile financial markets and intensification of international trade frictions, posing a direct threat to the stability of the world economy. This adverse external environment has aggravated the burden of economic adjustment for the developing countries, and, coupled with protracted debt problems, many of these countries have been entrapped in the vicious circle of low growth and high inflation.

In order to have sustained growth in the world economy, it is essential that both developed and developing countries join together to create a favorable economic environment for growth. In an increasingly interdependent world economy, the sustained growth of the developed countries cannot be ensured without the economic development and financial stability of the developing world. Because of the crucial impact of their economic policies on the world economy and trade, the developed countries—particularly the major industrial countries—should bear primary responsibility for improving the world economic environment. Drawing on past experience, the international community should work out a new and effective code of conduct for further international economic cooperation in the 1990s.

The international community has made new efforts toward reducing the debt burdens of the developing countries since we met last year in Berlin. The IMF and the World Bank have also adopted active measures to assist the heavily indebted countries to implement their debt reduction schemes. We welcome such efforts. It is our hope that the international community will take fully into consideration the varied difficulties of all indebted countries and adopt effective measures to further reduce the debt burdens of the debtor countries. Particular efforts should be made to provide additional funds to help debtor countries restore economic growth while carrying out economic adjustment. We urge the developed countries to increase their financial assistance to the developing countries and to open wider their markets to the developing countries' exports in order to eradicate the debt problem, maintain the stability of the international monetary system, and promote sustained world economic growth. Moreover, effective measures should be adopted to roll back protectionism and promote international trade to help the debtor countries break the vicious circle and restore economic vitality.

It is our hope that the IMF and the World Bank will play a more important role in the world economy during the 1990s. . . .

. . . Almost a year has elapsed since negotiation of the Ninth Replenishment of IDA was initiated. In view of the urgent needs of the low-income countries for concessional flows, we are of the view that the Ninth Replenishment should constitute a real increase over the previous one. We urge the donor countries to make further efforts so that negotiations can be completed as scheduled.

A serious and urgent historical task facing mankind is to maintain ecological balance while promoting economic development. The Chinese Government is of the view that environmental protection is the common responsibility of all countries. However, the serious pollution of the global environment has been caused mainly by the developed countries, and they have a major responsibility to clean it up. The root cause of the environmental deterioration of the developing countries lies in their poverty. The international community should furnish both financial aid and technical expertise to the developing countries to assist them in their efforts to protect the environment. We have noticed the World Bank's useful and commendable work in recent years in environmental protection. In the meantime, we call on the World Bank to better combine the goals of environmental protection and economic development in its activities in these areas. We disagree with the imposition of additional conditions for loans on the grounds of environmental considerations. Effective measures and channels should be explored to enable the developing countries to realize the dual goals of development and environmental protection.

The IMF and the World Bank are international financial institutions, whose purposes are to maintain order in the international monetary system and to promote economic development in their member countries. The Articles of Agreement of both institutions provide that they act according to economic, rather than political, considerations. To abide by the provisions of the Articles of Agreement is undoubtedly a solemn international obligation for both member countries and the two institutions. Based on this principle, China has established good cooperative relations with the Fund and the Bank ever since it resumed its seat in the two institutions in 1980. It is our hope that such cooperative relations continue to develop in a normal fashion without outside interference.

In just three days the People's Republic of China will celebrate its fortieth anniversary. Under the leadership of the Communist Party of China, the Chinese people, through hard work, have brought about tremendous changes in a country that was once backward and riddled with poverty. Particular mention should be made of the past 10 years, in which policies of reform and opening to the outside world were implemented. GNP growth registered an average annual increase of 9.6 percent during the past 10

years, compared with 7.1 percent from 1952 to 1988. During this period, China has enjoyed all-round development, with the fastest growth in economic development, from which the people have benefited the most.

From the past 40 years of experience, the Chinese people have come to realize that the Four Cardinal Principles are the foundations of the country and that reform and opening to the outside world lead to prosperity. The achievements of reform and opening policies during the past 10 years have injected vitality and dynamism into the Chinese economy. Of course, it is by no means easy for a complex country like China to implement reform and the opening to the outside world, and at times we will encounter difficulties and setbacks.

At present, the major problems facing the Chinese economy remain the disequilibrium between aggregate demand and supply, as well as the irrational structure of industries and products. To address these problems, the Chinese Government has adopted a policy to rectify the economic order, consolidate the economic environment, and deepen economic reform. The essence of this effort is to reduce the excessive absorption of national income so as to redress the disequilibrium between aggregate demand and aggregate supply and to gradually bring down inflation to a sustainable level. The current austerity program is aimed at creating a favorable environment for furthering reform and opening to the outside world. Consequently, the Chinese economy has improved as a result of the adjustment efforts of the past year. Since the beginning of 1989, the overheating of the economy has been gradually brought down, the much-feared stagflation has not transpired, price hikes have been eased, and agricultural production has enjoyed a marked increase. In general, prospects for the national economy are promising.

Based on past experiences and lessons, economic reform has remained on a healthy path of development. All reform measures that have been promulgated will be continued and improved upon, and all measures that have been implemented on a trial basis will continue in an organized and gradual manner. In addition, a number of new areas of reform are being explored. As a matter of course, there are numerous difficulties to be surmounted. We are in the process of carrying out an adjustment program within three years aimed at creating a socialist commodity mechanism with Chinese characteristics, in which economic planning and market forces are combined so as to enable the Chinese economy to develop in a sustained, stable, and coordinated manner.

We respect all foreign governments and friends who would like to develop relations with us on equal terms, and it is our intention to further develop and expand our friendly relations with them. We have been continuing our efforts to improve the investment climate in order to attract foreign investors to China. We shall continue to utilize external financing in various forms in light of the principles of equality and mutual benefit. The Chinese Govern-

ment places high priority on creditworthiness and enjoys sufficient capacity to service its debts.

The reform and opening in the past 10 years have brought primary prosperity and vitality to China and genuine benefits to the people. Now the policy of reform and opening is popular and deep-rooted among the Chinese people. No matter what setbacks and difficulties may arise on our way forward, the determination of the Chinese Government and its people in continuing the reform and opening policy shall never be altered. We are fully confident that the socialist modernization process in China will be pushed forward. It is our wish to strengthen and develop further the exchange and cooperation with the international community and to play our part in contributing to the promotion of economic prosperity throughout the world.

COTE D'IVOIRE: ABDOULAYE KONE

Governor of the Fund
(on behalf of the African Governors)

Let me first of all, on behalf of the African Governors, welcome the People's Republic of Angola, the new member of our institutions.

The African Governors note the encouraging performance of some aspects of the world economy in 1988: economic growth was sustained both in the industrial countries and in some of the developing countries, the volume of international trade reached an historically high level, and the rate of inflation remained relatively moderate in the major industrial countries. We also note, however, that in spite of these positive developments, there are reasons for concern as simultaneously there has been a further widening of the gap between the rich and poor countries, more particularly the African countries. Indeed, while it is true that the rate of economic growth in the developing countries as a whole slightly exceeded that in the industrial countries, the fact remains that the rate of growth of per capita income in the developing countries, estimated at 2.6 percent, was significantly lower than the rate of 3.4 percent recorded in the industrial countries. With regard to the situation in the African countries, there are grounds for grave concern because, for the third consecutive year, the living standards of our peoples have declined further; the rate of economic growth attained in 1988 at 1.7 percent was far below the rate of population growth. Moreover, while world trade increased significantly in 1988, Africa's share continued to decline.

The short-term outlook is no better for Africa. Indeed, according to available projections, living standards in Africa are expected to continue to decline in 1989 while those in both the industrial and the other developing countries are expected to show further improvement. In this context, the most immediate challenge facing Africa is to reverse the downward trend in per capita incomes, which have deteriorated to unacceptably low levels.

We are very much aware of the fact that we must face this challenge primarily through our own efforts, but we also need the support of our partners in the international community.

As we have emphasized in the past, the fundamental causes of the poor economic performance of the African countries are, among others, the persistent downward trend of the prices for our export commodities, the debt overhang compounded by an excessive debt service burden, and a lack of adequate financing which has led to drastic cutbacks in investments.

In our opinion, the fostering of a favorable international economic environment, characterized, inter alia, by markets open to our exports, a decrease in real interest rates, and stability in the exchange rates of the major currencies, is a prerequisite for ensuring success for the adjustment programs being implemented by African countries. The prime responsibility of the industrial countries in this regard needs no further elaboration, given the magnitude of the impact that their economic and financial policies have on this environment. In this context, we are greatly concerned about industrial countries' excessive recourse to monetary policy instruments in their attempt to achieve international adjustment. While this strategy has been intended to control inflation, it has also contributed to large fiscal imbalances. So long as these imbalances persist, the resulting increased demand for international savings will keep interest rates at high levels. The industrial countries must therefore resolutely implement measures to reduce these imbalances so as to create the conditions for a sustained decrease in interest rates. In this context, it is pertinent to mention the important role that effective surveillance by the Fund on the economic policies of these countries, in particular their interest rate policies, could play in order to ensure that they are moving in the right direction in the interest of all members of the international community.

There should be no doubt about the readiness of our countries to assume their share of the global responsibility. The African countries reaffirm their commitment to work toward improving their domestic economic environment by continuing to implement wide-ranging structural adjustment programs and to strive to mobilize additional resources through appropriate policies in support of these programs. The need for the industrial countries to support these adjustment programs with adequate resources and conducive trade policies cannot be overemphasized. But regrettably, as shown clearly in the midterm review of the United Nations Program of Action for African Economic Recovery and Development (UN-PAAERD), while many African countries embarked upon far-reaching programs to reform their economies, there was a simultaneous decrease in real resource flows to Africa. We, therefore, call upon donor countries to provide the financial assistance required for the success of our programs. We also urge them to dismantle protectionist barriers to our exports.

The Bank and the Fund must continue to play their catalytic role in the mobilization of external resources for all member countries in need, particularly those undertaking adjustment programs. In the context of their assistance in the design of such programs, they should give greater consideration to the economic, social, and institutional realities of the African countries, so as to maximize the chances of success and the sustainability of these programs. In this connection, and in view of the increased prevalence of poverty in our countries, the need to integrate effective measures to protect the poorest segments of the population and to reduce unemployment has become more urgent. The question of how to integrate most appropriately policies on the social dimension into adjustment programs recommended by international institutions is under active consideration in Africa. We urge the Fund and the Bank to cooperate closely with the African countries in order to consider how best to incorporate the outcome of these deliberations in the adjustment programs they support.

While we were encouraged by the relative stability of the exchange rates of the major currencies brought about by the Louvre and Plaza Accords, we must acknowledge that the effectiveness of international policy coordination has been severely tested in recent months by the erratic fluctuations in the exchange rates of the major currencies. In view of these developments, and given the persistence of large domestic and external imbalances in the major industrial countries, we strongly urge these countries to further strengthen the coordination of their macroeconomic and structural policies.

The continued deterioration in the terms of trade is one of the most serious problems facing African countries. Indeed, many of them have seen the fruits of decades of development efforts wiped out by the sharp decline in the export prices of their commodities. The perpetuation of such a situation is unacceptable, and ways and means should be found to bring it to an end. We remain convinced that the best form of assistance that the developed countries can provide to our countries in this area is to ensure a just and equitable remuneration for our export products and to provide access to their markets without any restriction, direct or disguised. A fair remuneration for our export products, combined with adequate external financial assistance, would help to alleviate the acute shortage of financing and to increase the level of investment. To this end, we strongly urge the international community to play its role by actively supporting us in our quest for a reform of the raw materials markets. In particular, steps should be taken to enhance the effectiveness of the common fund for raw materials. In this connection, we are pleased to note that the United Nations Secretary-General has appointed a group of experts to examine in depth the question of raw materials from the African countries and the prospects for diversifying Africa's exports. In the meantime, existing mechanisms within international institutions (STABEX, SYSMIN, CCFF, etc.) should be revitalized

and better adapted to the needs of the developing countries. It is thus regrettable to note that the Fund, moving against the tide, has reduced the effectiveness of its facility for the compensatory financing of export fluctuations by merging it with the contingency facility and has, in the process, increased its conditionality.

Our large external debt and debt service burden continue to drain our scarce resources, thereby wiping out any possibility for economic growth. We have continually called the attention of the international community to the debt burden of the African countries as a source of grave concern, despite its relatively modest amount in absolute terms. We note that the problem of Africa's indebtedness has been receiving increasing attention from the international community, as indicated by the various initiatives taken to solve the debt problem. We are also pleased that the plan to ease the debt of the poor countries of Africa, which the Group of Seven adopted in Toronto, has become operational. However, we are compelled to note that its impact has remained limited. The proposal made by Presidents François Mitterrand of France and George Bush of the United States to extend forgiveness of a part of their countries' development assistance loans to the 35 poorest and most indebted countries of Africa is a timely decision. It constitutes an acknowledgment of the fact that, if any solution to the debt problem of the African countries is to be viable, it must necessarily entail a reduction in the stock of existing debt.

This is why the African Governors are encouraged by the various initiatives which led to the adoption of a new debt strategy that now emphasizes debt and debt service reduction. We note the recent progress made by the Executive Boards of the Fund and the Bank to define the modalities of the two institutions' participation in debt and debt service reduction operations. We wish to underline the importance of extending the advantages of the new strategy, to all the indebted middle-income countries, and the low-income countries as regards their commercial debt, with due regard to their low income levels and their capacity to pay. While the new strategy attempts to provide some answers to the problem of the commercial debt of the middle-income countries, the fact remains that the problem of their official debt has yet to be fully addressed. The same is true of the poorest countries' debts to international or regional development institutions. In an attempt to find solutions to the debt problem of these countries, several proposals, ranging from debt relief from the international organizations to total debt forgiveness, have been put forward in various forums.

The dilution of the voting power and relative shares of African countries in the two Bretton Woods institutions continues to be a source of major concern to us. We, the African Governors, strongly urge that the voting power and relative shares of our countries be preserved and steps be taken to ensure their meaningful representation in the two institutions.

We would like to comment briefly on the collaboration between the two sister Bretton Woods institutions. The African Governors recognize that this collaboration could considerably improve the assistance which the Fund and the Bank provide to our countries. However, it should be stressed that in order to avoid any duplication of efforts and, in certain cases, even working at cross purposes, the two institutions must work together to enhance the quality of future adjustment programs and mobilize adequate external resources for our countries. Moreover, the Bank should devote greater efforts to intensifying the fight against poverty in the member countries and to helping our countries mitigate the adverse social impact of adjustment on the least advantaged groups of our population.

The Ninth Replenishment of IDA resources is of major concern to our countries. Since its establishment, IDA has evolved as the principal source of concessional assistance to the poorest countries. In recognition of the specific financial requirements of Sub-Saharan Africa, including adjustment needs, the IDA-8 donors asked the Association to allocate 50 percent of the resources to the countries of that region. While sizable and generous, these resources fall far short of the minimum requirements of the African countries, almost all of which are engaged in courageous adjustment programs that justify sizable amounts of external assistance.

As you know, we are in the final year of the IDA-8 Replenishment operation. We therefore urge the management of the Bank to ensure that, in accordance with the wishes of IDA donors, everything possible be done during this last year to see to it that Africa actually does receive 50 percent of the IDA-8 resources.

The negotiations of the Ninth Replenishment of IDA resources (IDA-9) have entered their final phases. The need to ensure the continuity of high-priority programs developed under IDA-8 for Sub-Saharan Africa is clear evidence of the fact that we accord IDA-9 the highest priority. We consider that a substantial real increase in the amount of IDA-9 over and above that of IDA-8 and the allocation of at least 50 percent of this amount to Africa would enable the Bank to address the urgent needs of the poorest countries and to support their reform policies and programs to combat poverty in an effective manner. In this regard, the time has come to explore the possibility of allocating a portion of IDA resources, even if modest, to the lower middle-income countries of Africa.

We therefore strongly urge the donor countries to conclude the negotiations as rapidly as possible so as to avoid any interruption in the Association's operations at the beginning of the period covered by the Ninth Replenishment.

The Special Program of Assistance (SPA) for the heavily indebted countries of Sub-Saharan Africa undertaking adjustment has now entered its operational phase. The program represents an effort to find an approach

which emphasizes both adjustment and growth. This is important since, without economic growth, adjustment is not sustainable.

To date, 19 countries have met the eligibility criteria and have been included in the program. We note that US$5.1 billion have been allocated to these countries, that agreements have been signed for US$2.2 billion, and US$1.1 billion have been disbursed. IDA funding for the SPA has been fully allocated. Therefore, the task for IDA now consists in moving forward with the dialogue with these countries in order to speed up disbursements. For the cofinanciers, the more important task consists in meeting the objectives already announced for the commitment and disbursement of funds. For the bilateral creditors, emphasis should now be placed on implementing all aspects of the Toronto-Berlin consensus and the existing measures for cancelling concessional debt and rescheduling of nonconcessional debt on improved terms and conditions.

According to the review meeting held in April 1989 between the World Bank and participating donors, the SPA has met with some success. Although we appreciate the positive manner in which the donors responded to this initiative, it must also be recognized that much remains to be done. In this regard, we stress that the Bank must ensure that all the eligible countries have access to SPA resources. In addition, the coordination of efforts between the Bank and donors should be aimed at ensuring true cooperation with the countries themselves. The structural problems of development in Africa require increased and continued support from the international community, beyond the three-year period covered by the SPA.

It is disappointing to note that many countries undertaking structural adjustment programs are experiencing unsatisfactory growth. This poor economic performance has resulted, inter alia, in decreased living standards for the people. While sustained growth requires a satisfactory external balance, this objective must be achieved in a way that permits and facilitates the pursuit of development programs, including the priority objective of poverty alleviation. It has now become absolutely essential, in designing adjustment programs, to provide for special measures designed to protect the most vulnerable groups during the adjustment period.

The adjustment strategy must necessarily be adapted to the particular circumstances of the countries concerned and modified in light of changes in economic and financial conditions. Programs must therefore be flexible and realistic. The Bank's efforts should also be aimed at mobilizing the additional resources which are essential to the implementation of economic reforms in the countries concerned.

We welcome the efforts of the International Finance Corporation (IFC) in establishing the African Enterprise Fund (AEF) and the African Management Services Company (AMSCO) in order to finance small-scale projects and to promote better business management. However, we would like

these efforts to be increased and extended to all African countries. We urge AMSCO to increase its reliance on African consultants for its operations.

After the first year of operations of the Multilateral Investment Guarantee Agency (MIGA), it is encouraging to note that 51 of the 73 signatory countries have ratified the Convention. Results at the level of the international community are equally encouraging. As regards advisory services, we note with interest the activities undertaken by the policy and advisory units and the foreign investment advisory units in providing advice to the developing countries. Notwithstanding these encouraging results, the Agency has yet to prove that it has the capacity to serve the member countries effectively in all spheres of private sector development; it must grow rapidly and on solid foundations.

In conclusion, urgent action is needed to resolve the debt crisis to enable Africa to obtain maximum benefits from adjustment programs and move toward lasting growth with social justice. It is a matter of concern that Africa has not shared in the benefits of the growth recorded in the developed countries. There are other important problems outstanding, such as long-term growth prospects, regional integration, and the development of industrial potential. It must be recognized that severe resource constraints will continue to be felt sharply in Africa during the 1990s. We therefore reiterate that it is necessary to mobilize additional assistance and to return to higher levels of investment so as to maintain satisfactory rates of growth and achieve the objectives of development, including the alleviation of poverty.

FIJI: J.N. KAMIKAMICA

Governor of the Bank

I wish to record our appreciation for the arrangements made for this meeting in Washington, and also to thank Mr. Conable and Mr. Camdessus for their excellent and comprehensive statements, which have helped to put into perspective the issues before us.

We note that significant global improvements have been made in overall economic conditions last year, in particular the expansion in trade and the strengthening of output. However, it is of concern to us that the benefits from such an expanded and vibrant global economic environment have yet to be felt in a number of developing countries. Indeed, a lot of these countries have been experiencing low economic growth, rising debt service obligations, and high inflation for most of the 1980s.

Many of these countries are, however, currently undertaking structural adjustment programs in order to lay the foundation for sustainable growth. It is clear that these efforts in themselves, while useful and commendable, will not be sufficient. They will also require the support and cooperation of the international community. Policy reforms and structural programs in

developing countries in my view will be successful in the long term only if they are undertaken within a more favorable external environment and with an adequate inflow of external resources to support those policy initiatives.

However, the growing protectionist sentiments in the developed countries that import the major part of the developing world's commodities and manufactured goods tend to counteract the structural adjustment initiatives in developing countries. This trend poses extreme difficulties in the domestic markets of developing countries and also serves as a threat to the objective of a more open global trading system. It is, therefore, essential that all efforts be made to counter protectionist policies and that the current Uruguay Round of trade negotiations is concluded successfully soon. . . .

. . . Regarding the debt crisis, we acknowledge the efforts taken so far by the Bank and the Fund in addressing this critical issue, which threatens the financial and socioeconomic survival of a number of developing countries. The implementation of the debt strategy will involve close cooperation between the two institutions to assist debtor countries to formulate and implement appropriate economic policies that will enable them to re-establish sustainable growth in the medium term.

As regards the Fiji economy, I am pleased to record that the level of real GDP, which had fallen by over 6 percent in 1987, fell only marginally in 1988 and that the outlook for 1989 is for a real economic growth of over 10 percent. With the turnaround in the economy during 1988 and positive developments on the political front this year, the Fiji authorities were able to implement some deregulation measures and to modify some of the financial restrictions that were imposed during the latter part of 1987.

Fiji has continued during its difficult times to maintain good relations with both the Bank and the Fund. We are most grateful for the various kinds of financial and technical assistance that both organizations continue to render through the provision of experts and the work of various missions. For its part, Fiji will continue to support the initiatives for maintaining the stability of the international financial system that are being developed by both institutions. In this regard we look forward to early action on the increase in Fund quotas and on a further allocation of SDRs. In addition, while Fiji is not currently experiencing debt-servicing problems, we are fully aware of the need for a coordinated strategy to deal with the debt crisis and trust that the steps being taken by both the Fund and the Bank to strengthen their operations in this area will succeed. Indeed, we recognize that the prospects for sustainable growth in developing countries depend very much upon successful solutions being found to these problems. Only through such international cooperation can we look forward to a stable, prosperous, and peaceful future.

FRANCE: PIERRE BEREGOVOY

Governor of the Fund
(on behalf of the Member States of the European Communities)

Since France currently holds the Presidency of the Council of the European Communities, I have the honor of addressing this meeting on behalf of the member states.

During the past two years the world economy has performed considerably better than expected. In Europe, too, the current and medium-term economic outlook has improved markedly. This reflects primarily the cumulative effects of the policy reforms undertaken since the beginning of the 1980s, characterized by increased reliance on market forces, a reduction of public intervention, and the removal of structural barriers to growth. Moreover, the growing optimism in Europe is supported by the ongoing realization of the single European market, which is already giving a strong stimulus to private investment and economic activity in general.

Inflation did pick up in the latter part of 1988, although at different speeds from one country to another, and the rise in short-term interest rates in several countries, which started roughly in mid-1988, continued until recently. However, recent developments are cause for a little optimism on the price front. The rise in inflation in the industrial countries in the early months of 1989 now appears to be abating, thanks largely to a prompt monetary policy response. There are now a number of factors making for the moderation of inflationary pressures, such as the greater flexibility of productive systems, the higher interpenetration of economies, the tightness of monetary policy, the softness of oil prices, and the slowing of growth in certain overheating economies.

There is no cause for complacency all the same. Wage trends in various countries are worrisome and could trigger a resurgence of inflation; even where such strains are not being felt, we must maintain vigilance on wage dynamics. This is why we must stay on our guard against inflation and continue to fight it through a better mix of fiscal, monetary, and structural policies. It is only in this way that we can avoid an overburdening of monetary policy and the accompanying threats to employment and growth.

Risks could also arise from the recent development of the current account imbalances. Although some progress has been achieved in reducing these, the adjustment process appears to have come to a halt and the level of deficits and surpluses remains a matter of concern.

Further efforts are called for on the part of both deficit and surplus countries, in order to redress the disequilibria between savings and investment and hence to achieve more balanced external accounts. This will, in turn, contribute to steadier, more predictable world economic development, in particular by reducing the vulnerability of the world economy to adverse shifts in sentiment in financial markets and to threats of rising protection.

It is particularly essential to secure a continued and substantial reduction of the U.S. fiscal deficit as well as measures to encourage private savings in that country. At the same time, Japan should continue its efforts for a greater opening of its markets.

The newly industrializing economies could also help foster more balanced world economic growth. They can contribute significantly to the process of reducing current account imbalances by accepting the appropriate GATT undertakings and by allowing their exchange rates to reflect their competitive position.

This necessary international compatibility in respect of economic performance calls for continued—and, if need be, more strenuous—efforts to further improve the functioning of the international monetary system. In this context we continue to support the role played by the IMF in the process of international policy coordination, notably via its surveillance function, and we also welcome the growing use of indicators to strengthen this surveillance.

The EEC countries have contributed significantly to that process through the EMS, and they are continuing to do so by reaffirming, at the European Council in Madrid on June 26 and 27, 1989, their determination to move gradually toward economic and monetary union. In our view, the commitment to a system of stable exchange rates and economic policy coordination based on the shared objective of noninflationary growth has proved its effectiveness in Europe, yielding valuable results in terms of monetary stability. Our experience too could be useful in the effort to improve the international monetary system.

The importance attached in the process of international economic cooperation to reforms designed to make national economies more effective and more flexible represents a most favorable development with regard to balanced noninflationary world economic growth. Trade policy reforms occupy a major position among these, alongside measures to reduce subsidies and to improve tax systems and the workings of the labor market. With respect to multilateral trade negotiations, the European Community welcomes the progress achieved last April in the framework of the Uruguay Round. It played, and will continue to play, an active role in strengthening the integrity of the multilateral trade system and widening its coverage. It is important that efforts are made by developed countries to ensure that developing countries obtain full access to their markets.

The construction of the single European market demonstrates our concern to open up our frontiers, thereby helping to make our economies more flexible. We believe that it will represent a further step forward in the multilateral liberalization process and will stimulate trade in goods and services.

The situation in the developing countries, particularly the highly indebted ones in Sub-Saharan Africa and in Latin America, is a matter of

prime concern to us. In spite of improved raw materials prices, their situation and their balances of payments are still fragile. What is more, in many cases investment, especially productive investment, has been curtailed, thereby restricting their growth prospects. Lastly, their debt levels are in some cases an obstacle to the restoration of a viable economic situation because the fruits of growth are entirely pre-empted by their debt obligations.

The developing countries, the multilateral financial institutions, and the developed countries have taken measures to cope with this situation. Recent progress provides grounds for guarded optimism.

The first requirement, if developing countries are to achieve growth rates commensurate with their needs, which include financial stability and external viability, is the resolute pursuit of strong macroeconomic and structural policies in order notably to mobilize domestic savings, attract investment, and stimulate the repatriation of capital. Several countries have implemented courageous policies, which have yielded positive results in many cases. These must be pursued and intensified.

Putting these sound economic policies in place is often not enough, however. Industrial countries, international organizations, and commercial banks must jointly support these efforts by providing adequate financing. Encouraging progress has been achieved in this respect in recent months.

Concerning, first, the poorest countries, significant debt or debt service relief has been granted. Thirteen countries have already benefited from the debt service reduction measures on which the Paris Club reached consensus in September 1988. The ECC countries account for more than three quarters of the amount thus rescheduled. Looking beyond that, several EEC member states have significantly increased the proportion of grants in their development aid or converted sizable quantities of loans into grants. Lastly, the conclusion by the IMF of the enhanced structural adjustment facility arrangements, to which the Community's members are major contributors, and the application of the World Bank's special program of assistance to the poorest and most heavily indebted countries are evidence of the commitment of the multilateral institutions to increasing the volume of support for the adjustment efforts of the low-income countries. We are hopeful that these combined efforts of the donor community to reduce the debt burden and provide new resources will soon be reflected in increased net flows to these countries, thus reversing the adverse trend of the 1980s. A sustained effort is necessary and we must be vigilant to ensure that the provision of increased resources is maintained for a sufficiently long period to allow a strong revival of growth.

The efforts of the international community must not, however, be confined to contributing financial resources: it is essential for the poorest countries to find stable and growing outlets for their exports. It is with this in mind that we are currently negotiating the renewal of the Lomé Convention,

seeking to adapt its instruments more closely to the needs of the countries for which it is intended.

Regarding the most heavily indebted middle-income countries, here also recent trends provide grounds for cautious optimism. The decisions taken at the Washington meetings last April have already contributed in an important way to the new agreements of the Governments of Mexico and of the Philippines with creditor banks. Given the persistently high ratio of debt service to exports, it is crucial that other heavily indebted countries be allowed to qualify themselves for these debt relief measures.

Even so, these countries still face many difficulties. The EEC member states strongly support recent work done by the IMF Executive Board to make the debt reduction approach, agreed at our last meeting in April, operational as soon as possible. Such action must be complemented by free access for these countries to export markets.

Recent developments in certain Eastern European countries confirm that higher and more balanced growth must be based on the implementation of sound economic policies and structural adjustment measures. Attention will have to be given to the degree of support which the international community should provide.

To perform effectively their task of safeguarding the integrity of the international monetary system and of helping the component parts of the world economy to develop in harmony, the Fund and the Bank need adequate resources.

These roles of the Fund and the Bank can only be fulfilled if countries scrupulously observe their financial obligations to them. Under no circumstances can arrears be regarded as acceptable, as their effect is to increase the cost of the resources made available to other members of these institutions. The Fund is a monetary institution and the revolving character of its resources is to be preserved. For its part, the Bank has to safeguard its credit rating and access to capital markets. Accordingly, our countries endorse the cooperative strategy pursued in recent months to resolve the issue of arrears, combining a firm stand on principles—in the interests of the debtor countries themselves—with a concern to avoid any measures that might prove counterproductive.

Close cooperation is another necessary condition of effective action by the Fund and the Bank. This is why we welcome the agreement on the definition of their respective areas of primary responsibility reached by the two institutions last March, and the terms of the report approved in June by the Ministers and Governors of the Group of Ten.

Lastly, the two institutions must not be left short of resources, given the scale of the tasks before them. With respect to the Fund, we welcome the impending completion of the Ninth Review of Quotas. We hope that, as a result, the Fund will revert to a size somewhat more commensurate with the scale of the world economy. In doing so, we should avail ourselves of

the opportunity to reduce the Fund's borrowing and to review the policy of enlarged access. The question of the resumption of SDR allocations during the remainder of the fifth basic period from 1988 to 1991 should be kept under consideration. With respect to the Bank, we believe that a substantial reconstitution of the resources of the International Development Association is essential.

If these conditions are met, the Bretton Woods institutions will be able to go on performing their difficult but vital task, continuing to enjoy our full support.

These, Mr. Chairman, are the remarks I wanted to make on behalf of the European Community.

In the name of France, I would like to mention two points that are also of concern to the European countries.

First, the protection of nature and our environment: a key issue for the future of the planet. The industrial countries have key responsibilities for reducing the greenhouse effect and the spread of pollutant waste. Each country must mobilize its own resources, but France believes that the World Bank must also be provided with specific additional resources so that it can encourage large-scale programs. I therefore suggested yesterday to the World Bank that it should study a special program for the environment, financed by voluntary contributions that would be additional to IDA's normal resources. The sum of SDR 1 billion would be required, and for its part France is ready to provide F 900 million over three years.

Second, very recent events also lead us to express our solidarity with Poland and Hungary, both member countries of the Fund and the World Bank. These countries deserve our support. They have decided to undertake bold programs of economic reform. Their task is immense. France believes that all the instruments at our disposal should be used: Fund and World Bank loans, technical cooperation, bilateral financial assistance, EEC assistance, and, in the case of Poland, rescheduling of Paris Club debts. My country will not stint in its efforts in this direction, because we are convinced of the historic importance of current developments.

Everything must be tried and everything done to give democracy a chance everywhere.

FEDERAL REPUBLIC OF GERMANY: THEO WAIGEL

Governor of the Fund

I.

This is a time of change and historical opportunities. In many areas—in economic relations, politics, in questions of environmental protection and of security—we can sense a new willingness to communicate and cooperate.

This is the response to the interdependence which has evolved and to the growing awareness that we share a common destiny.

Everywhere, people are demanding more individual and economic self-determination. The relations between neighboring countries in East and West have entered a new phase.

II.

The failure of central economic planing has become obvious. All over the world, we are witnessing a reorientation in favor of the real foundations of economic progress, namely, individual initiative and effort encouraged by the market system. This resurgence of the free-market spirit is a source of hope to all those who have been denied the opportunity to develop their creative potential because of oppressive state interference.

The reform processes initiated in Poland and Hungary are particularly encouraging to those who strive for more freedom, self-determination, and better living conditions. To be successful, this reform process needs outside support. We must use all the instruments available, through both bilateral and multilateral approaches, to enable the people of these two nations to help themselves. Above all, these countries need productive investment to enhance the potential for growth and to promote structural change.

My Government supports a timely agreement of Poland and Hungary with the Fund and the World Bank on a program of sustained, market-oriented reforms. This would also provide the basis for enabling Poland and its commercial bank creditors to make use of the new elements of the strengthened debt strategy.

III.

The Fund and World Bank play a key role in the process of international cooperation. Both institutions now stand ready to provide financial support to indebted developing countries to help them achieve significant debt reduction through voluntary agreements with commercial banks. This represents an important extension and strengthening of the debt strategy and demonstrates the responsiveness of these two institutions. And it puts into practice an idea which was first taken up in the communiqué of the Interim Committee in Berlin (West) last year.

Political sensitivity and economic realism, solidarity, and patience, but also confidence—these are qualities which are required for our cooperation in the Fund and the World Bank. The basic objective of this cooperation remains unchanged: to promote sustainable economic growth and to improve social conditions in the developing countries.

We in the industrial countries must not lose sight of how much effort is required to implement reforms under the difficult conditions in which the developing countries find themselves. Nevertheless, to postpone reforms

means foregoing opportunities for economic progress and withholding from the socially disadvantaged the prospect of a better life. To be successful, however, reform programs must be regarded by the governments concerned as their own, and they must be accepted by the population. The programs supported by the Fund and the World Bank must therefore be oriented toward sustained growth; they must offer a clear prospect of better social conditions; they must lead to a normalization of relations between creditors and debtors.

We also need a feeling for economic realities. Without credible economic reforms, outside help will not fall on fertile ground. For flight capital to return, people must have faith in their country's economic policy. However, to achieve the necessary revival of productive investment in the developing countries, their limited domestic savings need reinforcement through external assistance. The industrial countries will find it easier to mobilize taxpayer support for such assistance if it can be clearly seen that the help given is being put to productive use and benefiting broad segments of the population in the developing countries.

There are, no doubt, many countries whose debt has grown to such proportions that it hampers economic development. The German Government last year substantially extended its program of cancellation of ODA debt owed by very poor countries to almost DM 9 billion. For years now we have been providing new development aid to the least-developed countries in the form of grants. The Fund and the World Bank are now prepared to support debt reduction arrangements, case-by-case, if such arrangements help to achieve the objectives of the debt strategy—economic growth and creditworthiness. To be sure, in doing so, the Fund and World Bank are exposing themselves to new risks. It is therefore all the more important that Fund and Bank loan arrangements are conditional upon credible reform programs, as the maintenance of their financial integrity is in the interest of all their member countries.

We also need solidarity. Both creditors and debtors must do their part to promote renewed growth and better living conditions in the developing countries. For the Fund this means we must ensure the continued strength and effectiveness of this central institution through a substantial quota increase.

We need the solidarity of the industrial countries, but we also need solidarity within the developing countries.

Last but not least, we owe solidarity to the coming generations. Our goal is a sustainable process of development which protects the natural environment—the basis of our existence. It is precisely here that we can see that all countries share a common destiny. The Paris economic summit has provided new impetus in important areas. We must confront the alarming danger of irreversible environmental damage. The World Bank has, in the meantime, made environmental policy a regular component of its dialogue

with borrowing countries. The Bank should resolutely continue on this course and deserves our full support.

We need patience because there is no quick-fix solution for the problems of debt and underdevelopment. Success can only be achieved through persistent cooperation and solutions tailored to the individual case. Let us now concentrate our energies on making effective use of the available opportunities and instruments and make them work.

IV.

In spite of the still existing problems and difficulties, we have good reason to be confident. A number of countries have maintained their creditworthiness in spite of their large debt. Their economic upswing is continuing, at an impressive rate in some cases. Others have initiated a change for the better with their reform policies. Their success serves as an encouragement for all. The unbroken economic expansion in the industrial countries should continue to contribute to a favorable international economic environment.

The durability of the expansion in the industrial countries reflects the fundamental improvements which have been achieved in the conditions for growth since the beginning of the 1980s. The success achieved proves us right in pursuing a policy which relies on market forces, removes obstacles to growth, and rewards qualification and skills, risk-taking, and hard work.

In this atmosphere, business investment is now reacting positively to the opportunities and challenges offered by structural change, technological progress, regional integration, and high-capacity utilization. This will strengthen the foundations of growth and prevent the emergence of inflationary bottlenecks. Investment in Europe is gaining additional momentum from the internal European market planned for 1993. It is not without pride that we can point to the new eurodynamism, which stands in sharp contrast to the once fashionable catchword "eurosclerosis." The German Government—and I stress this—can conceive of the internal European market only as a market which is open to the outside. The basic idea of the internal European market applies both inside and outside: releasing forces for growth in a larger economic area by dismantling barriers.

But let us not forget the old insight: inflation does not solve any problems, it just creates new ones. Monetary policy has played its part in preserving price stability as a foundation for sustained growth and secure jobs. Our policies must be consistent and coordinated. This also requires budgetary discipline, encouraging competition and a sensible wage policy.

The further reduction of persisting large external imbalances remains a continuing objective of our cooperation. Better external balance will support the stability of the financial markets and it will remove a pretext for protectionism. Those industrial countries whose budget deficits are too high serve both their own interests and those of their partners if they put into

practice their declared intention of budget consolidation. This would release resources for productive private investment; it would facilitate the task of monetary policy of ensuring the financing of tension-free growth; and it would strengthen their external position.

The surplus countries must, both in their own interest and that of the world economy, further improve the conditions for domestically led growth. In the long run, such growth can only be achieved by continually improving fundamental economic conditions. Short-term fine-tuning of demand is nothing but a dead end. The dynamic German market offers our partner countries growing opportunities for marketing their products. More and more use is being made of these opportunities; we strongly welcome this. Germany's trade surplus with the United States has dropped sharply, and our trade balance with the developing countries remains in deficit.

V.

In the Federal Republic of Germany, the economic upswing, now in its seventh year, stands on a solid foundation. In the current year economic dynamism has even increased. Our lively business investment augurs well for the continuation of the upswing in the time to come.

The excellent state of the German economy and its good prospects are underpinned by the significant improvement in the underlying conditions for growth. We are now reaping the fruits of the economic reforms of recent years in Germany, too. We have improved our country's basic economic strength by reducing and reforming taxes, by promoting market forces, through privatization and deregulation. We have responded to long-term changes in our demographic and social structures by reforming the health and pension systems. Next year, domestic demand will get an additional boost from a further tax cut amounting to about 1 percent of the national product. And in the coming years we will continue our policy of deregulation and removing structural barriers to adjustment.

IV.

In the pursuit of our domestic objectives, we are all well advised to consider the international effects and repercussions of national action. To maintain steady growth while achieving an orderly reduction of global economic imbalances, there is no alternative to the closer economic and monetary cooperation among the major industrial countries.

Our cooperation must now prove itself through a successful and timely conclusion of the multilateral trade negotiations in the GATT. Here we have an opportunity to make real progress in:

—opposing unilateralism in world trade;

—making regional integration part of an open trade system;

—enlisting the cooperation of the newly industrializing countries in a free multilateral trade system; and

—offering the developing countries new prospects for growth and trade.

Let us seize this opportunity to strengthen free world trade as an engine of economic progress for all countries.

GREECE: DIMITRIOS CHALIKIAS

Governor of the Fund

The world economy continued to perform strongly in early 1989 as it did in 1988. Industrial countries enjoyed high growth driven by a rapid expansion of investment. Newly industrializing countries also achieved high growth rates, mainly owing to buoyant exports of manufactures by the Asian countries. By contrast, GNP growth in low-income countries and in countries with debt-servicing difficulties was modest and lower than that achieved in the mid-1980s, with the 15 heavily indebted countries at the bottom of the scale.

Wage moderation and weak prices of oil and some other vital commodities during 1988 enhanced profitability and business confidence in industrial countries, resulting in stronger investment. They also led to lower unemployment and almost unchanged inflation, despite the relative tightening of labor markets. In the first quarter of 1989, inflation accelerated somewhat, partly owing to higher oil prices and the appreciation of the U.S. dollar. Also, unemployment in certain OECD countries remains high by historic standards, owing to labor market imperfections, insufficient structural adjustment, and tight monetary and fiscal policies in some countries.

Regarding the balance of payments, recent developments in current accounts give cause for some concern. The pace at which imbalances are reduced has slowed down, while exchange rates have been more volatile than in most of the period following the Louvre Accord. In particular, movements in the U.S. dollar were not always consistent with fundamentals. While it is true that cooperative efforts by the Group of Seven, mainly through concerted intervention in foreign exchange markets, helped to stabilize exchange rates, further efforts are necessary on the part of both deficit and surplus countries in order to achieve and sustain more balanced external accounts. To this end, it is imperative that deficit countries reduce their fiscal imbalances and encourage private savings, while surplus countries open up their markets and, especially the newly industrializing ones, allow their exchange rates to reflect their external position.

Developments in economic policies in 1988 witnessed the dominant role of monetary policy. Following some easing of monetary conditions aimed at absorbing the effects of the stock market crash, monetary policy became uniformly tighter in industrial countries since the second quarter of 1988,

with short-term interest rates rising to resist inflationary pressure and/or prevent a fall in exchange rates. Less progress was made toward fiscal consolidation because of conflicting objectives of different countries, partly resulting in external imbalances and in an excessive burden on monetary policies. A common structural characteristic of fiscal policies was the move toward the reform and simplification of tax systems and the reduction in marginal tax rates.

Over the last few years, many industrial countries have intensified their efforts toward structural reforms aimed at supply side improvements and more efficient use of resources. Among other things, these reforms aim at rationalizing the way governments intervene in the economy, by eliminating barriers to competition. This should not be taken to imply that all government intervention is harmful to the functioning of markets. Abuse of power—either due to monopoly or to asymmetries of information—and market imperfections justify intervention, even in the most advanced market economies. In countries where markets and institutions are less developed, there is even wider scope for intervention, including measures to improve the functioning of the market mechanism and of the institutions that support it. In particular, government intervention in labor markets should take the form of a suitable mix of educational, training, housing, and tax policies aimed at matching the demand and supply of different skills.

Recent developments toward the economic and monetary integration of Europe contribute to the stability of the world economy. The rapid progress that has been achieved in recent years is due to the pursuit of a number of parallel objectives: completion of the internal market, monetary integration, and economic and social cohesion. There exists broad agreement among the EEC countries over these objectives, although individual countries are debating the speed of implementation and the instruments to be used. If transitional costs are to be minimized and benefits maximized, member countries should follow macroeconomic and structural policies conducive to monetary stability and sustainable growth.

In this connection, I would like to briefly refer to recent economic developments and the stance of economic policy in my country. Since the beginning of 1988, the performance of the Greek economy can be characterized as mixed. On the positive side, real economic growth and private investment expanded considerably, while in the same year the current account deficit, as a percent of GDP, fell to a low level and was financed by autonomous private capital flows. On the negative side, inflation decelerated only moderately in 1988 and has stabilized at the high level of about 13 percent, while underlying inflationary pressures have been rising. On the other hand, the stance of economic policy and the policy mix have changed significantly since early 1988. Incomes policy and fiscal policy have been relaxed and monetary policy has had to bear the burden of achieving internal and external stability.

The main challenge facing the Greek economy today is the reduction of the sizable public sector deficits. Dealing with this problem is becoming increasingly difficult as the high real interest rates required for monetary stability have compounded the problem of deficits in recent years. The reduction of fiscal imbalances requires difficult choices and concerted efforts and it cannot be accomplished in a short time. It is a task that can only be accomplished by pursuing a consistent and credible fiscal policy in the medium term. The Greek Government is currently formulating a medium-term fiscal consolidation program aimed at tackling effectively the causes of fiscal imbalances. The persistent implementation of such a program is necessary for achieving sustainable noninflationary growth in the new environment of an integrated European market.

Let me now comment on the situation in countries with debt-servicing difficulties and in low-income countries which gives cause for concern and requires concerted international action. Heavily indebted countries are attracting insufficient private capital to finance their current account deficits. As a result, they are transferring resources abroad, mainly through interest payments, which exceed, on average, 3 percentage points of their GDP. In addition, the financing of their large fiscal deficits through money creation causes very high inflation, which increases uncertainty, undermines business confidence, and discourages foreign investment. Hence, investment and GNP growth remain low, aggravating their overall economic situation.

In low-income countries, low growth is largely due to: (i) the fall in certain commodity prices; (ii) delays in implementing structural reforms to take into account market signals; and (iii) the protectionist policies pursued in the industrial world. Fiscal and current account deficits are being tackled mainly through investment cuts, because very low living standards do not allow a reduction in consumption.

In the absence of sufficient development financing, the adjustment process for most developing countries has meant, in effect, adjustment to a narrowing resource base, the effects of which were exacerbated by protectionist attitudes on the part of some industrial countries and the burden of external debt-servicing requirements. It is significant to note that, where the action of the Bretton Woods institutions was successful, development finance from other sources was available in adequate amounts to ensure the expansion and diversification of the resource base necessary for sustainable growth as well as for socially and politically sustainable macroeconomic stabilization.

Sound macroeconomic policies, together with structural reforms designed to improve the flexibility and the dynamism of developing countries, must be consistently and persistently pursued. The policies and objectives of the IMF and the World Bank, in this respect, are entirely appropriate. However, the interventions of the sister institutions, with all the array of instruments at their disposal, are not and cannot be sufficient to ensure growth in developing countries at an adequate and sustainable rate. There is a need

for considerable expansion of aid assistance on concessionary terms in conjunction with the Bank and Fund programs. This is the area in which our efforts must be concentrated in the future. For this purpose, action in two directions needs to be taken. First, a significant expansion of the resources of both the International Monetary Fund and IDA is necessary. More particularly, with regard to the Fund, a substantial increase in quotas is required in order to bring its size closer to that of the world economy but also to enable it to expand its role in support of the adjustment and structural reform process in an environment of growth. In addition, a rapid and substantial replenishment of IDA is particularly important in enhancing the World Bank's role in the development process.

Second, it is essential to ensure increased collaboration between the Bank, the Fund, and other multilateral lending institutions, on the one hand, and national aid agencies, other official financing institutions, and international banks, on the other, so as to mobilize the support of the entire international financial community on an adequate scale for comprehensive programs, that is, programs combining adjustment, structural reforms, and adequate investment growth. This will require imaginative joint initiatives on the part of the Bretton Woods institutions and the developing countries concerned, but there has to be a positive response, considerably stronger than has been forthcoming in recent years, from the industrial world. Thus developing countries can be helped effectively to escape from the trap in which they find themselves now and contribute positively toward world stability, growth, and prosperity. My country, despite a number of constraints, has in this spirit contributed within its possibilities to the enhanced structural adjustment facility of the Fund and is willing to cooperate positively through the European Economic Community toward these ends.

HUNGARY: FERENC BARTHA

Governor of the Fund

It is a great privilege for me to address the Boards of Governors of the World Bank and the International Monetary Fund. I wish to center my remarks on three key issues:

—the current situation and outlook for the world economy;
—the treatment of the international debt problem; and
—cooperation between the developed and the developing countries

The World Economy

In the past six years we have experienced a long period of positive rates of economic growth in the developed world. The favorable performance of the developed countries reflected an improvement in the process of economic policy coordination among them, which also helped greatly to ease

the acute global problems. However, in light of the rate of development of the world economy as a whole, the achievements of this period seem much less satisfying. From 1982 to 1988, the gross national product (GNP) of the developing world grew by an average 2 percent per year. By any measure, this is a strikingly poor outcome in a world which fundamentally needed a much higher growth rate to narrow the gap between the industrial and the developing economies, and to help the developing nations escape the desperate situation of heavy external indebtedness.

We also cannot help seeing, when analyzing the history of recent years, the extremely high cost imposed by the adjustment process in the industrial economies on the less fortunate part of the world. It is clear to all of us that this process was heavily burdened by great instability of interest rates and exchange markets, and by painful volatility of important export markets and international financial flows. This very hostile environment for the developing economies made their task of growing out of their economic and financial problems extremely difficult. The failure of the governments of the developing countries to materially improve their economic situation in recent years can largely be explained by the shortcomings of this environment.

The present situation and outlook for the world economy are not very encouraging from the standpoint of the global adjustment problem. The GNP growth rates of the industrial countries are expected to stagnate or fall, real interest rates are at excessively high levels, the world market for goods and services remains segmented by protectionism, and the great majority of the developing countries have insufficient access to the financial markets. Though we know that a key element of any adjustment process is the implementation of rational policies by the indebted nations, they will have to receive concerted support for their national adjustment efforts to succeed.

The foregoing conclusions have implications for various aspects of economic policy and coordination. The expansion of the world economy should receive its most important contribution from the developed economies. We urge the industrial countries to implement their own growth-oriented adjustment programs by streamlining their government spending, eliminating structural rigidities from their national economies, and reducing and stabilizing their national interest rates for the long term. Moreover, successful adjustment by the developing countries will require a much more stable international environment than the world economy currently provides. Achievement of this stability and higher GNP growth rates could effectively be reinforced by the establishment by the industrial countries of a more explicit and symmetrical framework for closer monetary cooperation. With this end in view, we support the Belgian proposal for using the SDR mechanism for concerted exchange market interventions, which would support the largest countries' adjustment process and would also have a stabilizing effect on the present reserve system.

The Debt Problem

Another area where cooperation among member countries should be strengthened is the debt problem. The results of the many efforts made in past years to alleviate the overall debt burden have been less than satisfactory. We believe the indebted countries must undertake strong, comprehensive domestic policy reforms to restructure their economies, and that they must pursue prudent financial policies to restore equilibrium. But these efforts must be accompanied by enough external assistance to alleviate the debt burden and provide fresh capital enabling the debtor economies to implement reasonable adjustment programs.

Hungary welcomes the new policy initiatives of the Fund and the Bank to provide financial assistance to support debt reduction. Though the modalities and practice of debt-reduction programs must be further refined, and though the positive results of such programs have yet to materialize, we judge that strategy to be a useful device for mitigating the enormous external debt burdens of a number of countries. At the same time, we believe that any support provided by the Fund and the Bank for debt reduction should come from resources which are additional to their present resources, to avoid any adverse effect on the availability of resources for borrowers who are not benefiting from debt-reduction operations. In this connection, we are concerned by the fact that a part of access to Fund resources is set aside to be used for debt-reduction purposes, and that this set-aside implies a reduction in potential access to resources for balance of payments financing. These arrangements are especially distressing for those countries which have been able in the past to maintain their access to the private capital markets but now face heavy debt service obligations. We believe that these countries, through their efforts to maintain an orderly schedule of debt service payments, have made a basic contribution to the stability of the international financial system, and we wish to stress the need for enhanced financial assistance to support the countries which are not qualified for officially supported debt relief. . . .

Cooperation Between the Developed and Developing Countries

. . . We nowadays face a growing recognition that a comprehensive approach to the process of growth-oriented adjustment should not omit the kinds of support which can be extended by the governments of the developed countries. The assistance provided by the international financial institutions can only be effective if the other elements of the international environment are conducive to the successful solution of the adjustment problem. A crucial element of adjustment solutions is economic cooperation between the developed and the developing countries. By now, the presence or absence of such cooperation has become much more than a question of help extended from one country to another. The real question is how the developed

and developing countries can mutually improve and exploit their opportunities for faster growth and healthier economic development. To attain such a goal as this, cooperation by all parties is needed.

We wish to stress that all countries have important responsibilities in the cooperation process. On the one side are the developing countries, which can contribute to world growth by implementing structural reforms, improving their supply performance, expanding and opening up their domestic markets, and avoiding macroeconomic disruptions due to financial imbalances. On the other side are the developed countries, which should assist the developing countries' efforts by eliminating trade protectionism, facilitating the transfer of modern technology, encouraging the flow of private direct capital investment, and promoting industrial and trade cooperation. Industrial country governments can also extend guarantees and other incentives to private lenders to facilitate the obtaining of fresh external financing needed for the efficient implementation of adjustment programs by indebted developing economies.

I have summarized some key elements of the philosophy which my Government considers an appropriate basis for handling global economic problems. Hungary is following a path of systemic modernization through a set of policies which we believe will contribute to the practical realization of that philosophy. In recent years, we have implemented a fundamental reform of our domestic financial system and begun the gradual elimination of the market distortions which flow from state intervention. We initiated a process of deregulation combined with establishment of a modern system of internationally compatible economic laws, lifted the barriers to the operation of private and foreign capital, liberalized external trade and travel, taken steps to restore a rational system of relative prices, and begun a comprehensive reform and streamlining of the public sector. Hungary has opted for the policies of reform and growth and is committed to developing its economic cooperation with other countries.

My Government's major endeavor is to maintain the financial equilibrium of the national economy. It is widely recognized that the external balance must be a high priority of economic policies if the momentum of the deeply rooted reform is to be sustained. In that respect, an important achievement is the strengthening of a modern monetary and a transparent fiscal system, which offers an opportunity for the conduct of efficient economic policy.

A key factor to the success of Hungary's ongoing economic reform movement is the historical change of the sociopolitical system. An emerging era of political democracy based on a fundamental political accord reached by different political forces of our society just about a week ago and the upcoming free elections are hoped to provide a level of consensus that is conducive to social and economic progress. The Hungarian nation is fully aware of the importance of that historic opportunity and of the importance of the nation's success for other regions of the world. The Hungarian Gov-

ernment greatly appreciates the solidarity and support expressed by the distinguished delegates and by both the Fund and the Bank encouraging the developments in Hungary. It is valued especially because, without meaningful international support, the endeavor undertaken by Hungary will not be able to succeed.

It is our hope that these efforts will materially contribute to the solution of the global economic problems, and we also hope that these efforts will receive an appropriate response from the member countries of the World Bank and the International Monetary Fund.

ICELAND: JON SIGURDSSON

Governor of the Bank
(on behalf of the Bank Nordic Countries)

Speaking on behalf of the five Nordic countries, Denmark, Finland, Iceland, Norway, and Sweden. I would first like to join previous speakers in welcoming Angola as a new member of the World Bank.

At the time of the Annual Meetings, last year, signs could be discerned of a change in the dismal process of decline for much of the developing world. Programs of adjustment were being pursued by many countries and initiatives by international institutions, as well as industrial countries, were being implemented. During the past year these efforts have continued and a process of debt reduction has been set in motion. There are indications that adjustment programs are leading to improved growth in several countries, while good economic performance prevails in most countries without debt problems. Nevertheless, in major parts of the developing world, especially in Sub-Saharan Africa and Latin America, terms of trade remain unfavorable and resources for investment insufficient, while per capita income continues to fall.

Relatively strong economic growth is likely to continue in industrial countries for the time being. It is of the greatest importance that developing countries can further benefit from this expansion of production and trade to enable them to make better use of their resources and comparative advantages. A timely and successful conclusion of the Uruguay Round would be a most important step in this direction, reducing agricultural export subsidies and import restrictions, dismantling non-tariff barriers and integrating trade in textiles and clothing into the GATT system. Also, in shaping their regional trade arrangements, industrial countries need to give full attention to the position of developing countries. Last but not least, strong efforts by the industrial countries to improve their own internal and external balances will help to create a more stable economic climate worldwide, with lower real rates of interest and better prospects for growth.

The implementation of structural adjustment policies remains a vital task in the developing countries. It is most important that these policies are

designed in a way that makes them sustainable. In that connection, I would like to single out one aspect, the need to reduce the hardships of the most vulnerable groups. In maintaining adjustment policies over a prolonged period of time, the adjusting countries need all the support the creditor and donor community can provide.

Important steps have now been taken to diminish the burden of debt. A timely and forceful implementation of these initiatives is crucial. The major precondition for this is readiness by commercial banks to agree to a significant reduction of debt. Individual creditor countries may facilitate this by appropriate changes in bank regulatory and tax procedures. For the indebted middle-income countries, progress in debt reduction, combined with effective economic policies, ought to bring about a renewal in the flow of private resources as well as the repatriation of capital. In this process the World Bank will continue to be an important catalyst. It should also, through its Expanded Cofinancing Operations, continue to facilitate the access to capital markets of countries which have avoided severe debt problems.

The Nordic countries, for which I am speaking, would in particular like to emphasize the need for sustained support of the low-income countries. While some industrial countries have substantially increased their official development aid, we deplore that others have reduced it. It is widely acknowledged that low-income countries, both in Sub-Saharan Africa and in other continents, will not be able to achieve satisfactory growth in the foreseeable future without substantial and increasing external aid. Many of these countries are demonstrating their determination to mobilize their own resources and follow the strict policies required to achieve development. Others are following in their footsteps. It would indeed be regrettable if the industrial nations at this juncture should fail to come forth with sufficient support. This applies specifically to the replenishment of IDA. We believe that an increase in real resources is required. We urge all donors to contribute to this and reach a timely agreement on IDA-9.

Economic growth, reduction of poverty, and protection of the environment must go hand in hand. Without economic growth, resources for addressing poverty and improving the environment will not be available. And without alleviation of poverty and maintenance of the environment, economic growth will neither serve a proper purpose nor be able to continue for long. The essence of development strategy, and the basic mission of the World Bank, is to achieve the interweaving of these three strands of policy.

Traditionally, the Bank has devoted most of its attention to the creation of infrastructure and the direct promotion of productive activities in the developing countries. More recently, the support of broad policy reforms has been added. It has become increasingly clear, however, that efforts in these directions cannot yield lasting benefits in economic growth and reduction of poverty unless they are accompanied by a strengthening of hu-

man, technological, and institutional capabilities. This implies increased support for research and technology, for building institutions, not least in the field of finance, and for improving management in private as well as public enterprises. This also implies increased support for education, health, nutrition, and population programs through lending, research, technical assistance, and training.

In the discussion of the Development Committee and at the Annual Meetings a year ago, the combined goals of economic growth and poverty reduction were clearly established. This implied the Bank's help in the design and implementation of programs and projects aimed directly at providing the poor, such as farmers and small entrepreneurs in industry and services, with necessary means of production. Important work of this kind has been undertaken and experience of previous initiatives has been gained. Nevertheless, an impression is left of a lack of clarity on how to proceed. The countries I represent hold the view that a forceful move should now be made in the direction agreed upon last year. The progress should be reviewed next year when poverty will be a theme of the World Development Report and a topic on the agenda of the Development Committee.

The active engagement of women in the development process has been on the World Bank's agenda for several years. Important studies of the economic role of women have been made. Time has come for action, transforming the conclusions we have drawn from these studies into Bank programs and projects. Recognition of the role of Women in Development should be an integral part of the everyday operations of the Bank.

In the quest for poverty reduction, population policies must be an integral part of development strategy. As opportunities improve for better education and health services, a stronger basis is created for successful population policies. Increased efforts should therefore be made in this field, initiated in the countries themselves by their own organizations and governments, with strong external support, not least by the World Bank.

The World Bank has made good progress in incorporating environmental considerations in its operations. This applies to the preparation of projects and to a lesser extent to economic and sector work. The goal must be to take environmental considerations into account at every level of the Bank's work in common with the basic aims of growth and poverty reduction. Sufficient information on the environmental aspects of projects and on alternative ways of solving problems ought to be made available at an early stage. Ways have to be found in individual cases to merge the aim of economic growth with that of environmental protection and to strike a reasonable balance between the two when they cannot be made to coincide in the short term. It is also important for industrial countries to remember that exhortations to pay attention to the environmental aspects of development will gain in strength and credibility to the extent they themselves take such aspects into consideration in shaping their own economic policies.

We are now approaching the end of a decade which has brought many disappointments but has also given us many new insights into the process of development. As countries gradually come to grips with the problems of adjustment and debt, they will be seeking to lay foundations for stable long-term development. They will be taking stock of the financial resources they themselves can mobilize and the support they can obtain from the outside. They will be giving attention to their human resources and the preservation of their natural endowments. As a most important agent for the support of development, the World Bank will need to consider its own role in this process, to outline a basic strategy for the coming decade with due account to the lessons of the past. This is a task deserving high priority and the Nordic countries are prepared to lend active support to ensure its success.

INDIA: S. B. CHAVAN

Governor of the Bank and Fund

I extend my hearty welcome to the People's Republic of Angola, which has just joined the Bank-Fund family.

We are meeting on the threshold of the 1990s, and as we look beyond to the end of the century, the question to ask ourselves is whether we have learned the lessons of the 1980s. The President of the World Bank, Mr. Conable, stated that the objectives of the Bank are to "reduce poverty and accelerate growth." The Managing Director of the IMF, Mr. Camdessus, said that the 1990s must be a decade of opportunities. How near or far are we from these laudable objectives?

The 1980s are a decade of low growth, high inflation, and rising poverty for most developing countries. There are, of course, exceptions. India, for instance, has done reasonably well. National income over the 1980s has grown at over 5 percent per annum, the incidence of poverty has come down, inflation rates have been modest, and exports are increasing rapidly. Development has been financed predominantly by high domestic savings, and recourse to external borrowing has been kept within prudent limits. However, even those of us who have done well have had to cope with the declining flows of concessional assistance, rising protectionism in the industrial countries, a high degree of exchange rate volatility, and persistent imbalances in the global economy. The progress in the coordinated correction of balance of payments deficits and surpluses among major industrial countries has stalled. The impact of these imbalances on trade policy, exchange rates, and interest rates contributes, in no small measure, to the current account deficit of developing countries. Since the developing countries lack the finances required to cover these deficits, they have had to implement strong expenditure-reducing policies that hurt investments and growth and erode already low levels of living of the poor. At a time when they need resources to correct the structural imbalances in their economies,

there is a net transfer of resources from them to the rich countries. Small economies are being asked to make large adjustments while large economies continue to carry on as before. As long as the imbalances in the industrial countries continue, structural adjustment in the developing countries will remain difficult.

A more symmetrical adjustment process is necessary if the global economy is to recover its balance. In particular, it must be ensured that macroeconomic policy coordination among industrial countries goes beyond narrow monetary objectives. Policy coordination should aim at promoting stable and healthy growth and open markets. They should not have narrow national or regional focus and should take into account the impact on the global economy, particularly the developing countries.

The belief that the answer lies in the free play of market forces is true to a certain extent, but this is not all that is required. The failure of many structural adjustment programs testifies to this. In developing countries the response to market signals is often constrained by the lack of infrastructure. Investments in energy, transportation, land and water development, and human resource development are essential, both for adjustment and for growth.

In this context, I must point out that the overall magnitude of net resource flows to developing countries has been clearly inadequate to meet their developmental needs. Aggregate net flows still remain far below the levels observed in the first half of the 1980s, financial markets continue to be tight, and real interest rates remain significantly higher and more volatile than in the 1970s. Besides, private lending is steeply lower than the levels observed in the 1970s. Net official flows have also declined in real terms though less sharply. In these circumstances, a major global effort is needed to provide additional resources to accelerate the process of growth with equity in developing countries.

The Ninth Replenishment of IDA is of critical importance to low-income countries. In many ways, IDA symbolizes the commitment of the international community to poverty alleviation, a task that is central to the activities of the World Bank. We would urge the donor nations to act in a spirit of understanding and agree to a replenishment of IDA-9 on a substantially higher level than IDA-8. This will go a long way to demonstrate that the ideal of international cooperation to eradicate poverty survives. . . .

. . . Let me, in this context, refer to the problem of debt. A new initiative has been launched to resolve the debt problems of the highly indebted middle-income countries. This development, as well as the initiatives for reducing the debt of the poorest countries, is desirable and welcome. However, low-income countries that have thus far managed to service their debt, often at a great cost, need to be assisted to maintain the momentum of growth. Some of these countries are already facing severe resource constraints in achieving desired levels of investment for growth and poverty

alleviation. They must be helped to maintain the momentum of their development, particularly by larger flows of concessional finance. In particular, the debt initiative must not reduce the availability of resources for the normal Bank- and Fund-financed programs.

The flow of external finance is only one dimension of the development problem. We recognize the value of an open trading system and the multilateral arrangements that underpin it. That is why we deplore the increasing use of unilateral and bilateral measures in this sphere. In particular, the adjustment process calls for an early reversal of the increased protectionist measures imposed by the developed countries. This is necessary to enable the developing countries to reduce their external imbalances through expansion of their exports.

The Bank's primary task is to promote development and to reduce the incidence of poverty. As suggested by Mr. Conable, the world community should measure the success of international efforts at development by a very simple test: To what extent has it been possible to enhance the quality of life for the poorest segments of the world population? The task remains immense. National governments have to be assisted in their efforts to alleviate and eradicate poverty.

We have always recognized the importance of the environmental imperative and had set up a machinery for environmental planning and coordination in the early 1970s, in fact, before the Stockholm Environment Conference. We introduced strict legislation on air and water pollution. We have also introduced many fiscal incentives for this purpose. All major projects are subjected to detailed environmental impact assessment, and we insist that all projects must include full provision for environmental safeguards and complete rehabilitation of those who may be adversely affected. Environmental projects have been taken up for wasteland rehabilitation and for cleaning up major rivers. There is total political commitment to the task of environmental protection at the highest level, and an active judiciary and NGO movement keeps us on our toes.

Basically, environmental degradation in developing countries is caused by a lack of development and a paucity of resources. Hence, accelerated growth is a necessary condition for environmental conservation. There should, in principle, be no conflict between development and sound environmental policies. The issue, therefore, is not one of introducing increased and cumbersome layers of conditionalities. Equally, we should not turn into advocates of stagnation and decline in pursuit of environmental protection. Development necessarily involves changes in resource use, and the environmental imperative must not become an enemy of such changes.

The challenges of protecting the environment are global and require major actions by industrial countries and not just by developing nations. Global efforts at environmental protection would need to guard against the impo-

sition of disproportionate obligations on developing countries when the massive sources of global pollution lie elsewhere.

Sustainable growth is in the common interest of the entire international community. Effective initiatives to protect the environment require additional concessional resources. In particular, a global effort is necessary to ensure adequate funding of research, development, and the diffusion of environment-friendly technologies. With this end in view, India has proposed the establishment of a Planet Protection Fund under the United Nations. We have proposed that the contributors to, and the beneficiaries of, this fund will include both the developing and the industrial countries.

Mr. Chairman, we share your conviction that, while the tasks of poverty alleviation and development, maintenance of stability, and protection of our environment are indeed immense, all of us, acting together, can meet these challenges.

INDONESIA: J.B. SUMARLIN

Governor of the Bank

As I review the data on global economic trends, it seems to me that the prospects for the world economic situation are a little less bright, but basically the same as those we faced a year ago. Overall activity, driven by a deceleration of activity in the industrial countries, is slowing, and this trend can be expected to continue through next year. Inflation has remained under control, although with several major economies pushing against their capacity limits, the potential for inflationary pressures remains. The need for overt policy interventions to control inflation is, therefore, a distinct possibility.

Disappointingly, little progress has been made in reducing external imbalances. Indeed, the immediate prospect is that they may again widen. Finally, achieving greater policy coordination among the major economies has been slight. However, there have been no dramatic turns for the worse. Overall prospects are not very different from those of last year.

I would stress that the prospect of only a slight deterioration in the world economic situation is the most likely scenario, not a certainty. There are many potential events or developments that would make the outcome much more discouraging. Markets could stumble, or policymakers, each subject to his own political process and imperatives, could inappropriately react in addressing the dangerously large fiscal and trade imbalances. The need to deal with major issues in the domestic banking systems in several key countries may divert attention from adequately addressing issues of international importance.

Moreover, the world economy's adjustment to very important changes taking place in the role of important participants, such as the enhanced

economic importance of Japan and the NICs or Europe's further integration in 1992, could be mishandled. Neither inflation nor rampant protectionism is clearly behind us. . . .

. . . Having said this, I would still make the assumption that we face the prospect of a mild deterioration in the world economic situation as the most likely outcome, based on present evidence. That, therefore, will be my working hypothesis, but we must be on the alert for signs that we have been too optimistic.

If this assumption is correct, then the policy objectives should also remain substantially unchanged from those of last year. Of these, in my view, the most important are: to reduce significantly the external imbalances of the major trading nations, so as to achieve a greater stability in the international economy; and to effectively reduce the debt burden of the developing countries, so as to permit them to regain voluntary access to financial markets and to re-establish a process of sustained growth.

The first objective requires continued emphasis by the Fund on the need for continued vigilance to avoid a resurgence of inflation, and on improved coordination of differential demand management policies in the major industrial countries. Demand should grow more rapidly than GNP in the countries with balance of payments surpluses, while in the deficit countries, it should be the other way around. Effective coordination of policy would permit the still overly large external imbalances to be reduced on a sustained basis. This would do much to restore market confidence.

The fact that important surplus countries are already pushing up against capacity limit does create a problem for this prescription. Nevertheless, enhanced coordination and the reduction of the external imbalances must remain high-priority policy objectives.

Keeping inflation under control and restoring external balance represent difficult challenges. To meet these challenges will not be easy. The factors involved are complex and can be at odds with one another. It is, therefore, important not to place too heavy a burden on a single policy instrument—monetary policy—to achieve both objectives.

Relying solely on monetary policy as a cure-all runs the risk of generating exchange rate movements that could undo some of the gains in external competitiveness achieved recently. It could also lead to levels of interest rates higher than they otherwise would be, increasing the debt burden we are all trying to reduce. Clearly, the right policy prescription will require a judicious mix of monetary, fiscal, and structural policies so that exchange rates, interest rates, and supply responses can all work together to strengthen the performance of the world economy.

Dealing constructively with the debt problems of the developing nations remains one of our most urgent tasks. Re-establishing access to financial markets, or continued access for those countries that still enjoy such access, to obtain the resources necessary to support sustained growth in the devel-

oping countries, is an imperative for a sound world economy. To this end, the strengthened debt strategies of the Fund and the Bank are to be welcomed. A few comments on their implementation are in order.

Debt reduction is now recognized as one of the keys to renewed market access. To have a maximum impact on debt reduction, and on the entire adjustment process, it may be necessary for the Fund to be flexible on the timing of disbursements under the strengthened debt strategy—providing more money up-front—without abandoning the principle of conditionality. The secondary market for debt might not evolve in the desired way if the debt reduction effort is too drawn out.

It has to be assumed that segments of the commercial markets may be reluctant to provide the required levels of new money in the face of the need to accept discounts on existing loans. Indeed, there are some worrisome implications in the announcements associated with the recent additions to reserves for "troubled loans" made by major U.S. banks in the last few days.

These reactions will need to be carefully monitored. Every effort will need to be made to keep the commercial banking community an active, and voluntary, partner in the process of financing sustained growth in the developing countries. The official sources of short- and medium-term finance will need to be prepared to provide the funds and policy support that may be necessary to encourage the maximum participation of commercial lenders. The necessary flow of commercial lending may require consideration of changes in the regulatory framework within which commercial lenders operate. It may also be necessary to find ways to reduce the seniority of existing debt—both official and commercial—if an adequate flow of net new money is to be induced.

Of course, the borrowing countries must also do their share to assure an adequate flow of resources. We recognize that surmounting the debt burden problem is a responsibility of both borrowers and lenders. The borrowers must be seen to be genuinely committed to policies of sound economic management and structural reform. Conditionality does have to be part of the solution.

Let me repeat the points I made at our meetings last year in Berlin (West). Inappropriately designed or ineptly applied conditionality can be seriously counterproductive—leading to unnecessary, and unacceptable, levels of hardship. Getting the sequence and timing of the steps in the process right is essential. Nevertheless, it is equally true that good management and structural adjustment make an important contribution to achieving sustained growth.

Last year, I noted that "the experience of Indonesia, and the positive results we have achieved, lead me to state that conditionality—enlightened conditionality, that is, based on strategies of growth—remains an appropriate tool to be applied both by the Fund and the Bank in the proper conduct

of their affairs." The Fund's surveillance function can play an important role in assuring timely and supportive counsel to members in pursuing their adjustment programs.

Events in my country during the year since I made those remarks strongly reconfirm that judgment. Under the policies we continue to pursue with the supportive counsel of these two institutions, the diversification of our economy is moving forward vigorously; our manufacturing sector is growing at an accelerating rate; our non-oil exports are growing; and our financial sector and capital markets are playing an ever-growing role in mobilizing resources and keeping inflation under control. It is important that we maintain the momentum of our restructuring and growth.

In this regard, I would note that the needs and interests of all groups of developing countries should receive evenhanded attention. The countries that have pursued vigorous adjustment programs, usually at significant cost to themselves, should not become the overlooked or forgotten parties in this process.

My own country intends, and is able, to continue to honor all of our external obligations. Our needs and the positive opportunities for growth open to us will require the mobilization of substantial financial resources. Even if we maximize our own mobilization of resources and continue to receive sympathetic consideration from bilateral and multilateral official sources of finance, we would anticipate that we would need access to the commercial finance markets to fund productive activities. We would hope, therefore, that we can expect the continued flow of funds, commercial and official, that we will need on terms that reflect our performance record as a responsible borrower and the benefits both to us and our creditors of our continued restructuring.

Indeed, the importance of adjustment, and adequate incentives and support for adjustment, cannot be overstated. Everything that can be done by the Fund and the Bank to increase the financing available for meaningful, growth-oriented adjustment programs should be undertaken. Moreover, it is necessary to address the question of those additional measures and lending instruments that are necessary to more fully deal with the debt problem. Clearly we are not solving the debt problem or providing the support necessary to sustain growth when the net outflow of funds from the developing countries rises to the US$50 billion level as the Bank's *Annual Report* notes was the case last year.

New instrumentalities are particularly needed to deal with the problems created for borrowers by external developments. Correct domestic policies are a *sine qua non* of the solution. However, domestic policies of debt countries cannot cope with: (1) the effects of sharp swings in the external markets that adversely impact the price of their exports; or (2) the problems created by external currency realignments that adversely affect the debt

burden when the currencies of earnings and of repayment are different, which is frequently the case.

Growing export earnings are an essential component of any solution to the debt problem. In many countries, restructuring will be necessary to make this possible through increasing the competitiveness of the debtor economy. That possibility, however, can only be translated into realized exports if we maintain and strengthen an open international trading system. Trade-limiting protectionism must be avoided, if possible, or minimized at least. This may require new and imaginative thinking that takes into account the new realities emerging in the structure of the world trading system. We are clearly moving out of the era of simple multilateralism. Trading in the 1990s will be shaped by the existence of massive trading blocs—Europe after 1992; a North American trading area based on the U.S.-Canada trade agreement, perhaps soon to include Mexico; and the possibility of an as yet defined set of arrangements in the Pacific Rim. While this development has undesirable potential for the balkanization of the world economy leading to increased protectionism, it need not have such a trade-limiting impact. Trade could be stimulated if barriers are avoided and the potential increases in productive efficiencies are captured and translated into higher levels of economic activity. It will be particularly important to assure that the new trading blocs avoid recourse to nontariff barriers.

As I proposed last year, it would be desirable to add a currency swap facility to the arsenal of bilateral and multilateral lending instruments. This facility should be designed to assign a fixed value in the currency of export earnings to loans at the time they are issued.

To deal with the problem of export price volatility, we must vigorously pursue maximum gains from the use of funding instruments already in place. The Bank, and the regional development banks as well, will need to continue lending for adjustment programs. They should not be tempted to shift back, prematurely, to what some would consider more traditional lending patterns. . . .

. . . In closing, let me express my approval of the increased emphasis on the environment and the quality of life that recent statements and actions of the Bank indicate. For more than two decades, the quality of life has been one of the objectives that have shaped my country's five-year plans. The current plan makes the protection of the environment a centerpiece of the program it proposes. It will be important for the Bank to translate its current priorities in these areas into effective and concrete programs and projects.

ISLAMIC REPUBLIC OF IRAN: MOHSEN NOURBAKHSH

Governor of the Bank

In the Name of Allah, the Beneficent, the Merciful.

"And if the people of townships were to believe and keep from committing disgressions, surely we would have opened for them blessings from the sky and from the earth."

(Holy Quran, Verse 96, Chapter 7)

I wish to express my appreciation to the organizers of these important Annual Meetings for their careful preparation and sincere efforts. I also welcome Angola to the membership body of the Bretton Woods family of institutions and wish that country success and prosperity. I express my condolences to the Chadian authorities for the unfortunate accident.

This forum provides an appropriate opportunity to review the major economic and financial events of the past 12 months. A bird's-eye view of the economic and social trends of the world economy during the past 12 months leaves one with mixed feelings. Although 1989 is not going to be a particularly outstanding year in the sense of depicting a more positive movement of the underlying economic variables, nevertheless some hopeful signs, albeit too few in number and intensity, have emerged: slightly lower stock of debt, continuation of economic adjustment by developing countries, and some coordination of macroeconomic policies in industrial countries, among other things, can be singled out. However, the pace of global growth, as well as efforts aimed at sustainability of coordination among major industrial countries, has slowed down, and protectionism in industrial countries has intensified.

The volume of world trade expanded rapidly in 1988. But this increase was accompanied by relatively large fluctuations in the values of major convertible currencies, a decline in the terms of trade of developing countries, and a fall in oil prices. Export revenue uncertainties in the developing countries undermine their budget and development planning. It is, therefore, essential that real prices be restored in the oil and commodity markets. Essential to accomplishing this task is the return of order and stability to the international currency markets through structural adjustment and greater macroeconomic policy coordination among industrial countries.

With regard to the developing country borrowers, it is now evident that with persistent external financing constraints, domestic economic adjustment alone, although a necessary condition, will not be sufficient to bring about the required turnaround in their economies. Yet these countries continue to experience net financial outflows.

Less well-to-do African countries recently witnessed a cancellation of part of their debt by some creditor countries. This is a positive development, but their remaining debt is too large to allow the effective implementation of adjustment programs.

The evolving global debt strategy, therefore, in addition to addressing the debt overhang, should also seek to ease external constraints—such as protectionism that retards the export growth of developing countries—should enlarge their repayment capacity, and should strive to redirect concessional financial resources toward those heavily indebted countries that have displayed a good adjustment track record.

Despite continued economic adjustment and austerity programs, capital flight from some heavily indebted countries has aggravated the debt burden. The existence of a receptive financial and legal environment in the international financial and offshore centers, by facilitating capital outflow from debtor countries, has complicated their adjustment efforts. In a spirit of international cooperation, industrial countries should consider their joint responsibility in this matter. . . .

. . . I urge the two Bretton Woods institutions and especially the World Bank to intensify and broaden the scope of their research into this important field.

Interest-free banking in the Islamic Republic of Iran is now in the sixth year of successful operation. The public confidence in, and acceptance of, interest-free banking is reflected in the growth of private sector deposits and banks' financial facilities granted to the private sector, all based on Islamic contracts. Although we are encouraged by the results, it is quite evident that much more remains to be done, and we intend to seek further refinement in our practices. In this regard, we welcome suggestions and advice from scholars, experts, and other institutions, so that experiences can be shared and views exchanged to our mutual benefit.

I will now briefly consider the main developments and prospects in our economy during the past 12 months. After acceptance of UN Security Council Resolution 598 by the Islamic Republic of Iran last year, we have repeatedly expressed our readiness to implement fully all its provisions, and we patiently await its full implementation for a lasting peace to prevail in the region. Meanwhile, our major reconstruction drive is proceeding rapidly. Many factories and plants have been restarted; oil export capacities have been restored; and reconstruction of war-damaged oil refineries is nearing completion.

In our efforts to redress macroeconomic imbalances emanating from the imposed war years, we intend to move rapidly toward greater flexibility in our trade and payment system and reform of government and public sector finances, with a view to reducing the budget deficit and gradually introducing a greater market mechanism to state enterprises.

Parallel with our short-term reconstruction crusade, we have also embarked on economic adjustment and structural reform based on medium-term planning. Our first postrevolutionary five-year development plan is broadly based, aiming at further diversification of our production and export base, incorporating the needed sectoral adjustment together with sustaina-

ble growth rates. Natural resource exploitation, together with strengthening agriculture, continues to receive high priority. Based on this plan, several projects concerning agriculture, as well as those relating to oil, gas, petrochemicals, and other mineral resources, will be selected for implementation.

Fruitful and profitable exploitation of vast strategic resources, such as oil, gas, and minerals, requires huge investments. The Islamic Republic of Iran has the potential and capacity to undertake and support such investments. It is estimated that during the plan period, more than one half of the $90 billion foreign exchange earnings will be set aside and expended on these capital investment projects. The length and adverse effects of the imposed war years, however, underline the enormity of the task of reconstruction, which we do not intend to underestimate. Complete recovery entails hard work and dedication: qualities which our people proved to possess in abundance. The enormity of the task of reconstruction is such that success and experiences of other countries can be usefully utilized. Therefore, we welcome appropriate technical cooperation and joint ventures, based on the experience and expertise of other countries.

In conclusion, much hope and expectations are pinned on the deliberations and decisions of these Annual Meetings to alleviate the problems that stand in the way of prosperity and well-being. I sincerely wish that we may be able to move toward fulfillment of these expectations.

IRELAND: ALBERT REYNOLDS

Governor of the Bank and Fund

All the nations represented here acknowledge the importance of sustaining a balanced growth in the world economy. This is the key to progress, and it imposes special obligations on the major industrial countries that exercise so much influence on world affairs. While growth was ahead of expectations in 1988, this momentum has not been sustained this year. The continuing threat of inflationary trends led to interest rate increases earlier this year, which have had a dampening effect on economic activity. The effect has been particularly acute in the heavily indebted developing countries. For them, growth has been retarded while debt-servicing costs have risen. The sad reality is that most of these countries are now poorer than they were at the beginning of the decade.

On the positive side, there is continuing pressure to improve the coordination of economic policies among the large industrial countries. Efforts to reduce volatility in currency markets and to curtail the rise in interest rates are making an impact. As a small and open economy, Ireland is very exposed to international trends. It is a source of great concern to us that we may be obliged from time to time to raise interest rates when there are no good domestic reasons for doing so. High interest rates are a severe burden on

the smaller and less well-off countries. It is particularly frustrating when they are due to factors entirely outside the control of these countries.

Consistent growth on the scale needed demands that we show greater urgency in removing barriers to trade. Protectionist attitudes are still very strong in the industrial countries. These have a demoralizing effect on developing countries which are trying to increase their exports. They also create great distortions in world trade. We are not living up to our aspirations, and the disadvantaged countries, in particular, are suffering as a consequence. There must be unrelenting pressure to bring down barriers and to open markets, so that world trade can expand steadily and equitably.

Debt Reduction

While the enormous problem of debt remains unresolved, the prospects of stable growth are inevitably diminished. The poor economic performance in the overindebted countries will continue to contrast sharply with growth in industrial countries. In recent months, there have been new initiatives toward a more effective and coordinated approach to this problem in relation to the heavily indebted middle-income countries. The efforts of the major industrial countries, in cooperation with the Fund and the Bank, are welcome.

There is now a widespread perception that debt and debt interest reduction should be an integral part of any potentially successful plan. Already there are some positive developments, and there are indications of a new sense of realism and of urgency. I hope that these efforts to find adequate solutions will be intensified and that those who are in a position to do so will have the vision and the determination to develop strategies that will gradually bring this problem under control.

While on the subject of debt, I would like to appeal for a concerted effort to assist those Eastern European countries which are in a stage of transition from centralized economies to market-led economies. These nations have a special claim on our sympathy and understanding at this time.

I would like to think that, when we assemble again a year from now, there will be demonstrable evidence of significant progress toward economic recovery in the debtor countries. Otherwise, the social tensions that excessive debt brings in its trail will remain.

While the larger industrial countries and the international institutions are promoting initiatives, the debt issue must also remain an immediate preoccupation of the commercial banks. The continuous shifting of the burden of debt financing from private to official creditors, which has been the pattern for several years, must be halted and reversed.

The banks have an essential part to play in promoting more diversified financial support, including new lending, which has to be a necessary element of any package. In turn, it is reasonable that they should ask that we,

the authorities, look carefully at practices and procedures which may impede the process of debt and debt service reduction.

We had expected earlier that the Board of Governors would reach a decision before the end of the year on a quota increase for the Fund. While there is general agreement in principle for an increase, it has not been possible so far to translate this into concrete decisions. This is disappointing. The Fund needs extra resources to help the less well-off countries through the difficult process of adjustment. In recent years, it has extended considerably its range of facilities, and a substantial quota increase is needed to enable it to fulfill a still more constructive role.

Poverty

The reality of poverty and destitution in many parts of the world remains depressingly familiar despite the best efforts of the Fund and the Bank and its affiliated organizations. The main focus of these institutions is, properly, on stabilization measures and on longer-term structural improvement and development. But there are occasions when the immediate relief of abject poverty must be the priority. There is no merit in advising those who are in profound misery that they will benefit significantly in the longer term from growth in the world economy. In Ireland, we have a proverb which deals with that type of situation—"Live horse and you'll get grass." They need more immediate assistance to achieve tolerable living standards, and this is a reality that we cannot put aside. I welcome, therefore, the increased emphasis by the Bank and the Fund on the need for specific measures to protect the poor during the adjustment process.

The challenge of poverty is the greatest challenge facing the world today. It is a subject that invites much rhetoric and emotion. It is our duty as a world community to acknowledge the realities of poverty and to work together in helping to alleviate it. The problem of poverty is neither inevitable nor intractable, but it will continue as long as there is inertia and misallocation of resources combined with low growth and heavy indebtedness.

We can take some encouragement from the emerging signs of economic improvement in some of the poorer countries but, overall, the outlook remains disappointing. In addition to their ongoing problems, it seems to be the destiny of some of these countries to suffer cruelly from time to time from natural disasters which undermine their best effort to make real progress. Negotiations on the Ninth Replenishment of the International Development Association are still in progress. A year ago, the expectation was that they would be completed before now, but I am encouraged by the prospect that there should be an early and satisfactory conclusion to these negotiations. The International Development Association is in the front line in dealing with poverty, and, for this reason, its needs are very pressing. Ireland has always recognized the very special role that IDA plays in helping

the poorest of the developing countries, and we are ready to play our part in ensuring that adequate resources are made available to it over the Ninth Replenishment period.

I think I should make the point that we can now discuss this problem of world poverty in a political atmosphere which has changed dramatically for the better in the past few years. The tensions between East and West are easing perceptibly. The policies of Glasnost and Perestroika are opening up new possibilities for East-West cooperation in a joint effort to combat world poverty. Such cooperation is surely in the long-term interest of both power blocks. Reconciliation between East and West augurs well for a better future for the developed world. It should, and could, also presage a more hopeful prospect for the deprived millions in the Third World.

During the past year, Ireland has ratified the convention establishing the Multilateral Investment Guarantee Agency. We are in the process of completing our subscription process and look forward to being a fully fledged member shortly. Our participation in this organization is prompted essentially by development aid considerations, since we do not anticipate significant commercial benefits. I am happy, therefore, to take this opportunity of reaffirming my commitment to the aims of the Agency and of wishing it every success.

Environment

The issue of the environment is gaining increasing prominence in this assembly and in other international platforms. We have all come to realize how fragile the environment is and how essential it is to be vigilant in protecting it. While we in Ireland are vulnerable, we are fortunate to have so far avoided the worst excesses of environmental destruction. This leaves us, nonetheless, conscious of the need to protect the world's resources and of the urgency of greater cooperation on a global basis in dealing with environmental problems.

The World Bank has made real progress in its efforts to increase support for the environment and to integrate environmental concerns into its own policies and operations. The Bank has a critical role to play in helping the developing countries address and overcome their own environmental problems. It must also use its influence to make the industrial world assume its full responsibility for maintaining the balance of nature worldwide.

The new awareness about pollution and the degradation of the environment may have come rather late but, thankfully, not too late for the world community to take concerted action on an effective basis. It is now clear that topics such as the ozone layer, the greenhouse effect, and the role of the rain forests in the ecology are of direct and immediate relevance. Increasingly, the weight of expert opinion suggests that this is now a matter of urgency. We are no longer contemplating the consequences for posterity in

the distant future. We are talking about the kind of planet in which our children and grandchildren will live.

Progress in improving the world economy and in establishing better cooperation is still too hesitant, and the huge imbalances, which stand in the way of a better world, still present an enormous obstacle. The steps that have been implemented so far have brought too little benefit to the highly indebted countries. Our obligation as a community is to work together with a greater solidarity than before to sustain the necessary policies for growth. We have to work toward a more equal distribution of resources and to improve the level and quality of investment in the poorer countries.

We cannot be deterred by seemingly insoluble problems. We must not let national considerations overrule our duty to the rest of the world. I believe that the larger and more prosperous countries can do more to foster greater cooperation in creating a better climate for trade and commerce in which the poorer countries have a better chance. Organizations such as the Fund and the World Bank have a central role in creating a greater awareness among us of our obligations and in implementing policies for improvement. We must give them the necessary support to fulfill their responsibilities.

ISRAEL: SHIMON PERES

Governor of the Fund

I am pleased at this first opportunity to participate in the Annual Meetings of the World Bank Group and the International Monetary Fund, and wish, on this occasion, to extend my greetings to the People's Republic of Angola which has joined us this year.

The scientific and technological age which is sweeping our world has brought with it an economic and social revolution, the most far-reaching in the history of mankind.

The economic globe is changing at an unbelievable pace. The two communist giants are gradually moving away from centrally planned to free market economies; Japan, which was destroyed in the Second World War, has become the second largest economic power in the world; Europe is preparing itself for the ultimate unification of the Common Market in 1992. These tremendous changes are seeking a theory that would explain them. We know some of the reasons, and we know some of the results, but we lack the conceptual and intellectual lines of analysis to guide us.

It is clear that we are moving from the quantitative into the qualitative era. National wealth today is no longer determined by the size of a nation's territory, the volume of its natural resources, the size of its manpower, the dimensions of its markets, or the amount of its accumulated capital; in any event, not by these alone. Today, more than ever, the quality of these resources is what counts.

Quality cannot be obtained through military conquest; it is a matter for creative achievement. Hence the reexamination of the distinction between military and economic effort. If territory or resources or markets are no longer determining factors—what point is there in trying to conquer them? No economy can grow at a rate that would keep up with the rising cost of modern weapons and no territory in the world would justify the number of lives which it would require to conquer, in a world where nuclear arms exist.

The conclusion: the major conflicts in future would be settled in the R&D laboratories rather than in battlefield. Foreign relations are undergoing a process of demilitarization; and policy is today becoming more a matter of economics than one of diplomacy.

The lowering of strategic tension is important also with respect to borders between states. Today's economics is becoming more and more global. Science is boundless, technology is universal, and communications and marketing are global in scope. Tariff walls can no longer protect national industries, for the national economy must increasingly interact with the world economy. Competition and reciprocity are replacing protective tariffs.

Not only marketing has become international; production has also become a global affair. And more and more multi-national corporations are taking the place of national firms.

The world market today determines the fate of the national economy not less than the nation's own government. Whoever seeks to advance the national economy must move forward with the global economy.

Israel will not be able to maintain its relations with the Common Market on the one hand and with the free trade zone established with the United States on the other without ensuring free trade, non-preferential treatment of local manufactures, and no government intervention in the inter-market relations. We cannot expect the world market to play by our rules. And our rules cannot succeed if they do not take into account the rules prevalent in the world.

World conditions today also require the reorganization of modern government. It must not interfere with the free competition of existing economic enterprises. The government can and must provide support in those areas within its jurisdiction: security, education, health, infrastructure, and research and development. But it must clearly differentiate between strategy and administration. It must create opportunities for the economy to grow, while taking care not to create administrative obstacles impeding its development.

The Israeli economy is today engaged in a struggle against recession and unemployment. The stabilization program adopted in 1985 led to a substantial improvement in the economy: inflation was reduced from a three-digit figure to 15-20 percent annually; the growth of domestic and foreign debt was halted; and the economy was freed from the threat of crisis in the balance of payments.

Yet, transition from economic stabilization to growth is a difficult and painful process, accompanied by recession and severe unemployment. Since the beginning of this year, we have been endeavoring to return the economy to a course of sustained growth. It is clear that the driving force behind this growth process must be the export sector. We must therefore zealously protect the profitability of the business sector, and that of exports in particular; we must avoid wage increases that are not linked to an increase in productivity and output; we must continue the policy of lowering the rates of interest, and we must proceed with extensive reforms in the capital and goods markets in order to further expose the Israeli economy to international markets. In the light of the large wave of immigration expected from the Soviet Union, the need for the economic recovery program to succeed is even more pressing.

Nevertheless, one must not ignore the fact that Israel's problems are, predominately, in the realm of security rather than in that of economics. In the absence of progress in the peace process the country is obliged to devote a substantial and growing share of its resources to defense needs, at the cost of economic growth. The solution to Israel's economic problems, thus, is not only economic; it is first and foremost political. And Israel must, and will, take the initiative to meet the dual challenge—the one deriving from its own security situation and the one posed by global developments.

ITALY: GUIDO CARLI

Governor of the Fund

In 1989, the process of external adjustment in the major industrial countries has slowed down; next year, external imbalances are projected to rise again, especially within the EEC, thus increasing the vulnerability of exchange markets.

While market integration allows for a smoother financing of imbalances, their sustainability over time is the real cause for concern; sooner or later, the sheer size of the stock of debt and the flow of interest will act as a deterrent against further financing. These risks are magnified if exchange rates move in a way that is plainly inconsistent with adjustment needs, as has been the case recently.

We should remind ourselves that the maintenance of fixed exchange rates in the period 1958-73 was made possible, apart from the existence of controls on capital movements, by the small size of external imbalances as observed in the Group of Ten report of June 1985 on the functioning of the international monetary system, the influence on exchange rates of financial transactions has constantly increased in recent years; however, variability of exchange rates might have contributed to the widening of capital movements. As a consequence, exchange rate behavior has been influenced to a

growing extent by developments in capital markets, where volatile interest rates and policy expectations play a key role.

As the Bretton Woods experience has shown, no international monetary system is expected to survive if the major countries are in great disequilibrium or behave in a way which is expected to lead to a protracted imbalance. It is my firm belief that, today, any discussion on a new international monetary system belongs more to the field of academic research than to the arena of political decision making. Current disequilibria have to be substantially reduced before we can think of a more formalized system than the one we are now living with. And this task, to be carried out essentially through a determined action on fiscal imbalances, belongs, first and foremost, to the main countries that suffer from such disequilibria, with peer pressure and cooperative actions of the other members of the international community playing a complementary and inciting role.

Besides this fundamental readjustment, which will take years to achieve, there is another undertaking to perform: to try to ensure that exchange rates move in line with the fundamentals of the major economies. Although the first task is difficult and fraught with political and social obstacles, it is nonetheless clear, at least as far as the direction of policy is concerned. The second one, however, has become much more elusive; the movements of private funds are so huge that any attempt to reverse the trends is doomed to almost certain failure.

Be that as it may, it would be a mistake to consider globalization of markets as a negative development for the world economy. On the contrary, I am convinced that it will become more and more a key element for the further integration of our economies as well as for their growth. To be sure, it would be unwise to resist market forces, as they reflect the growing interdependence of our economies; the integration of financial markets is an additional reason for major countries to coordinate their economic policies and keep their economies geared to free market principles.

There is no easy way to ensure a desirable exchange rate pattern among the three major currencies. It would be illusory to rely only on interventions to restrict the extent of fluctuations, as the masses of capital that move between the major financial centers are greater in volume than the means available to central banks. In fact, markets react more promptly to the current and expected changes in the stance of monetary policies and to declarations of monetary authorities.

Rather, an increasing degree of coordination of economic policies, not only monetary, must be achieved by major countries to deal, among other things, with problems related to exchange rate behavior, which in the short term is largely independent of trends in the underlying fundamentals. De facto, monetary policy is often overburdened by the need to achieve the double objective of fighting inflation while maintaining exchange rate stability.

Whatever the difficulties, we should be aware not only that recent changes in the world economy require a higher degree of international cooperation than in the past, but also that exchange rates should be considered both as targets and instruments of economic policy. As a matter of fact, monetary authorities are not and should not be prepared to adopt a benign neglect attitude toward large exchange rate swings. Pragmatism is the only philosophy on which we can rely.

The globalization of markets has elicited the interest of the authorities to a greater extent than in the past because of its bearings on the stability and efficiency of the financial system. This concern has several facets.

The first relates to the effectiveness of monetary policy; with full freedom of capital movements, its efficiency relies to a larger extent on financial systems capable of transmitting the impulses given by the monetary authority, that is, on a very competitive and open market.

The second aspect stems from the need to reinforce the surveillance of banks operating internationally. Supervision on international banking rests on cooperation among the national supervisory authorities. Surveillance would also benefit from tighter procedures within the banking system, conducive to greater transparency.

A third aspect refers to the view taken by those who believe that an effective fight against drugs and organized crime must concentrate on the channels that permit illicit profits to be reaped through insider dealings or to be laundered. For this, stock exchange commissions, banks, and bank supervisors must cooperate strictly to maintain freedom and firmness of the financial markets and, at the same time, act to prevent those markets from becoming the place where unlawful profits can be achieved.

Lack of cooperation and of appropriate action to strengthen the financial markets has contributed to create conditions not only for sudden financial crisis, as occurred in October 1987, but also for the debt overhang in developing countries. For too long in the 1970s international banks were relied upon to perform a recycling task among sovereign countries, for which they had little experience.

The debt problem can find less painful solutions in an environment of confidence, stability, and expansion of output. Industrial countries can cooperate to ensure that the external environment will not be hostile to the efforts of indebted countries: correction of the major fiscal imbalances will contribute to a lowering of world real interest rates, while progress on the GATT negotiations should ensure enlarged markets for these countries' exports. Our governments can also facilitate the implementation of the enhanced debt strategy through an action aimed at eliminating possible regulatory and tax obstacles that could dissuade banks from availing themselves of a broad menu of options in the debt reduction operations. Italy is fully cooperating in this regard.

However, action should not be restricted to creditor countries. The change in the debt strategy announced during our spring meeting is further proof that the large size of the debt is by itself an obstacle to the reform process. To benefit fully from the enhanced strategy, all parties concerned should play their role. Substantial efforts are required from debtor countries, private creditors, international financial institutions, and creditor governments. However, while contributing to the endeavor, the international financial institutions, and in particular the International Monetary Fund, must not alter their fundamental nature. In this respect, protracted negotiations between banks and indebted countries should not put at risk the new financial assurance policy of the Fund.

Continued strong adjustment remains the most critical component of the overall debt strategy. Debt reduction by itself can make only a modest contribution to the improvement of the balance of payments and to the resumption of economic growth, unless it is accompanied by a steady implementation of sound economic policies at the national level.

Since the improvement of the international monetary system is the key goal of our efforts, it is important to reaffirm the validity of the present approach, until we are able to reach agreement on a more viable one.

Time and again, reference is made to the EMS as a model to be transplanted in other monetary areas; in my opinion, its success owes much to the specific fact that it ties together the currencies of countries making progress in their institutional and political cohesion. The three-stage process to reach the EMU now under consideration is further evidence of this. In a broader setting, the mixture of rules and discretion required to manage an adjustable peg may not be forthcoming: cooperation might not emerge spontaneously whenever it is needed because national short-term objectives might conflict with longer-term requirements.

So far, cooperation and coordination at different levels have been a positive experience from which we have learned that no country can solve its own problems in isolation. Any attempt in this direction would be ill-advised, since it could lead only to failure or to the fragmentation of the economic order we have been able to build and maintain since the war. The free movement of goods, capital, people, and ideas should continue to be the cornerstone of our societies and our policies. As differences in national political and economic cycles make the coordination process sometimes difficult, both on technical and policy grounds, our determination to go ahead has to be correspondingly enhanced. . . .

. . . Leaving aside the international monetary system, I would signal, among the major tasks of the World Bank, the need to reverse the present trend of negative net resource transfer, which certainly continues to be a problem of central concern. Since 1985, the Bank has decided on a strategy to counteract vigorously the deterioration of the economies of the develop-

ing countries, starting structural adjustment financing and quick-disbursing loans. This strategy is now being strengthened by enlarging its scope to include debt reduction initiatives.

Just recently, the first agreement focused on debt reduction was signed with Mexico. The Italian Government welcomes this action, but reiterates that the market-based debt reductions should be eligible for the support of the Bank and the Fund only if they provide debtor countries with a significant degree of debt relief.

Turning to the poorest countries, I would like to praise the Bank for its Special Program of Assistance, in which it displayed a talented initiative, showing how the efforts of bilateral and multilateral donors can be successfully coordinated.

At the same time, we cannot forget that these countries are experiencing a debt problem which—in proportion—is no less severe than that of the middle-income countries. To enable the World Bank to address successfully the aspects of development of the poorest, it is necessary to strengthen the financial capacity of IDA. While looking forward to the early completion of IDA-9 negotiations, two points need to be stressed for an efficient use of IDA resources:

—The correct link between fund availability and policy implementation in the beneficiary countries is the first. Policy dialogue must be further enhanced in a spirit of collaboration and mutual understanding. To this end, a careful evaluation of the results attained with programs is a necessary step, although I doubt that this can be achieved through setting precise quantitative targets.

—The environmental focus is the second. A careful exploitation of natural resources is essential for a sustainable growth. We wish to express our appreciation for the increased emphasis that environmental programs have in the Bank's lending. Indeed, the complex links with poverty and demographic growth require a systematic integration of environmental problems in every aspect of the Bank's activity. We view with favor a strong environmental conditionality in the Bank's loans combined with additional lending in this area of operations.

The Italian economy continues to expand vigorously, even though some signs of a slowdown in the growth of industrial production have emerged. For 1989, the increase in domestic demand should be 4 percent, while GDP is expected to grow by 3.4 percent. Although total employment has risen substantially and a situation close to full employment has been reached in the economically stronger regions of the country, the growth in labor supply still keeps the unemployment rate at about 12 percent.

The resurgence of inflationary pressures that occurred in the first part of 1989 is now subsiding, and by the end of the year the rate of inflation should be about 6 percent. A tight monetary policy and the appreciation of the lira

within the EMS have helped to stem inflationary pressures, though at the cost of a weakening competitive position.

Buoyant demand is mainly responsible for a widening current account deficit, which for 1989 will be equivalent to about 1.2 percent of GDP. In the first seven months of the year, the trade deficit rose to about $9 billion from about $5 billion in the corresponding period of 1988. In the same period, the inflow of capital was larger than the current deficit, making for a small overall surplus. Although this is proof that freedom of capital movements allows disequilibria to be financed smoothly, it should not delude policymakers into delaying adjustment.

As concerns public finance, latest official forecasts for 1989 point to a deficit for the state sector equal to 11 percent of GDP, down from 11.5 percent in 1988. The primary deficit, at 2 percent of GDP, will be well below the 1988 outturn. By the end of the month the Government will present the 1990 Finance Bill and Budget. Planned revenue and expenditure measures are expected to reduce the state sector borrowing requirement, bringing it down to about 10 percent of GDP; further action is programmed for the subsequent years in order to stabilize the debt/GDP ratio by 1992.

JAPAN: RYUTARO HASHIMOTO

Governor of the Bank and Fund

It is a great honor to have the opportunity to address this Forty-Fourth Annual Meeting of the World Bank and the International Monetary Fund on behalf of Japan.

I would like at the outset to express my appreciation for the splendid arrangements that the United States has made for these meetings and my heartfelt welcome to Angola as it joins the World Bank-IMF family.

In addition, I would like to state my appreciation for the painstaking efforts that World Bank President Conable, Fund Managing Director Camdessus, the two organizations' Executive Boards, and their staffs have made.

1. The World Economy and the Japanese Economy

(1) Economic Policy Coordination

I would like to look first at the present state of the world economy. Having moved into a recovery phase since 1983, the world economy has managed since then to achieve one of the longest sustained periods of growth seen in history. Although 1989 is seeing slightly slower growth than in 1988, this expansion has been firmly maintained.

This sustained growth, of course, has been backed by favorable business investment and strong household consumption, but we must not overlook

the contribution made by the tireless policy coordination efforts among the leading industrial countries.

While I believe our countries are thus basically on the right policy track, it is increasingly important that we steer our economies carefully for sustained and noninflationary growth.

Specifically, there is first of all the problem of external imbalances. While the imbalances among Japan, the United States, West Germany, and the other leading industrial countries have been moving basically in the right direction since 1988, it is imperative that both the surplus countries and the deficit countries continue to work to keep this trend alive hereafter.

Second is the concern about inflation. In those industrial countries that had seen price acceleration, the rate of inflation has recently slowed as a result of the official discount rate increases and other policy measures. But this is still an area where continued vigilance is required.

Third is the continuing fiscal deficit positions and the declining savings rates in the leading industrial countries as a whole, both of which are issues which require our attention.

And fourth is the need to resist the protectionist moves evident in some countries. In this connection, it is essential that we cooperate to bring the Uruguay Round of multilateral trade negotiations to a successful conclusion by the end of 1990 and that we maintain and strengthen the multilateral trading system.

(2) Management of the Japanese Economy

Fully aware of the present state of the world economy, we in Japan are determined to continue to consolidate the present noninflationary economic growth led by domestic demand and to actively promote economic structural reform with a goal of the better quality of Japanese life and to further promote external adjustment.

Supported by strong business investment and household consumption, the Japanese economy is experiencing prolonged expansion. Real GNP growth in fiscal 1988 was 5.1 percent. Looking at this growth more closely, we see that the domestic demand contribution was 6.9 percent and the external demand contribution minus 1.7 percent, clearly indicating that this was very much domestic-demand-led growth. At the same time, the current account surplus was $77.3 billion, down by $7.2 billion from the previous year, and consequently the current account surplus was down from 3.3 percent of GNP in FY1987 to 2.7 percent of GNP in FY1988. Steady progress has thus been made on reducing the external imbalances. We have also made a number of efforts for structural reform, primary among them the recent tax reforms designed to make the tax system more equitable and neutral, in an effort to enhance Japanese economic vitality. I assure you we are determined to promote further structural reform in line with the basic

midterm guideline of the five-year economic management plan adopted last May.

2. Debt and Development

I would like next to move on to the debt and development issues.

(1) Basic Approach

Looking at the situation of the developing countries, it is clear that the problems that they face are not the same. Even among the heavily indebted countries, there are some countries that are making a solid effort to achieve sustained growth through steadfast adjustment efforts, and countries where these efforts are not going as well as hoped. At the same time, there are countries that are so mired in poverty that it is not easy to see how they will ever develop. Because each country is in different circumstances, it is also clear that there can be no single panacea and that our responses have to be tailored to each specific situation.

Let me look first at the heavily indebted countries. The fundamental in resolving the debt problem is that these countries restructure their economies through structural adjustment and become strong enough to regain the confidence of the international financial markets. It is also imperative that effective measures be taken to prevent capital flight or repatriate flight capital from these countries. In all of this, it is essential that the dedicated efforts of these countries in the process of restructuring be supported with concerted cooperation from all the parties concerned, including international financial institutions, the commercial banks, and the industrial countries.

Part of this concerted cooperation has to include an appropriate response for countries that are burdened with heavy debt and debt service payments. It was in this context that an agreement was reached on the strengthened debt strategy with an emphasis on market-oriented debt and debt service reduction. Japan strongly supports this new debt strategy. In this connection, we believe that the recent agreement between the Government of Mexico and the creditor banks is most welcome as an important first case toward resolving the debt problem in line with this strategy.

Second, as for the poorest countries of Sub-Saharan Africa and Asia, they have very limited access to financial resources from the private sector, and they need official development assistance and other forms of official support for their structural adjustment efforts. The reduction of the existing official debt burden has also played an important role in this respect.

Here, I find it encouraging that agreement was reached at last year's Toronto summit on a scheme for reducing the official debt burden of the poorest countries working for structural adjustment and that this Toronto scheme is being steadily implemented.

The Ninth Replenishment of IDA resources (IDA-9) now under negotiation is particularly important for the poorest countries. I would thus like to call upon all donor countries to make continued efforts to negotiate in a constructive manner, based upon the principle of fair burden sharing. I hope that an agreement will be reached at the IDA Deputies' meeting in Kyoto scheduled for this November.

Third, I would like to pay the utmost respect to those countries that have achieved good performances by their efforts in pursuing appropriate economic policies and steadily implementing economic adjustment. Moreover, I would stress that the need to sustain and consolidate such economic development makes it important that they maintain the confidence of the financial markets and further promote direct private-sector investment in these developing countries. And creating conditions conducive to private investment in turn requires not only efforts by the developing countries themselves but also active support from the international financial institutions and the industrial countries. It goes without saying that sustained world economic growth under the free-trade system is an absolute prerequisite to further development of these countries.

(2) Japan's Efforts

Now I would like to say a few words about Japanese efforts to help developing countries resolve these debt and development problems.

First of all, at this July's Arche summit in Paris, Japan announced that it would expand the original 1987 capital recycling program of more than $30 billion to the developing countries over a three-year period into a five-year program to recycle more than $65 billion to the developing countries by 1992. All of these funds are completely untied. In order to support the effective implementation of the strengthened debt strategy, Japan is prepared to provide more than $10 billion of untied fundings, including Export-Import Bank of Japan parallel lending with the Fund, for those countries eligible for the new debt strategy, under the expanded recycling program.

Second is Japan's support for the poorest countries. Japan has decided to provide as much as $600 million nonproject grant-in-aid for the poorest countries of Africa and elsewhere to support their structural adjustment efforts over the three years from FY 1990 through FY 1992.

Third, recognizing it is necessary for the developing countries themselves to make a determined effort in resolving their debt and development problems, it is important that they make their government's administrative system more efficient and improve their capacity to formulate and implement policies that are needed in those countries. In order to support their efforts through cooperation with the international financial institutions, Japan has made voluntary contributions to the World Bank, for example, for the purpose of promoting technical assistance, establishing a scholarship program, and human resources development.

Fourth, Japan is striving in its own cooperation programs not only to pursue quantitative expansion of available resources but also to see that these funds are used more effectively and efficiently on better formulated projects.

And, finally, Japan has decided to support developing countries' efforts for environmental conservation, by providing about Y300 billion of Japan's ODA for that purpose over the three-year period starting this fiscal year, with consideration being paid to the possibilities for cofinancing with the World Bank.

In addition, Japan has recently taken the lead within the framework of international cooperation for contributing to IDA for the establishment of a special fund to finance technical assistance related to environmental conservation.

The issue of environmental conservation is now a global concern, and it is imperative that the industrial countries do more to deal with this shared problem.

3. Issues Related to the Fund and the Bank

These, then, are my views on macroeconomic policy and on the debt and development issues. I would next like to touch on some of the issues facing the Fund and the Bank, which play important roles in these areas.

(1) The Fund. . . .
(2) The Bank

. . . Next, I would like to talk about the World Bank Group.

a. The World Bank has a very important role to play in resolving the debt problem, and dealing with the development problems in developing countries, including the poorest ones. In addition to its project loans and structural adjustment financing, the Bank also plays a valued role in coordinating bilateral and multilateral assistance, in providing technical assistance, and in a wide range of other activities. Last July, in order to facilitate the flow of capital to the developing countries, the Executive Board of the Bank approved the Expanded Cofinancing Operations (ECO), which will strengthen the catalytic role of the Bank.
b. Next, I would like also to say a few words about the International Finance Corporation (IFC). IFC is helping developing countries to promote enlargement and activation of the private sector in these countries.

Promoting a strengthening of the private sector is crucial to self-supporting economic development in developing countries. In this respect, IFC thus has a crucial role to play in contributing to these countries' development through its investment in, and its lending to, the private sector. Supporting the activities of IFC, Japan has contributed to IFC's regional project development facilities. In identifying feasible private-sector projects, Japan hopes

that IFC will be more active in the Asian and Pacific region, where the activity of IFC has tended to be a somewhat limited presence.

c. Lastly, I would also like to refer to the Multilateral Investment Guarantee Agency (MIGA), established last April. I also attach great importance to MIGA in promoting the flow of private capital to the developing countries in the form of direct investment. In this connection, I am pleased to see that the number of MIGA's member countries has been increasing. I hope that the first guarantee project of MIGA will be brought about in cooperation with the national investment insurance schemes in each member country.

4. Conclusion

If I may, I would like to close on a historical note.

I was still a schoolboy when the Second World War ended. It is now exactly one quarter of a century since Japan acceded to Article VIII status with the Fund in 1964, just one year after I was elected to the Diet and began my political career in 1963. At the time it joined the Fund and the Bank in 1952, Japan was running chronic trade deficits. The very next year, 1953, and again in 1957, Japan borrowed a total of about $250 million from the Fund to tide it over hard currency shortfalls. Between 1953 and 1966, Japan came to the Bank to borrow a total of $850 million for modern highways, *shinkansen* (the bullet train), and other basic industrial projects. At one point, we were the second-largest borrowing country from the Bank.

When the flames of war finally died down, rubble and people were all that was left in Japan. Out of this desperate situation, the restoration and development process was initiated and, with aid and help from the IMF and the Bank, fully aware of the importance of human resources and the introduction of capital and technology from abroad, we have been striving ourselves to build modern Japan as it is, by implementing appropriate economic policies. Japan's loans from the Bank will be fully repaid in July 1990. Hoping that the developing countries find something meaningful in this Japanese experience, I am pleased to announce that Japan is now prepared to contribute a total of about $300 million to the Bank over a three-year period from FY1990 for the establishment of a special Fund in the Bank, namely the "Special Fund for Policy and Human Resources Development" to provide technical assistance for developing countries and to help develop human resources that could take the responsibility of formulating and implementing development policy.

Japan's Announcement on the Special Fund for Policy and Human Resources Development in the World Bank

(September 26th, 1989)

1. Background

Recognizing it is necessary for the developing countries themselves to make a determined effort in resolving their debt and development problems, it is important that they make their governments' administrative system more efficient and improve their capacity in formulation and implementation of policies which are needed in those countries.

In this regard, in order to support their efforts through cooperation with the international financial institutions, Japan has made voluntary contributions to the World Bank, for example, for the purpose of establishment of scholarship programs, as well as promotion of technical assistance.

2. Japan's Proposal

Finance Minister Ryutaro Hashimoto announced the following in his Statement at the Annual Meeting of the Bank and the Fund on 26th September.

'Japan is now prepared to contribute a total of about $300 million to the Bank over a three-year period from FY1990 for establishment of a special fund in the Bank, namely, the "Special Fund for Policy and Human Resources Development" to provide technical assistance for the developing countries and to help develop human resources that could take the responsibility of formulating and implementing development policy.'

The details of the above-mentioned fund are expected to be embodied in the budget compilation process. The fund will be established after the FY1990 Budget is approved by the Japanese Diet.

LAO PEOPLE'S DEMOCRATIC REPUBLIC: SISAVATH SISANE

Governor of the Bank

It is both a great honor and a pleasure for me to attend these Annual Meetings of the World Bank and the International Monetary Fund in Washington, D.C. and to represent the Government of the Lao People's Democratic Republic. I wish to thank the two institutions and the host Government, on behalf of the Lao delegation, for the quality of the arrangements made to ensure the success of these meetings and of our own contribution to the proceedings. I take this opportunity to thank the many Bank and Fund staff members who have worked with me and my colleagues in the Lao People's Democratic Republic to produce data, initiate projects, arrange facilities and credits, and whose understanding of our problems has

supported us in our efforts to sustain the pace and direction of change in our economy.

I will return to the subject of the Lao economy later in my statement. In the meantime I wish to comment on the state of the world economy in the near term.

World economic growth was strong in 1988 and the predicted outlook is for a slowdown in economic activity this year and in 1990. This is true of the United States, which I understand anticipates a drop from the 4.4 percent rise of 1988 to a gentler increase of 2.7 percent in 1989. The European Community growth rate of 3.75 percent in 1988 is to slow by about 0.5 percent per annum, declining to 2.75 percent in 1990.

The developing world, which achieved a growth rate of 4.2 percent in 1988, is likely to see a 1 percent decline in 1989 before recovering to 4.0 percent in 1990. A number of factors have led to the slowdown, which is understandably more pronounced in some countries than in others. These factors include weaker non-fuel commodity prices, slower growth in export markets, a worsening of inflation, and inadequate adjustment efforts. We ourselves are experiencing an uncomfortable level of inflation and are making strenuous efforts through our New Economic Thinking to adjust our economy and remedy the mistakes of the past. Asia contains the NICs—newly industrialized countries—which have been enjoying a period of prosperity and sustained growth. Asia too will experience a slowdown in 1989 to 6 percent from a very high 9 percent in 1988.

I turn to my own country. The restructuring of the economy, aimed at the transformation of the economy from one of subsistence to a market economy, demands the replacement of the old mechanisms with new mechanisms designed to bring autonomy to business management. The transformation from a subsistence to a market economy will lead us toward a unified domestic market that is linked firmly to international markets. We are striving to improve the living conditions of the people without destroying the world that they live in. We are discouraging slash and burn cultivation, which was damaging our forests. We are limiting the export of logs and are adopting a forest resource management program.

We are restructuring our economy, a process started in mid-1986. I mentioned some of these measures and the early successes in my statement to the Annual Meetings in Berlin (West) last year.

Our five-year plan 1986-90 has certain fundamental economic objectives that are similar to those of the first half of the decade. These are: to ensure self-sufficiency in rice production; reduce the impact of slash and burn cultivation; develop the domestic processing of our agricultural and forest products; improve the balance of payments; improve our communications and transport networks; and strengthen management capacity and remove the constraints that result from a lack of skilled labor.

The principal constraints that hinder our economic development, the theme of the discussions at the Second Round Table Conference in Geneva on April 25, 1989, are four in number:

1. Structural obstacles in agriculture and forestry.
2. A narrow and weak export base.
3. The pitiful state of our roads and the consequent limited access to both domestic and foreign markets.
4. The extreme shortage of skilled labor in the key sectors.

The international institutions support our efforts to restructure our economy. Our many donors have expressed their tangible support at Round Table meetings in Geneva. I should perhaps remind members that the long list of countries who have supported our development and restructuring efforts includes a number of UN members who are not members of the bodies whose meetings we attend this week. We are also subject to the vagaries of the weather; several years of drought have helped push up our inflation rate.

Our targets for growth are essentially modest: from a low 2.8 percent in 1988, we hope to achieve 3.3 percent in 1989 and look for a more ambitious 5.2 percent in 1990.

The World Bank already approved a structural adjustment credit of SDR 30.8 million on June 9, 1989. The initial drawdown has taken place. . . .

. . . From now on we must hasten to remedy our inadequacies and correct our errors. We must exert all our efforts to restructure our banking, financial, and commercial systems. A key element in our economic adjustment process is the restructuring of our banking system. For some years we have had a monobank that combined both commercial and central banking functions. The new economic order demands a more responsive system, attuned to its clients' needs. Our policy framework for the medium term refers to the separation of central bank and commercial bank functions. Our regional development institution, the Asian Development Bank (AsDB) offered to help the process with generous technical assistance and sought the participation of the Fund, whose own expert is working alongside the AsDB team. Consequently, we are most interested to learn that many developing countries have problems with their financial institutions. We have studied this year's *World Development Report*, which covers these problems and offers solutions. The principal editor of the report, Clive Crook, is a member of the staff of *The Economist*. He and his team are to be congratulated for the excellence of the Report, which must rank among the best of the series of excellent reports from the World Bank.

Our Government wishes to improve the coordination of external aid. It is proposed, inter alia, to organize the data that are essential for the understanding of the impact of externally aided projects and to adopt measures

that will facilitate an improvement in our absorptive capacity and coordinating ability.

To conclude I close with my sincere good wishes for a fruitful outcome to these Annual Meetings.

MALAYSIA: DAIM ZAINUDDIN

Governor of the Bank and Fund

Although there are indications to show that the world economy is on course to a more sustainable growth path, we need to adopt a cautious approach. The risks that lie ahead are more in terms of an unintended policy-induced global recession. Excessive reliance on monetary policy has led to higher interest rates that will further accentuate the economic hardship of the developing countries, including a deepening of the debt crisis. Therefore, I would urge the industrial countries concerned to place greater emphasis on fiscal and structuring policies, which would have a more sustainable long-term benefit.

Protectionism continued to be practiced by developed countries at a time when many developing countries are engaged in major trade policy reforms and need markets for their products, especially manufactured goods. Another disquieting development in international trade is in the trend toward "managing" the world trading system on the basis of bilateral and regional arrangements, such as the U.S.-Canada Free Trade Area Agreement and the planned unification of Europe by 1992. Major trading nations should try to avoid taking a parochial and regional view of world trade but instead should endeavor to make a more effective use of existing arrangements, such as the system under the GATT.

It is encouraging to note the close collaboration between the Bank and the Fund in supporting debt and debt service reduction in some member countries such as Mexico and the Philippines. While debtor countries are being urged to develop sound adjustment programs, creditor banks, on their part, should undertake realistic and constructive approches in the negotiations with those countries to conclude agreements on financial packages that would be mutually beneficial to both parties.

The Bank and Fund initiatives are certainly steps in the right direction, but they may have limited impact on the overall debt problem since only middle-income countries owing debts to private banks are eligible for assistance. The overall dimension of the debt problem could be better addressed by expanding the coverage of the initiatives to the currently ineligible group of countries undertaking adjustment programs, namely, the low-income countries that are indebted to private creditors and the middle-income countries whose debts are owed largely to official sources.

In this context, I would also like to reiterate what my Prime Minister said during the recent Non-Aligned Summit in Belgrade that donor countries

should forgive the debts of countries that could least afford to service them. We are mindful that many donor governments have forgiven concessional debts due from low-income countries but, in practice, this benefit has so far only been enjoyed by countries in Sub-Saharan Africa. Therefore, I would like to urge that the same treatment be accorded to all debt-distressed low-income countries.

While we agree that the environmental issue should be an integral part of the development process, it should not be used as a trading weapon against the developing countries. There should be global responsibility in conservation and environment protection. Industrial countries have in the past been, and continue to be, responsible for the bulk of the world's pollution and resource depletion. Unless and until they are prepared to accept and seriously act on their past shortcomings, it would be difficult to persuade the developing world about the importance of environmental protection.

The recommendations of the recent Paris economic summit concerning the environment are most appropriate. We, the developing countries, need to be assisted in taking positive action to do our share in protecting the environment and this should encompass aid and technology transfer. In this connection, I would like to mention that compliance with some of the international agreements on environmental protection, such as the 1987 Montreal Protocol on preservation of the ozone layer, would have cost implications for all developing countries. It is my view that industrial nations should compensate these countries in the form of concessionary aid flows and the free transfer of technology.

With regard to the Bank, I note that, although the volume of lending has increased, gross disbursements have not shown any increase, and net transfers from both the Bank and IDA in the aggregate remained negative for the second consecutive year. Greater efforts should be made to increase disbursements in order to stop the reverse flow of resources from borrowing member countries. As to the Ninth Replenishment of IDA, timely and decisive actions are needed to determine the size of the increase. In the light of increasing resource needs, especially in the areas of adjustment and environment in low-income countries, the demands facing IDA now will be larger; hence, the size of the Ninth Replenishment should at least be no less in real terms than the Eighth IDA Replenishment. I would, therefore, like to urge an early conclusion of negotiations so as to allow IDA-9 to become operational by June of next year.

Concerning the Bank's lending charges, the recent decision to lower the commitment fee to 0.25 percent a year is a welcome move. However, I would like to question the rationale for making it effective for a limited time period only. For the reduction to be really beneficial to borrowers, the new commitment fee should be applied for all future payments. In this connection, I would also like to point to the rising trend in the Bank's lending rate from

7.59 percent in the second semester of 1988 to the current level of 7.73 percent, which is comparatively high in relation to, for example, the AsDB rate of 6.37 percent. I would like to reiterate our position that the Bank should take steps to lower its lending rate through reducing the loan spread. . . .

. . . In conclusion, I would like to stress the importance of joint endeavors on the part of all parties concerned to promote growth and development. Industrial countries should enhance macroeconomic policy coordination through greater attention to the use of fiscal policies and a better monetary/fiscal policy mix for some major countries. It is imperative for us to resist protectionist pressures and to guard against potential dangers to multilateralism. While the international economic environment is important for growth in developing countries, the lack of a favorable environment should not be used as an excuse by these countries for failing to undertake and sustain sound adjustment programs.

Bank and Fund initiatives on debt should continue, but attention should also be given to countries that are currently ineligible for assistance. Donor governments should also consider forgiving debts owed by low-income countries outside Sub-Saharan Africa. Environmental concerns, which have acquired increasing prominence today, should be regarded as a joint responsibility of both the developed and developing world.

MALTA: GEORGE BONELLO DU PUIS

Governor of the Bank

It is indeed a privilege and an honor for me to address this distinguished gathering. Annual Meetings of the Bank and the Fund present us with a unique opportunity to express our views on issues that affect the world economy and the economic relations between industrial and developing countries.

It is a source of satisfaction to note that despite predictions to the contrary, the world economy performed strongly in 1988 and the first quarter of 1989. Uninterrupted economic growth in industrial countries was reflected in the substantial expansion of world trade that benefited both the industrial world and the developing countries. Unfortunately, however, while the rate of real GDP growth in the developing countries as a whole increased significantly, this strong growth was largely concentrated in the newly industrialized countries of Asia. In Sub-Saharan Africa and Latin America, on the other hand, output growth was much slower, partly because of low prices for particular commodities and partly because of debt-servicing problems. This divergence in real growth rates in developing countries, which seems to be characterized by regional patterns, may become more acute if current forecasts of an economic slowdown in the major industrial countries during the next two years become a reality.

The dangers of a sharp contraction in world economic activity are a matter of great concern to the developing world. While it is acknowledged that the emergence of inflationary pressures in the industrial countries demands a suitable policy response, an overreliance on monetary instruments—particularly higher interest rates—to counter such pressures may be detrimental to economic growth in the world as a whole and may have much more serious consequences for the economic prospects of developing countries.

A favorable external environment is a prerequisite for economic progress and this can only be achieved if industrial countries adopt policies that take into account their potential impact on the international community. In this regard, the benefits of surveillance and intensified policy coordination among the major industrial nations, which has contributed so effectively to the stability of exchange rates among the major currencies, could be improved further if the Fund's role in the coordination process is strengthened. The Fund could perhaps exert more persuasive influence over the policy decisions of the industrial countries so that these remain more conducive to the economic interests of developing countries. Within this context it is also interesting to note that this year's economic summit of world leaders in Paris identified the "development and further integration of developing countries into the world economy" as one of its three main challenges. Economic world integration can be achieved if both the industrial and developing countries implement the necessary structural adjustment policies that create favorable conditions for longer-term economic growth.

In developing countries, the need for domestic economic reforms has been recognized and various structural measures have been introduced with the active encouragement of the World Bank. There is a new emphasis on market forces and on private initiative. There is also a clear political commitment on the part of many governments to reduce the role of the public sector in the economic process. Policies which boost domestic savings and encourage investment are gradually being introduced together with trade liberalization.

Within this context, I would like to mention my Government's efforts to gradually turn away from a centrally controlled economy, and to introduce the necessary reforms so that market forces can play a bigger and a more beneficial role. We look upon liberalization as a means to foster growth and have introduced measures to encourage and promote private initiative and investment. We have dismantled import restrictions and deregulated prices while retaining minimal essential controls to discourage unjustified price hikes. We have embarked on a strategy to modernize our domestic financial structure as well as to bring about a much needed tax reform which, while broadening the tax base, will remove obstacles to private initiatives. In this connection we have had expert advice from two Fund missions, one on the reform of the financial sector and one on tax reform. I would like to express our appreciation of the Fund's technical assistance in these matters.

The efforts of developing countries to restructure their economies can only be sustained if the overall international climate is supportive of such structural adjustment policies. Unfortunately, it is observed that progress in certain key areas vital to global integration is not being achieved. One of these areas is trade policy, as is evident from the continued presence of protectionist tendencies in certain industrial countries. Less transparent nontariff barriers have continued to proliferate and this is impeding developing countries from boosting their output and thus their ability to improve their external positions. At the same time developing countries are being urged to remove barriers to trade, with the result that import penetration by industrial countries in their markets has continued to increase. As already stated, my Government too has over the past year taken radical steps to liberalize trade in order to eliminate price distortions and allocate resources more efficiently. Nontariff barriers have now been almost totally eliminated. Where necessary, to protect infant industries, these have been replaced by a suitable tariff.

Trade developments overseas have not been helped by the tendency of industrial countries to take bilateral rather than multilateral trade action. Much will therefore depend upon the successful outcome of the Uruguay Round trade negotiations which, although proceeding at a very slow pace, offer a major opportunity for reducing trade barriers to the benefit of all countries.

The inadequacy of resource flows to developing countries, another key element in the international integration process, remains a cause for concern, notwithstanding the fact that official development assistance (ODA) and nonconcessional official flows have increased over the past year. Net private flows and foreign direct investment have remained inadequate given the economic development needs of these countries. While the efforts of the World Bank—particularly its affiliate, the International Finance Corporation—to promote private investment should be applauded, these institutions, possibly with the cooperation of regional development banks, should consider ways of accelerating the flow of equity investment to developing countries. No doubt, the recently established Multilateral Investment Guarantee Agency will play an influential role in channeling private investment flows from the developed countries to the developing countries. We believe that the Agency should also encourage the newly industrializing economies to seek more investment opportunities in those developing countries which are still in a primary stage of industrial development.

The economic difficulties of developing countries are, of course, also exacerbated by the burden of debt and debt service costs. The persistent high level of interest rates has continued to raise the costs of foreign debt of developing countries and this has prevented many of them from regaining creditworthiness in international capital markets. It is encouraging to note that schemes which incorporate debt reduction proposals are now being

implemented. The initiative taken by the U.S. Treasury Secretary, Mr. Brady, earlier this year represents a breakthrough in this regard and makes it feasible for developing countries, particularly the middle-income countries to combine structural adjustment policies with debt relief. Although the success of the plan will depend on the cooperation of the private lending institutions, the approach indicated is surely the most pragmatic in present circumstances. The willingness of the Fund and the World Bank to commit resources in support of debt and debt service reduction strengthens the credibility of this strategy and augurs well for the future success of the scheme.

We clearly understand that for the Fund and the Bank to play an active role in the debt strategy, and for these institutions to support growth-oriented adjustment programs, their financial resources will have to be augmented. For this reason in particular we have supported and are subscribing to a World Bank capital increase. We have also supported the current review of Fund quotas, which we hope will be concluded before the end of the year. As in previous years we shall also continue to support calls for an SDR allocation. In addition, it is our intention to contribute to the ESAF to the extent that our finances permit. We believe that notwithstanding the fact that we are a small island economy with very limited resources, we must support the world community and play a small part in improving the economic situation of the poorest countries.

Since global economic problems can only be solved in a spirit of cooperation and dialogue, we have always striven to fulfill our obligations as members of the Fund and the Bank. Furthermore, until now we have never found it necessary to make any call on the financial resources of the Fund. We are glad to say, however, that over the last two years, as my Government began to introduce far-reaching reforms in various sectors of the economy, we have made use of the Fund's technical assistance, which has been of great benefit to us.

Finally, I must observe with satisfaction that issues related to our physical environment are featured in the agenda of the Development Committee. The protection of the environment appears at first sight to conflict with the objective of economic development; so it is incumbent on all nations of the world to cooperate in formulating a strategy that accommodates both environmental conservation and economic progress. Such a strategy will not be cost-free and will have to be borne by all nations, particularly the industrial countries, which account for much of the global environmental shortcomings. I am glad to say that my Government has taken various initiatives at the UN on global climate conservation. It is also a signatory to the Hague Declaration against pollution of the earth's atmosphere. The World Bank's growing concern with environmental issues at the project level is a step in the right direction, but it should be enhanced further by a readiness to monitor and advise all member countries on the environmental impact of

any policies or projects they may be about to undertake. This will enable a larger number of member countries that are not eligible for financial assistance from the Bank to make use of the Bank's expertise in a manner that is beneficial to the world as a whole.

NEPAL: BHARAT BAHADUR PRADHAN

Governor of the Bank

It is my pleasure and privilege to address this august gathering of honorable Governors and distinguished delegates.

I would like to put on record our sincere appreciation and gratitude to Mr. George Bush, President of the United States, for gracing our meeting and delivering a very inspiring address this morning.

We have been listening to a series of stimulating and constructive speeches in the Interim and Development Committees and also in this forum over the last few days. It was also enlightening to hear the thought-provoking presentations of Mr. Conable of the World Bank and Mr. Camdessus of the Fund on the world economic situation and its problems.

The interest shown by these institutions in improving the global economic environment and in helping the developing countries is indeed very encouraging. It is gratifying to note that there is a consensus for improving the world economic environment, in general, and the economic condition of the poor, in particular.

Notwithstanding a good growth performance of the world economy in 1988, the world economic situation has not changed significantly since we met in Berlin (West) last year. While growth in the developing countries, particularly in Asia, was generally high and sustained during a number of years in the past, the rate of growth is expected to fall in the coming years. It leaves an uneasy feeling about where this trend is leading us in the next decade.

The world economy is still beset with numerous problems and constraints. A combination of factors, such as the worsening of terms of trade against the developing countries, acceleration of inflation, and growing protectionism, has exacerbated the problems of many developing countries. The indication for 1989 and 1990 is that the pace of economic growth will slow down as the economic expansion in the industrial countries decelerates. Certainly, a great deal can be done in solving these problems by way of mutual cooperation and preparedness to look beyond one's own interest, in the larger interest of the world community.

Many developing countries are leading the way with economic and institutional adjustment reforms to correct economic imbalances and accelerate growth. The policy mix these countries have adopted comprises macroeconomic management including fiscal restraint, rationalization of exchange

rates, liberalization of trade regimes, and enhanced private sector participation through divestiture and deregulation. These efforts will require an increase in the amount of resources transferred to the developing countries. This has been discussed on numerous occasions and we again reiterate that need. Evidence strongly suggests that the financial flows have been inadequate.

The drive toward structural reform has been greatly facilitated by support from the Fund under the structural adjustment facility and the enhanced structural adjustment facility, and the World Bank through its various instruments of program lending. There is, however, still a great need for an increased flow of concessional resources to the developing countries with reasonable flexibility applied to cross-conditionalities.

Environmental degradation today poses a great challenge to all of mankind, causing various kinds of setbacks to our developmental efforts. The recent initiative of the World Bank toward making both the government and the people conscious of the deteriorating ecology, disappearing valuable species, and destruction of mankind's common heritage is commendable.

The external debt problem of the developing countries has been a matter of serious concern for about seven years now. Despite an increase in the disbursement of funds to the highly indebted countries, net transfers to these countries continue to be negative. According to the latest UN survey, the year 1989 will mark the seventh consecutive year of negative transfers of resources from the developing to the developed countries. As a result of this, the debt burden of the developing countries has held back their efforts to sustain their economies. In this context, the scheme suggested by Mr. Nicholas Brady, the U.S. Treasury Secretary, is commendable. However, the details of how it will actually work and how the banks will be encouraged to accept loan losses still need to be spelled out.

We note with satisfaction that some progress has been made to ease the debt problem, with the Fund and the World Bank playing a crucial role. A comprehensive debt strategy based on growth, development, and shared responsibility is being defined. We believe that this strategy would contribute not only to reducing the growing external debt burden of the developing countries but also to helping meet the growing demands of external capital for their development endeavor.

On the Ninth General Review of Fund Quotas, we continue to share management's convincing argument and therefore support the doubling of quotas to enable the Fund to play an effective role in the 1990s. The IDA funds of the Bank have contributed much to implementing the poverty alleviation program in Asia and Africa. In view of the need for continuing this program with increased vigor, we hope that the Ninth Replenishment will be at least as large as that proposed by management.

It is also important that the low-income countries, particularly the least-developed countries, which cannot borrow on market terms, should be given

preferential treatment with regard to the flow of concessional loans with minimum conditionalities from the multilateral and other agencies.

I would now like to briefly dwell on the recent developments in the Nepalese economy.

The Nepalese economy was experiencing a healthy turnaround following the adoption of the structural adjustment program in 1986/87. Until March 1989, the economy continued to register strong growth and stability. Government revenues continued to rise and the budgetary deficit stayed within reasonable limits. The rate of monetary expansion was restrained and credit flows were shifting in favor of financing private sector activities. International reserves continued to rise and there was a steady inflow of public and private investment capital from abroad.

The encouraging outcome of the structural adjustment program led the Government to move forward with the second phase of the structural adjustment program, for which agreement with the World Bank was recently concluded. In the second phase of the structural adjustment program, we are focusing on financial sector reforms in addition to the macroeconomic and sector activities undertaken earlier during the first phase of the SAL. We are also negotiating with the Fund on the third year of the program under the structural adjustment facility, and the policy framework paper is now in the final stage.

While our economy was heading on a path of strong growth with policies and programs in the right direction, the sudden abrogation of trade and transit treaties by India dramatically changed our economic situation and prospects, with reduced transit facilities at only 2 points from the earlier 15 points. Its impact has reverberated throughout the economy, resulting in a considerable slowdown in economic growth.

The trade and transit impasse was followed by the expiry of the agreement to supply petroleum, oil, and lubricants (POL) and coal by Indian corporations to Nepal. The immediate consequence has been an acute shortage of POL products and coal, which caused severe damage and disruption in industrial production, exports, tourism, construction, and services, as well as considerable hardship to the people as domestic transportation was disrupted, essential commodities became scarce, and the price of many commodities surged. Moreover, indications are that development projects will be delayed with attendant cost overruns. This situation is turning our economy into a high-cost one, and bringing the economy back to normal is, indeed, an arduous task.

To mitigate the adversity of the current impasse and to minimize the damage to the economy, the Government has implemented the Twenty-Two Point Economic Program. The main objectives of this program are to normalize the life of the common people to the extent possible by making arrangements for the supply of essential goods and services, and to minimize

the negative macroeconomic consequences of the trade and transit deadlock.

The economic prospects for the current year are even more alarming. The lagged effects of the crisis are now evident in the continuing contraction in trade, industry, services, and construction, while the agricultural sector is also likely to suffer. In terms of macroindicators, real GDP growth is expected to slow further.

Compelled to use our already dwindling forest resources for energy in lieu of gas and kerosene, we are indeed very much worried by its side effects. It is indeed high time for us to develop hydroelectric power by harnessing our abundant water resources for meeting the energy requirement. This is the surest means of preserving our forest resources and conserving our environment.

On the trade and industrial front, we are forced to diversify trade, both import and export. Developing new markets and finding new suppliers of essential goods, however, are not easy and, moreover, entail costs to the economy. It takes considerable time and adequate financial resources to adjust to the changed situation.

We are aware that the achievement of the goals that we have set in our Twenty-Two Point Economic Program hinges primarily on the continuation of sound economic policies. Despite the difficult situation, we are determined to implement reform measures that seek to strengthen our economy through various policy instruments which are, among other things, better fiscal programming including austerity measures in our budget spending, administrative measures in resource mobilization, and better domestic debt management, and monetary programming, including the liberalization of interest rates, reserve management, and effective bank supervision.

We are happy to note that we have received good support for our structural adjustment program. With the setback in revenue growth, export earnings, and private capital inflows, we will have to rely on foreign assistance for financing a larger portion of local costs of our development programs. We also require external assistance to adjust the economy to a new situation. That includes, among other things, assistance for rehabilitation and restructuring of industries.

We truly appreciate the donors' support to Nepal. Generally, this assistance has been in line with our external financing policy for development programs. However, in the future, we would like to receive increased program lending relative to project funding, and to have loans channeled to productive investments, with grants directed to important support activities, such as technical assistance for institutional support and development.

Nepal's current challenges, superimposed on its landlocked and geographically disadvantaged status, demand even more support from the international community. The recent address of His Majesty King Birendra

Bir Bikram Shah Dev at the Nonaligned Movement Conference held in Belgrade is very appropriate to reiterate here.

> Indeed, the least-developed countries, especially the landlocked among them, are poorer today than they were a decade ago, despite the Substantial New Program of Action for the Eighties. Under the circumstances, one wonders if, without meaningful international cooperation on a predictable basis, these countries can sufficiently develop their economy to be able to stand on their own feet and survive. In fact, the small and the weaker nations among us, even in our times, stand still exposed not merely to underdevelopment but also to the threats to security and stability. They are susceptible to many forces beyond their control, be it on onslaught of mass communication or the threat of gunboat diplomacy.

In conclusion, on behalf of His Majesty's Government I would like to express our sincere gratitude to all donors once again for their support to our development effort. As always, we look forward to continued and increasing support from all donors in our pursuit of our country's economic development.

NETHERLANDS: H. O. RUDING

Governor of the Bank

Debt Strategy

For seven years the evolving debt strategy has been on our agenda. For the greater part of this period total debt outstanding of the severely indebted countries has been rising, and many of them are still experiencing huge problems in servicing their debts and at the same time restoring economic growth.

Against this background, I welcome the evolution of the debt strategy as testifying to the constructiveness of the parties concerned and to the courage and fortitude displayed by authorities and people alike in many individual cases. Rightly, we have stuck to the case-by-case approach. Now this also incorporates voluntary market-based debt and debt service reduction. These *can* provide an incentive for better adjustment. However, in isolation, they are no guarantee for success. Their results will depend on how the opportunities provided are used. The task of the Bretton Woods institutions in this respect is twofold: to guard the quality of the adjustment program and to provide part of the financing. It is not the task, however, of either the Fund or the World Bank to take over the responsibilities or burdens of debtors or creditors. Indeed, this would be counterproductive.

For the debtor countries the only way to break out of the vicious circle of low growth and investment, high debt service, and low confidence is to

implement a sound adjustment program. That is why the past and the future commitment of a country to realistic but firm adjustment is the main eligibility criterion of the debt reduction program. This should be a program that is strong enough for a return of flight capital, that stimulates domestic savings, and that promotes investment. By now it is clear that lasting success of adjustment programs requires social cohesion. Only too often, an uneven income distribution, unfair taxation, and the failure to provide opportunities to the poorest people undermine the sustainability of programs. The outside world cannot be expected to offset glaring defects of this kind. Social responsibility is a prerequisite for economic recovery.

At a more mundane level I must stress the importance for investment of tax treaties with OECD member countries and of MIGA membership. Speaking of MIGA, I wish to express my concern over the slowness of its implementation. I hope this will be remedied soon now.

As for the banks, their participation in a debt reduction package must be voluntary. This means that they have to be convinced of the positive consequences in the longer run of debt reduction, for the countries concerned and for themselves. Of course, they rely on Fund conditionality. Furthermore, national authorities must in some cases eliminate impediments for the participation of banks in the debt strategy. In the end, however, it is the banks' own judgment, on the basis of their enlightened self-interest, that is decisive.

To preserve the financial integrity of the Bretton Woods institutions, new debt reduction operations must remain within the guidelines established by the Executive Boards of both institutions. It is too early to start changing their parameters. This could undermine their credibility and thereby the stability of expectations.

Arrears

The financial integrity of the Fund and the Bank is also at issue in the mounting arrears of some of their members. That is why the Netherlands at an early stage already called on both institutions to tackle this problem. By now we may note that the Fund has a solid set of policies in place. The logic is inescapable. Fund resources are made available conditionally. If they are not serviced (in part or fully), this forms prima facie evidence of a lack of willingness on the part of the debtor to continue to apply sound economic policies. That is precisely the reason why the essential first step in restoring normal relations between the Fund and a member who is in arrears is for that member to resume mutually agreed adjustment policies. Then, but only then, should the international community, including the international financial institutions, be prepared to assist such a member. If, however, a member is unwilling to cooperate with the Fund, then remedial measures are no less than logical in a situation in which the Fund needs to safeguard

its financial integrity. Preventive, collaborative, and remedial measures all serve to remind us that the Fund is a cooperative institution which exists only by virtue of its membership. For the Bank the situation is essentially similar. It too should apply such policies in order to prevent an adverse impact on its financial integrity, to maintain its multilateral and cooperative character, and to prevent extra interest charges from having to be borne by *other* developing countries borrowing from the Bank. Like the Fund, the Bank should consider remedial action for those countries with protracted arrears that are persistently not cooperating with the Bank.

Protectionism

Of course, the industrial countries must contribute importantly to the ongoing adjustment process. At this moment, with relatively favorable economic developments in the industrial world, I must stress three areas of serious concern: I refer to protectionism, the environment, and the present level of interest rates. Industrial countries, for their own sakes and for those of the developing countries, must withstand the short-term political temptations of protection. The Uruguay Round constitutes an opportunity that must be used to provide effective market access for products of developing countries. I do not underestimate the resistance that will be met, especially in agriculture and in value-added products like clothing and footwear, but we must not accept that economic unreason and gross inequity based on abuse of power should govern global trade relations.

Support to the Environment

Like trade, the environment is a field in which being penny-wise in the short term will prove to be pound-foolish later, as is now becoming only too evident. Nor can it be denied that the responsibility of the industrial countries for environmental degradation outweighs that of the developing countries by far. There appears to be an increasing awareness that it is no use to wait for one another in clearing up one's own backyard. At the same time there are gratifying signs of willingness to cooperate at a global level. The Netherlands is undertaking efforts in both respects. It is clear that we must make a distinction between developing and industrial nations when we look at their environmental problems. In the Western world, the problems of the environment are a by-product of prosperity. In developing countries, however, they are rooted in poverty, stagnating economic development, and rapid population growth. The short-term issues of survival often leave nations without the means required to safeguard their natural resources. Unlike in the industrial countries, where both funds and technical and institutional capacity are available to tackle the environmental problems, these are scarce in developing countries. As a result of all this, there is a severe risk that environmental degradation in poor countries will be irreversible.

Long-term institution building in the developing countries should be a priority. An efficient administrative capacity is required if environmental aspects are to be integrated into the decision-making process. Neither can one expect national conservation strategies to become operational without such a capacity. If the international community expects the Bank to play an important role in the execution of environmental guidelines, the Bank should also be in a position to do so. Given the need for an integrated approach, this should be done by earmarking some funds of the Bank Group for technical assistance for environmental activities.

The greater emphasis we place nowadays on structural adjustment measures in the Bank and the Fund, in my opinion, is helpful to accommodate social and environmental policies. Within the context of the structural adjustment programs of the World Bank, it is important to devote appropriate attention to poverty alleviation and to the environmental situation. In both fields, preventive and remedial measures must play their role. I am strongly in favor of an integrated approach when dealing with both issues. The Bank, as a development institution with long-term lending relations with its borrowing members, is in the right position to pursue such an integrated approach. The role of the Fund as a monetary institution is different, being devoted, among other things, to external adjustment as a necessary condition for the restoration of growth. The Fund of course needs to be aware of possible social and environmental implications of adjustment programs and to advise countries on alternative routes by which to achieve adjustment. But there its task stops. In the environmental field, the World Bank stands ready, as I said, to assist and has the expertise. I would like to express my appreciation for the rapid pace with which the Bank has deepened its involvement. Such an efficient division of labor should be enhanced by appropriate consultation between the Bank and the Fund. . . .

Standard of Value

. . . Another issue that bears relevance to the international monetary system is the standard of value of the World Bank. The Executive Board, on the basis of a report from the ad hoc committee set up for this purpose, has concluded that all members of the institution except one would clearly prefer the SDR to be the standard of value of the Bank, but that a decision on this issue should preferably be taken by consensus. The report was sent to us, the Governors, for our information, accompanied by a letter from the Bank's President. While I do not now intend to discuss the possible courses of action open to the Governors, I do consider the standard of value issue of such importance to the multilateral character of the institution that I think we should discuss it soon. Some preparatory work for such a meeting could be done by a committee of a small number of Governors.

Ninth Replenishment of IDA

IDA is the main channel for financing the development of the low-income countries. In my opinion, it is a very effective channel. Moreover, in the framework of the Special Program of Assistance for low-income debt-distressed countries, IDA, in combination with the enhanced structural adjustment facility, catalyzes a major and coordinated stream of bilateral donor funds in support of the policy-based lending of the Bank and the Fund. Staff estimates show that the demand for IDA funds will increase in the period covering the IDA-9 replenishment. This is not only caused by the growing number of eligible countries, but also by new requirements, sometimes voiced by the donors themselves, in the field of poverty alleviation, population policy, and the environment.

Therefore, I think it essential for the size of IDA in real terms and in terms of new money at least to remain the same. I urge *all* donor countries to come forward with indications of the size and the share they are ready to support, in order to ensure that the next meeting of the IDA-9 deputies in Kyoto, will be, as planned, the last meeting and a successful one.

Not just in relation to the Ninth Replenishment of IDA but also in general, I wish to plead for an increase in the contributions for official development assistance. Not for the sake of self-righteousness, but the official aid target of 0.7 percent of GNP was agreed to internationally long ago. I am sure I am speaking in the name of the few member states which for many years now, sometimes even in spite of their budgetary problems, have met this level. I call especially on the large industrial countries to increase their development aid. That would solve many problems in the poor countries of the world.

NEW ZEALAND: DAVID F. CAYGILL

Governor of the Fund

It is a pleasure to attend the joint Annual Meetings of the World Bank and the International Monetary Fund.

During the past few years, emphasis has been placed on the need for structural adjustment as one of the means of combating the problems caused by the increasing debt levels in middle-income countries as well as in less developed countries. New Zealand has implemented a comprehensive structural adjustment program and I would like to share with you some of our experiences.

New Zealand has gone through a difficult period of adjustment as it implemented the kind of policies that the Bank and the Fund endorse. We have undergone an extensive, but orthodox, program of economic reform. This has seen significant progress in macroeconomic stabilization, and a shift from being probably the most regulated and protected economy of any

OECD country to one of the most liberal. During this process, we have valued our ongoing dialogue with the IMF and the interest shown by the World Bank.

We are beginning now to experience many of the benefits of this adjustment and the rewards of the policy changes are being seen in many different sectors of the economy. It has not been an easy period in our history. Unemployment is still high at 7.3 percent of our work force—but recent figures have shown that unemployment may have peaked, and we are confident that a growing economy will generate new jobs.

I believe that New Zealand has shown that it is possible, with courage and determination, to restructure an economy so that a country's future is strong and secure. I do not say that it was easy, or that there have not been many sacrifices—that would be untrue. But we have passed the worst impact of adjustment and the future is positive.

The pace of our reform may have seemed extraordinarily fast to outsiders—indeed, many critics within New Zealand have said the same. However, in my view, the major argument against gradualism is the risk that vested interests, given time, may combine to force a policy reversal. In addition, piecemeal reform often creates imbalances that can jeopardize the reforms being undertaken.

My Government has endeavored to tackle the restructuring with a view to ensuring the international competitiveness of the New Zealand economy. I do not claim that we got everything right (or that other countries should necessarily follow our example), but we are beginning to see the results of our policies and the benefits must surely speak for themselves:

—inflation is down to 4.4 percent for the year to June 1989 compared with an average of over 12 percent over the previous five years and a peak of 18.6 percent during 1987

—the overseas balance of payments has turned around from a deficit of 9 percent of GDP in 1984 to a small surplus for the year ended June 1989

—the Government's financial deficit (excluding asset sales) was reduced last year to 1.5 percent of GDP and is expected to be 1 percent this year compared with 7 percent in 1984

—official overseas debt has fallen as a percentage of GDP from 41 percent to 27 percent

—over the past year it is estimated that labor productivity in manufacturing has risen by 11 percent.

These changes have established a firm basis for future economic growth.

I want also to commend the World Bank on its endeavors in the area of the environment. Member countries may be aware of my Government's concern for the environment, especially the damage to the ozone layer. But we cannot confine our involvement to grand gestures and statements. We must take practical steps, and we have done this by introducing legislation

to prevent the further emission of chlorofluorocarbons into the atmosphere. My Government has nearly completed the reform of our resource management laws to encourage the efficient use of our natural resources, while protecting the quality of our environment. We have increased our funding to the Ministry for the Environment to facilitate research into the important area of global climate change and the "greenhouse effect."

The problem of drift-netting and its intrusion into the South Pacific is of deep concern to New Zealand. We are a maritime country and rely on the fish stocks in the surrounding seas as the basis of a major export industry. It is our policy to provide for the sustainable development of this resource. New Zealand also takes strong exception to the depletion of fish stocks in the South Pacific by drift-net fishing. It jeopardizes the economic viability of many small island states for whom there are few alternative sources of economic development.

It is a measure of the importance that our Prime Minister feels should be given to environmental matters that he has retained for himself the Environment portfolio.

In conclusion, I would like to congratulate the IMF and the World Bank on their steadfast resolution in facing the growing debt crisis and on their efforts on behalf of the debtor countries. New Zealand welcomes and supports these efforts, as well as those in the environmental field, and reaffirms our commitment to the work of the Fund and the Bank.

NICARAGUA: JOAQUIN CUADRA CHAMORRO

Governor of the Fund

It is an honor to speak at these Annual Meetings of the International Monetary Fund and the World Bank. On behalf of the Government of Nicaragua, I extend cordial greetings to the Chairman, the Managing Director of the International Monetary Fund, the President of the World Bank, and the Governors and delegates of the member countries and special guests.

Since our last meeting in Berlin, the international economic picture has deteriorated somewhat rather than improved, which will certainly make the recovery of the economies of the developing countries more difficult. International economic activity has lost momentum in the industrial countries, at the same time that inflation is being spurred by the persistent external and government finance imbalances in some of those countries. This has meant higher interest and exchange rates in the international capital markets, which have increased the debt service burden of the developing countries.

For their part, the developing countries have experienced an even greater slowdown in economic growth and are especially concerned over the disparity between regions and groups of countries.

The situation of the most heavily indebted countries is particularly disturbing. Their growth has fallen to less than half of that in the previous year and inflationary pressures have also increased markedly. This has had a very adverse effect on their external debt position, which will continue to be a major cause of concern to the international community and a serious impediment to growth in the developing countries. In this respect, it is necessary to remember that economic growth is vital to the developing countries so that they can generate the resources with which to repay their external debt and, even more important, improve the standard of living of their populations in order to avoid social upheaval and to consolidate the stabilization and restructuring efforts that virtually all have begun, at high cost.

The multilateral financing institutions have a key role to play in the search for solutions to the problem of debt and growth in the developing world. These institutions must therefore have the necessary resources to meet the needs of the developing countries, both in lightening their debt service burdens and supporting their economic stabilization and restructuring efforts. We are therefore concerned that the financing flows toward the developing countries have declined instead of increasing, especially those from the multilateral agencies. This trend must not continue if orderly and sustained stabilization and growth are to occur in the developing countries. . . .

. . . The external debt problem continues to be of key importance to both the developing countries and the stability of the international monetary system. External debt is, at this juncture, the most explosive factor in the relations between the developing and industrial countries. The multilateral institutions must play a key role in the search for, and implementation of, effective solutions. Internal and external problems, many of them beyond the control of the developing countries, have exacerbated the debt problem and created a crisis situation. These factors have made debt the primary obstacle to the restructuring and economic development of the developing countries. Progress has been made in that the most recent debt initiatives recognize the need to reduce the principal and debt service burden. Without concerted efforts by the creditor countries, the debt crisis will unquestionably become even more acute. We therefore welcome these new debt strategy initiatives from the international community, but reiterate our concern at the continuing deterioration of social and economic conditions in the developing countries. Such conditions hamper economic growth and make it very difficult to find appropriate and lasting solutions to the debt problem. The World Bank, the International Monetary Fund, the Paris Club, and creditor countries must make their mechanisms and policies more flexible, permitting debt restructuring, if necessary, under better terms and conditions that allow for debt reduction, longer repayment periods, lower debt service, and increased financing flows, especially to the poorest and most heavily indebted countries that are making sincere adjustment and economic restructuring efforts. The Group of Twenty-Four has submitted specific

recommendations in this respect, with which Nicaragua agrees and supports.

By way of example, and in order to share with you what has been done, what has been achieved, what still needs to be done, and the support that has been obtained and that which has not been obtained, either from other countries or the multilateral institutions, I will refer to my country. Nicaragua, a small country with a fragile economy vulnerable to external factors, has encountered serious difficulties of different types, which have resulted in major imbalances. In addition to the common problems that the developing countries, and especially those in Central America, have faced in the past decade, Nicaragua has had other problems of a specific nature.

At the beginning of the 1980s, when the country was still just beginning to try to recover from the devastation of the 1972 earthquake, Nicaragua had to fight a war of liberation, which ended with the fall of the Somoza dictatorship. With the revolutionary triumph in 1979 the country began a sweeping transformation of its social and economic structure, designed to achieve democratic ideals and more equitable distribution of the benefits of economic growth. Logically, these phenomena gave rise to changes in the expectations of the economic agents and the population in general.

While this transformation was taking place, the country also faced an imperative need to defend itself against illegal and unjust armed aggression from abroad, which has caused it great material economic damages and, even more important, losses of human life. This unjust war has claimed 58,000 victims and caused direct material damages equivalent to more than two and one half times the national product. In addition, that aggression required heavy defense allocations, which completely distorted productive activities. In 1987, approximately 50 percent of the budget and some 20 percent of the national product were allocated to the national defense effort.

Likewise, since 1982 a boycott has denied Nicaragua access to external financing, including that provided by the international development financing agencies. This has corrupted their multilateral nature, making them into virtual foreign policy instruments of a specific country.

To make matters worse, in 1985 the United States decreed a commercial embargo on Nicaragua, distorting trade by depriving the country of the major market for its exports and the primary source of its imported inputs, spare parts, and capital goods. Last, in 1988 Nicaragua suffered the devastating effects of Hurricane Joan, whose damages were estimated at more than US$800 million.

All of this has made economic policy management very difficult in Nicaragua, restricting the Government's room to maneuver in the appropriate implementation of its policy. The adverse effects mentioned, and the use of compensatory fiscal and monetary policies to mitigate the negative economic impact on the population, gave rise—as was to be expected—to serious distortions in relative prices and resource allocation, significant ex-

ternal and internal imbalances, and, finally, a spiral of hyperinflation which began in late 1988.

My authorities have been aware of these problems and of the fact that an effective solution will take considerable time, substantial amounts of external financing, and, above all, a favorable international economic environment, along with peace within Nicaragua. Peace is essential for investment and economic growth, but peace alone is not enough to achieve these objectives. Also required are a sustained domestic stabilization effort and, with external assistance, the restoration of the foundations for sustained growth.

Nicaragua has striven to achieve peace. Substantial progress has been made in this area through important domestic measures and also international agreements that could result in a stable and lasting peace. The Esquipulas and Tela agreements signed by five Central American Governments constituted a major step forward, and the hostilities have eased considerably. On February 25, 1990, democratic elections that are just, open, and aboveboard will be held in Nicaragua, with the participation by invitation of the Government, from the outset, of observers from the United Nations, the Organization of American States, and the European Economic Community.

Progress on the political front and in the peace process has created the conditions needed for implementation of a rigorous economic stabilization and structural adjustment program. The immediate objective of the program is to curb hyperinflation, stabilize the exchange market, eliminate the major price distortions, once again provide appropriate signals to the different economic agents, and, in the short term, promote the growth of exports and an appropriate allocation of resources, and lay the foundations for sustained growth in the future. Not just a simple stabilization plan but a major structural adjustment program has been undertaken, aimed at making significant changes in the production system and in the country's decision-making and resource-allocation process.

As the focus of the program, measures have been adopted to reduce public expenditure and scale down the government apparatus, significantly cutting back employment in the Central Government and the number of ministries. To date this year, public expenditure has been reduced by more than 57 percent over the same period last year, affecting more than 13,000 positions in the Central Government and 13,000 defense-related jobs, bringing the fiscal deficit down from 23 percent of GDP last year to 7 percent thus far this year. Equally important is the fact that during the past four months the Central Bank of Nicaragua has not extended credit to the Government, an important change over previous periods.

In the area of exchange, from a multitude of exchange rates and sizable differentials between rates on the official and parallel markets, we have virtually achieved a unified exchange rate and more flexible markets. The active exchange policy applied during the past 18 months has eliminated the

overvaluation of our currency, and a flexible adjustment policy is being implemented to avoid any exchange rate erosion. At the present time, the differential between the official and parallel exchange rates has been reduced to less than 10 percent.

To achieve an appropriate allocation of resources, streamline the use of credit, and strengthen domestic savings, a flexible interest rate structure has been introduced, with adjustments being made periodically in order to maintain positive real interest rates. Despite monthly inflation exceeding 100 percent in late 1988, positive real lending and borrowing rates were achieved in early 1989 and have been maintained until now. This policy will be continued in the future, so that the incentive for financial savings may be balanced against the need to avoid stifling production.

The former generalized system of price controls has been replaced by controls on just five essential products and on public utilities. The utility rates are, however, adjusted periodically so as to keep pace with real costs and to avoid subsidies. Almost all subsidies have been eliminated, and a policy aimed at avoiding them in future is being followed. Controls have also been lifted from the country's system for setting wages so that they can reflect market forces, which will facilitate the transfer of resources needed for an adequate allocation of resources.

The measures adopted have been difficult and have come with a high political and social cost, but significant positive results have already been observed. The monthly inflation rate, which in late 1988 and early 1989 exceeded 100 percent, was reduced to 6.2 percent in August of this year, and we are hoping to reach 1 percent by December. The exchange market has been unified and stabilized, eliminating price distortions and creating a significant bias in favor of exports. This year, exports will increase by about 27 percent over last year. Term bank deposits have risen significantly, and improvements have been made in the liquidity preference structure. Economic decisions have become more flexible and more effective, promoting an adequate allocation of resources, avoiding waste, and improving productivity.

My Government realizes that the achievements made have been significant, but that much remains to be done. Stabilization is not an objective in itself, but rather a prerequisite for sustained growth in the future. The cost of the measures adopted has been high, but they were necessary to achieve greater, long-term objectives, relating to a more equitable distribution of the benefits of growth and a marked improvement in the well-being of the population. It might have been possible to mitigate this cost if the country had received the external resources needed to support our effort. In fact, the program was implemented without external financial assistance, bearing witness to the Government's commitment to achieving its objectives.

In the future, however, it will be impossible to consolidate the program's achievements and begin sustained growth without the help of external re-

sources and a climate of peace and confidence, both within Nicaragua and abroad. The maintenance of appropriate policies will require bilateral resources from friendly countries and, to a large extent, assistance from the multilateral institutions, especially the international development banks. Nicaragua has made a great effort to earn the confidence of the international community and its assistance. It hopes and wishes that its appeal may meet with a positive response from friendly countries and the multilateral organizations. Despite the fact that we have been excluded from financing in the past, for other than economic reasons, we are fully prepared to normalize relations with the multilateral organizations and other similar institutions through a serious, constructive dialogue that will make it possible to prepare a comprehensive support plan. The plan recently adopted by the Nicaraguan Government explicitly includes the decision to normalize relations with the multilateral organizations.

Before closing, my country wishes to acknowledge the support received from friendly countries in a meeting held in Stockholm to examine and support the program being implemented by Nicaragua. At this meeting, a program monitoring committee, made up of renowned independent experts and headed by Professor Albert Fishlow, was created, and it has already begun its work. This committee will report to the group shortly, after its visit to Nicaragua this month. A second meeting is planned for the first quarter of next year, in Rome, and we are inviting the broadest range of countries and international institutions. At this meeting, in addition to analyzing the progress made under the program and the support which could be provided on a bilateral basis by friendly countries, we will also look at the best ways of normalizing relations with the development banks. This should not, however, preclude opening a dialogue with these organizations right now with a view to searching for and formulating possible solutions.

Much progress has been made consolidating peace and democracy in Nicaragua and in the stabilization and structural adjustment of our economy. This effort can be continued only with the support of the international community. Nicaragua is prepared to persevere and we are hoping for the support of all countries and specialized organizations in achieving the fundamental objective of improving the well-being of the country's people.

NORWAY: GUNNAR BERGE

Governor of the Bank
(on behalf of the Fund Nordic countries)

I have the honor of addressing this distinguished gathering on behalf of the five Nordic countries—Denmark, Finland, Iceland, Norway, and Sweden. As the short-term prospects and challenges confronting the members of the Bretton Woods institutions have been discussed at length at the meeting of the Interim Committee, I shall mainly reflect on some of the

major problems which the world economy and the international financial system are facing in the medium term.

But first I would like to join my fellow Governors in welcoming Angola as a new member of the International Monetary Fund.

The world economy has in recent years performed remarkably well in some fields, while developments in other areas have been disappointing. The economy of the industrial world is now in its seventh year of growth, an exceptionally long period of expansion. Albeit still too high in several countries, inflation has on average been brought down to a moderate level. However, in spite of the relatively sound growth performance, the rate of unemployment has remained high in many industrial countries, and the current account imbalances among the major countries have only slowly been reduced, while new imbalances among the European countries have emerged. Moreover, while economic growth has been satisfactory in most industrial countries and several newly industrializing economies, many of the heavily indebted developing countries have experienced low economic activity and declining per capita income.

The basic challenge facing the industrial countries is to sustain the present expansion while avoiding a resurgence of inflation. To meet this challenge, the industrial countries have to deal forcefully with the problems threatening noninflationary growth, such as external imbalances, protectionism, structural rigidities, and the present inappropriate mix of fiscal and monetary policies.

The current account imbalances among the three largest industrial countries, which developed during the period 1983-87, have to some degree been reduced in the past couple of years. These adjustments in the external imbalances reflect, however, mainly the movements in exchange rates in the period 1985-87 and to a lesser degree, a shift in domestic demand. Furthermore, there are indications that as the effects of these exchange rate changes taper off, large structural imbalances will remain.

So far, the United States has not encountered difficulties in financing its external deficit. This might imply either that the deficit is more sustainable than earlier envisaged or that we are storing up problems for the future. I do not feel confident that the former interpretation is the correct one.

I should also like to add that one of the implications of the U.S. external deficit is that approximately half of the global savings which are channeled through the international capital markets go to the United States. The effects of this on international interest rates and on the availability of capital to other countries are inescapable.

Balance can only be restored to the U.S. currency account if the gap between national spending and output is closed. As the U.S. economy is operating close to capacity, it is important that investment be maintained and that the necessary reduction in national spending be concentrated upon consumption. This will require a determined and continuous effort to reduce

the fiscal deficit. The magnitude of this task is such that it will have to be attacked both on the expenditure and the revenue side of the budget.

To minimize the internationally harmful effects of a deceleration in U.S. domestic demand, countries with a strong balance of payments and low inflation should be prepared to alleviate these effects. Since countries such as Germany and Japan are now operating close to capacity, an expansionary shift in macroeconomic policies is not advisable. Nevertheless, for the surplus countries in general, there seems to be room for increasing domestic demand without rekindling inflation through implementing policies to adjust the structure of their economy, removing rigidities and distortions, including those that discourage investment and imports and inhibit flexibility in the labor market. Newly industrializing economies in a strong balance of payments position should also contribute to the adjustment process through maintaining a high rate of growth in domestic demand and through the removal of policy measures that inhibit imports and unduly stimulate exports.

Currently, the economies of the major industrial countries are growing approximately at their potential output, and inflationary tendencies have recently been observed in some industrial countries. The threat of inflation has been met by tighter monetary policy. But additional measures are needed to sustain growth, while combating inflation. Particularly implementation of appropriate fiscal and structural measures is imperative. In the present situation, with global low saving, large investment needs, and high interest rates, it is important to enhance the rate of saving in deficit countries by correcting fiscal deficits and stimulating private saving. However, where the net financial saving of the private sector is much larger than the deficit of the public sector, it is not obvious that global interests are best served by a policy of fiscal strength, which results in large balance of payments surpluses.

Structural adjustment is also much needed in most industrial countries. Raising efficiency and removing rigidities and distortions, including those that discourage investment and restrict imports, are necessary for sustaining the present expansion. Although substantial adjustments have been carried out in recent years, much has still to be done. For example, liberalization of capital markets needs to be complemented with actions in other sectors of the economy. It is of particular importance to improve the functioning of the labor market, remove distortions in the tax system, eliminate trade restrictions, and reduce subsidies and other support measures for ailing industries. In these circumstances, the trend toward proliferation of nontariff trade measures is deplorable, and recent efforts to reverse this trend should be strongly supported. It is also important that disputes be resolved within the existing multilateral framework and not through unilateral trade measures. In a medium-term perspective, success in the Uruguay Round of trade negotiations is essential to the open trade system which has served us

so well in the postwar period. We also welcome the decision by the European Community to establish a single European market by 1992. Successful completion of the Uruguay Round and implementation of a single European market will create a much more open international trade system.

The heavily indebted developing countries have generally benefited only modestly from the recent economic recovery. Because of the debt problem, insufficient policy adjustments, and limited market access for their exports, economic growth has been subdued, the standard of living has continued to fall, and the economy has remained vulnerable to adverse changes in the external economic environment. Net inflows of foreign capital, which are regarded as essential to restoring growth, have not been forthcoming as expected.

The debt strategy which has been pursued in recent years has to some degree been successful: debts have been restructured, adjustment programs have been implemented, current account positions have been strengthened, and the threat to the international payments system, including the commercial banks, has been reduced. In spite of these improvements, the situation remains extremely difficult for many of the indebted countries. The Nordic countries therefore welcome the recent strengthening of the debt strategy by the Fund and the World Bank.

Looking to the medium-term future, I think we have to realize that, in spite of the recent strengthening of the debt strategy, we will have to live with the debt problem for many years to come. Although debt ratios have declined moderately, they are still very high for the heavily indebted countries and the discounts in the secondary market for the debt of these countries have risen sharply in recent years. Moreover, the current account improvement since the onset of the debt crisis has, to a large extent, been achieved through a sharp decline in investment in relation to GDP. This—in combination with serious policy slippage—has affected the prospects for growth and the ability of these countries to meet their future debt-servicing obligations. Capital flight has also remained a serious problem.

In these circumstances, private creditors have sharply curtailed their new loans, and sizable net transfers of resources from the heavily indebted countries have occurred. It is therefore of utmost importance that the debt strategy is fully implemented with little delay, and that all participants play their proper role. In the absence of such a collaborative approach, the ability to sustain adjustment and reform policies may weaken, thereby undermining the debt strategy. We will then all be losers. As for the debtor countries, strong and consistent economic adjustment remains essential. External financing can never replace necessary adjustment. It is also important that the commercial banks make their appropriate contribution to the debt strategy. The Bretton Woods institutions must continue to play a central role in designing, implementing, and financially supporting the strengthened debt strategy. . . .

PAKISTAN: EHASANUL HAQ PIRACHA

Governor of the Fund

I join you in expressing grief on the tragic death of our colleague from Chad.

It is of particular pleasure for me to address these meetings for the first time as a representative of the democratically elected Government of Pakistan. I congratulate you, Mr. Chairman, on presiding over these meetings. The Republic of Korea has emerged in recent years as a major industrial economy. Your understanding of the problems and constraints of a developing economy has been a great help in these deliberations. I welcome our newly inducted colleagues from Angola. I also join the previous speakers in expressing my appreciation for the excellent arrangements made for these meetings.

The world economy has experienced an extended period of recovery, with an average growth rate of 3.4 percent during 1983-88, with industrial countries growing at 3.6 percent. Nevertheless, the gap between the rich and poor nations has widened. Moreover, notwithstanding this impressive growth record, the world economy continues to face many problems which have been around for a number of years and which tend to constrain growth and stability. These problems include payments imbalances among industrial countries and the need for policy coordination, relatively high rates of unemployment in some European countries, continued large fiscal deficits in the United States, external indebtedness of developing countries, the net transfer of resources from developing countries, and volatility of exchange rates. These problems have been accentuated by the recent upward movement of interest rates.

Exchange rate volatility continues unabated. This situation underscores the need for greater policy coordination among the industrial countries not only in the areas of exchange rates and monetary policy but also in fiscal policies. In all these areas there is need for reinforced surveillance and coordination aimed at fostering stability consistent with other realities. High costs of adjustment can be avoided by greater emphasis on fiscal measures, since adjustment in exchange rates alone has not been adequately effective in remedying the situation. The current high rate of capacity utilization in industrial countries provides a favorable opportunity for containing fiscal deficits. Persistently large payments imbalances and continuing tight monetary stances are constraining the multilateral trading and payments system.

Although the developing countries registered a growth rate of 4.2 percent during 1988, the growth has been uneven, with a large number of countries not sharing in this growth. Even some of the better performing countries of South and East Asia appear to be facing constraints in sustaining their growth momentum. In the non-oil developing countries, inadequacy of external resources, including reduced access to commercial borrowing, con-

tinues to be a serious constraint on their development efforts. Assistance from the International Monetary Fund, a major source of balance of payments support, and lately, of adjustment efforts, has been negative for the past three years. Commitment of a part of the Fund's resources for debt service reduction has increased the need for additional resources. The Fund should not only maintain but raise the access limits to its resources under various Fund policies, and it should ease the conditionality attached to the use of its resources with due regard to the sociopolitical conditions in each country. A timely and successful agreement on the Ninth IDA Replenishment before the end of this year is essential for IDA-9 to become effective by June 1990. It is also important that IDA-9 be substantially larger than the previous replenishment in real terms to address the pressing issues of poverty and environment and, in particular, the needs of Sub-Saharan Africa and the poor countries of South Asia.

The search for an appropriate policy package to address the problem of the external debt of developing countries continues to be a high-priority area. Progress so far remains far from satisfactory. While the Brady Plan is an improvement over previous approaches, its scope is still limited to commercial debt. There also is a need to cover the heavy burden of official debts. Many of these countries are now facing severe pressures on their balance of payments because of a declining net resource transfer as a result of heavy debt-servicing obligations. To be feasible and effective, any debt plan should go beyond temporary relief and should emphasize reforms, which should improve the debt-servicing capacity of these countries. For this purpose, there is a need for broad-based institutional arrangements which still provide for access to commercial borrowing but also provide relief for smoothing the process of balances of payments adjustment. . . .

. . . The message that emerges from these Meetings is that all economies, rich and poor, need to coordinate their economic policies. As far as Pakistan is concerned, we are pursuing an adjustment program, and we are grateful for the support of the Bank and the Fund. The elected Government of Prime Minister Mohtarima Benazir Bhutto has reaffirmed its resolve to correct the imbalances in the economy. In this connection, we have taken difficult but necessary measures and we shall continue to do so. However, we need the continued understanding and support of international financial institutions and bilateral donors.

PANAMA: GUSTAVO R. GONZALEZ J.

Governor of the Bank and Fund

The Republic of Panama is experiencing the most difficult period in its history in these closing years of the century and on the eve of assuming full control over its basic resource, which is its privileged position in international trade flows. The adjustment of its economy toward a freer, open

market economy since 1983, including two programs of structural adjustment, helped steer a course to a more effective integration into the world economy and provided a solid basis on which to build a sounder, more dynamic growth path.

The handling of a heavy debt service burden, which promoted a net outflow of over $1 billion in the past five-year period, provided credibility in international financial circles but retarded the growth of the economy. The destructive effects of politically motivated and illegal economic coercive measures applied by the United States of America against the Panamanian people disrupted public finances, compressed incomes and output, and added uncertainty to the otherwise sound prospects of an economy in the process of consolidating a new growth model.

The plans of the Republic of Panama are to continue restructuring its economy under the jeopardy of wanton, unjustifiable, and groundless economic coercive measures. The support and collaboration of the international financial community is essential to assure the success of such plans. This can be afforded through relief in payments or debt transfer payments by bringing debt service to manageable proportions through negotiations furnishing reliable financial support and assisting the flows of additional private capital to the economy of Panama.

The meeting held in Amsterdam in the spring with the members of the Panama Bank Advisory Committee (PBAC) provided us with the opportunity to acquaint the international banking community with Panama's particular limitations in the management of its external credit relations. It also allowed the authorities of the Republic of Panama to reaffirm its commitment to honor its obligations, as has been the case in the past.

The present situation, characterized by a heavy debt service burden, aggravated by the effects of coercive measures and diminished sources of financing on public finances and the economy, has determined the present course of action in the handling of Panama's external credit.

Global arrears are in excess of the current and immediately prospective capabilities of the country, and the obligation to make principal and interest payments falling due requires a positive growth rate of the economy. Recently announced directives from the U.S. Government will have a negative effect on business, especially U.S. capital enterprises. Prospects are, however, that economic performance in 1989 will not prove as bad as the previous year and that 1989 will close with a positive growth rate, arresting the fall in GDP caused by earlier U.S. coercive measures. The June declaration of ineligibility by the IMF has not improved the country's capability to obtain financing or to regularize debt service payments, but the country is intent on tightening collaboration with the Fund in addressing its very critical financial and economic problems. The provisional Government of President Francisco Rodriguez P. is addressing public finance deficiencies and proceeding with expenditure cuts and a balanced budget. Contact with the

business community provides the environment required for a resumption of growth.

We feel that only with the full and complete collaboration of the creditors of the Republic of Panama can we work out the country's programs to move the economy from the present situation of stagnation resulting from externally caused damages. The plans of the country to resume growth depend critically on increased investors' confidence, as the ability of the public sector to apply resources to stimulate growth is severely limited. The country is fundamentally sound economically and is still the advantageous location for international business that it always was. Incentives and guarantees continue to be provided to both local and overseas investors, as well as to creditor banks in order to engage their effective participation in spurring the economy.

The authorities of Panama indicated to its creditor banks in March the willingness to initiate negotiations tending to normalize debt servicing through negotiations restructuring all its obligations. Realistic and sustainable debt repayment schedules are required so that the country can create the necessary momentum in the economy to support growth in the face of continuing coercive measures.

Plans were made on that occasion to have the economic subcommittee of the PBAC evaluate in situ Panama's plans and determination to build the capacity to service its debt. We are reaffirming our intention to continue with those plans, and we are again requesting the PBAC to proceed as planned. In addition, we have invited the Fund's staff to come to Panama for a second Article IV assessment of public finances and economic management. A full mission is already scheduled for mid-October and will be provided by the Government with all necessary cooperation for a thorough evaluation.

Following is an overview of the economic and fiscal situation of the Republic of Panama in the third quarter of 1989, an outline of the strategy of the Government to resume growth under the effects of sanctions, and a review of proposals to renegotiate debt repayment programs.

Recent Developments

The economic sanctions inflicted upon the Republic of Panama by the U.S. Government since the second half of 1987, and which have been stepped up since April 1988, have caused a clear deterioration of economic activity.

The actions taken simultaneously in early 1988 against the banking system, the payment mechanism, and public finances have caused a substantial reduction in consumer demand, a disruption in the savings and investment mechanisms, and a decline in fiscal revenue. As a result of this, GDP dropped by 16 percent in 1988, although it is estimated that in 1989 the economy will be stabilized at the same level of the previous year.

The current revenues of the Central Government decreased by 44.3 percent in 1988 versus 1987. All economic sectors were affected in their performance, especially those engaged in domestic activities, including, in particular, construction.

Foreign-trade-related payments were affected by the freezing of the assets of the National Bank of Panama in the United States of America and by restrictions of Panama's exports to U.S. markets. Export revenues dropped 11 percent, and imports of critical items were adversely affected by a 35.5 percent drop.

During the first three quarters of 1989, the coercive measures imposed by the United States Government were intensified, and September brought new measures with added effects on fiscal revenues and foreign trade.

Banking is recovering from the effects of coercive measures, and close consultation between authorities and the banking industry has substantially freed frozen bank deposits and created the basis for a resumption of lending. The performance of the construction sector has shown no further drop.

The sharp decline in Central Government revenues in 1988 will not be repeated in 1989, although reduced revenues will continue to keep public expenditures depressed.

Strategy for Economic Recovery

Because of the acute economic situation caused by U.S. coercive measures, the economy has to move from the present levels of capital outlays and output to a point where modest levels of investments can create new jobs and stimulate demand, especially for locally produced goods, and improve public sector revenues. A three-year plan with limited objectives is now in place, focusing resources and action on key elements required for economic recovery:

—to induce expanded output and economic activity and to lay the foundtions of a sustained and better-balanced economic growth for the medium and long term; and

—to attack unemployment and critical poverty-related situations until the economy recovers its normal rate of growth.

To restore credibility in the handling of public sector credit relations required to elicit new financing for capital outlays and other needs of the business community and to encourage growth requires clear indications of the determintion of the authorities to move steadily toward medium- and long-term goals. Therefore, the medium- and long-term goals pursued in this plan can be defined as follows:

—first, to strengthen the Panamanian economic model, introducing required adjustments aimed at increased productivity, efficiency, and competitiveness of the economic system, thus expanding capacity to create jobs and making fuller utilization of the natural resources potential; and

—second, to strengthen public finances and refocus the role of the public sector as a promoter of economic activities and a supplier of social services and basic economic infrastructure, instead of a direct creator of employment opportunities.

Since full participation of local and overseas investors is needed for the success of growth efforts, assurances are provided about the continuity and stability of basic institutional aspects having a bearing on investment decisions:

—continuity of the service-oriented economic model;
—continued use of the U.S. dollar;
—guarantees to overseas and local investors;
—rational debt management and financing; and
—stability of business and banking legislation.

The construction sector will have the highest priority, because of its importance to the building materials industry and its capacity to create jobs. At the same time, tourism will be promoted through the reduction of import tariffs on goods of interest to tourists in order to transform Panama into an international shopping center.

Agriculture and livestock for the export market will be promoted to increase export revenues, also with added efforts in fisheries, including inland fisheries, and in small- and medium-scale mining of precious metals.

Laws protecting monopoly situations having an impact on the cost of living are under review, and exclusive representation of foreign trademarks has already been eliminated. The enforcement of the gradual reduction of import tariffs in the structural adjustment program will continue as provided in pertinent laws.

Private investment will be promoted for the development of industrial, commercial, and export-oriented service activities in the areas surrounding the Panama Canal, and construction of required infrastructure for adequate access (such as the trans-isthmian road and the Panama Railroad) is under consideration for BOT (build, operate, and transfer) and other types of contracts and concessions to private investors.

In the short run, the poverty problem will be tackled through temporary employment programs and with humanitarian assistance financed from public sector savings. The growth of private activity in the medium and long term will promote conditions to generate employment and incomes to reduce these problems.

The Panamanian economy will continue to be substantially open, with a strong trading and offshore banking sector. In this context, greater diversification of trade and economic links will be encouraged through establishing and strengthening economic and commercial relations with all countries on all continents.

Financing of the public investment program envisaged will depend on a strict public expenditure control policy already in progress aimed at gener-

ating public sector savings. Therefore, all available internal and external resources must be utilized in order to meet the shortage of internal savings or to complement it in order to finance the formation of public sector capital. An investment portfolio of public sector projects is being promoted internationally for sources of financing, involving rehabilitation of existing infrastructure as well as new infrastructure essential to the development and expansion of private activity.

We invite creditor banks to advance initiatives and proposals for some type of debt conversion schemes to enhance investment opportunities.

External Debt Situation

Panama has been forced to interrupt its traditional policy of timely servicing of external financial obligations, and the economy in general has been deprived of ready access to financial resources as before. Notwithstanding, Panama acknowledges its internal and financial commitments, reaffirming its willingness to meet all obligations, and wishes to call attention to the need to negotiate new bases that will make it possible to continue servicing our obligations. This requires adjustment of the debt profile to fit our present economic situation, while maintaining the public sector's capability to move the economy forward.

The extensive investment programs of the 1970s resulted in a substantial increase in debt to commercial banks, and the rise in international interest rates caused a considerable increase in debt service in the 1980s, which rose to a significant portion of the national budget. At the beginning of fiscal 1989, the Panamanian public sector owed B 3,324 million to its foreign creditors, with the main creditors being commercial banks, with a 50 percent share (see table).

Outlines for Debt Management

Taking into account the fiscal and economic situation that the nation is going through, it is necessary to acknowledge the fact that if we must continue the forced adjustments in order to offset the external pressure, while simultaneously being isolated by the international financial community, our economy will experience extensive difficulties, rendering it unable to honor its obligations.

The following precepts are to be observed in the management of our credit relations:

1. The preferred creditor status of the IMF will continue to be respected. Symbolic payment to attest to our will to cooperate is all we can do, while economic sanctions remain in place. The declaration of ineligibility by the Fund, adopted on June 30, 1989, does not contribute in a constructive manner to the normalization of relations with the Fund nor would the

Outstanding Public Sector Foreign Debt of the Republic of Panama
(percent)

	1985	*1986*	*1987*	*1988*
Total Foreign Debt/GDP	76.0	76.4	71.9	84.8
Multilateral Credit as Percentage of GDP	33.8	34.9	31.6	37.4
Commercial Banks Credit as Percentage of GDP	36.0	35.8	34.9	41.0
Other Credit/GDP	6.2	5.7	5.4	6.4
Debt Service/GDP	10.6	10.1	10.9	22.2
Debt Service as Percentage of Export Revenues	30.1	29.1	33.2	62.2
Debt Service as Percentage of Central Government Revenues	34.1	32.7	34.9	90.8

Note: 1988 refers to the debt service budgeted for that year.

additional punitive measures that the IMF keeps in store for those declared ineligible. We expect the Fund will advise us of other means of solving our arrears problems after the Article IV consultation scheduled for October concludes.
2. Other multilateral credit institutions require consultations aimed at seeking alternatives, and that is the process in which we are now involved.
3. Official creditors concerned with the Paris Club procedures have also received communication from the Panamanian authorities, and we expect that soon they will make known their considerations. Panama stands ready to negotiate specific terms of regularization of arrears with all bilateral creditors so willing. With some bilateral creditors we have already completed negotiations toward an agreement to restructure, which is in the process of being formalized.

The general framework for restructuring the external debt has been designed within the following lines:

1. Continue with the consulting and evaluation policy with the Fund, trying to coordinate the actions in the best interest of resolving the situation of arrears, in line with the collaborative strategy, if acceptable to the IMF.
2. Recognition is given to the importance of keeping the adjustment actions to the economy applied under the program to open the economy further. Multiannual financing will help the success of these measures.
3. The payment schedule must be adjusted to the reality of revenues and available financing, as the economy must reverse the net foreign transfer of resources of the past five years.

4. Panama, being subject to sanctions and coercive measures beyond its control, requests with respect to its external debt the most favorable treatment accorded to nations in serious jeopardy.

Redressing the economy of Panama is the number one priority of the provisional Government of Mr. Francisco Rodriguez, who is engaged in a total effort to restore public confidence in aims and actions of the Government to attain this national purpose. We consider that the international financial community represented here does recognize the right of all countries to preserve their economic security and may feel the commitment to support their initiatives in that direction. We find that this is the only way to create the capacity to repay debts and clear the path for further growth that will create new prospects and opportunities for the people of Panama.

PAPUA NEW GUINEA: PAUL PORA

Governor of the Bank and Fund

I am greatly honored to be representing Papua New Guinea at this important meeting. This is my first occasion as Governor to participate in the Annual Meetings of the World Bank and the International Monetary Fund and I value the opportunity to exchange views with colleagues of other member countries. On behalf of the Government and the people of Papua New Guinea, I would like to join my fellow Governors in expressing our deep appreciation to you, Mr. Chairman, and the Government and people of the United States for the excellent arrangements that have been made to ensure a successful meeting in this beautiful city.

I would first like to make a few quick remarks on the trend of developments that have taken place in the recent past.

Industrial countries in the past decade have moved toward structural adjustment policies to address the issues of low growth and high inflation of the 1970s and early 1980s. Efforts to achieve a more efficient use of resources include trade liberalization, the elimination of industrial and agricultural subsidies, and the creation of employment opportunities. While there has been progress in some of these areas, we would like to register our concern as a small developing and agriculturally based economy on the adverse effects of protectionist pressures in industrial economies on some of our agricultural commodities.

Developing countries, on the other hand, have experienced mixed performances, but, on average, have recorded one of the highest growth rates in the past decade. The newly industrializing economies especially have experienced very strong growth while investment and growth in the rest of the developing world were generally weak.

On external financing, industrial countries managed to finance their current account balances in 1988 through autonomous capital flows as a result

of the widespread intervention by the Group of Seven countries during 1987 in support of the U.S. dollar. There was little aggregate increase in official resources. The external financing needs of the developing countries, while rising to some $24 billion in 1988, reflected mainly the increased deficit of the fuel exporters and was financed by running down reserves. It is clear that non-oil producing developing countries continue to depend heavily on official sources for financing needs.

Developing countries like Papua New Guinea, which are small and extremely open trading economies, are very dependent on changing conditions in the rest of the world. The growth in world production and trade is crucial to the demand for our commodities. Similarly, our levels of inflation and interest rates are heavily influenced by developments taking place in the rest of the world and particularly by events in the countries of our industrial trading partners.

While buoyant growth performance in developed countries leads to increased demand and prices for our export commodities under normal market conditions, it is disturbing that, with certain crucial agricultural commodities, protective trade practices by developed countries impose undue economic penalties on developing countries through depressed prices. This problem is further aggravated by difficulties between consumers and producers of some of these strategic agricultural commodities in reaching international commodity agreements to sustain remunerative commodity prices. It is, therefore, important and essential that the current Uruguay Round addresses such practices and distortions to ensure more balanced, liberalized, and fair trade among countries in the international market.

Papua New Guinea values very highly its membership in both the Bank and the Fund and we have developed a better understanding with each organization over the years.

Regarding our association with the World Bank, I would like to express on behalf of the Papua New Guinea Government our appreciation for the assistance provided by the Bank to date in supporting the Government's objectives and strategies for national development. At the same time, our relationship with the Bank has been further enhanced by the Bank's involvement in successfully coordinating and chairing two Consultative Group meetings for Papua New Guinea, which has helped donors to better understand and appreciate our development objectives and strategies.

One of the policy priority areas that the Government currently pursues is human resource development. While we value and appreciate the Bank's involvement in this area, as well as in other priority sectors, we firmly believe that Papua New Guinea and the Bank can widen the scope for further involvement and cooperation through reduced stringency in the terms and conditions of assistance that presently prevail.

We believe that the IDA program is very important for low-income developing countries. The size of competing needs among poor countries

strongly suggests the importance of significantly increased funding for IDA. We are pleased that considerable attention is being placed on finalizing IDA-9. We wish to reiterate that the question of graduation into or out of IDA, which determines eligibility for IDA funds, is an important one and should be looked at more closely. We would like to urge IDA donors and the Bank to set eligibility requirements that are more practical and fair to developing countries. The criteria based on the use of statistical per capita measure should no longer be considered appropriate.

On the issue of private sector development, we share the views expressed by fellow Governors that the private sector is an important contributor to the development process. In this regard, we firmly believe that IFC, as an established institution, can directly play a meaningful role in achieving greater private sector development through more liberalized and flexible conditions that would enable participation, especially in smaller, South Pacific island nations. In this regard, we would like to urge the International Finance Corporation to be more innovative to ensure that the private sector needs of developing member countries, particularly small island nations, are adequately addressed. We understand that IFC has developed an appropriate financing facility for private sector development for the African and Caribbean region and that a similar one is being contemplated for the Pacific region. We welcome this positive move and we would like to see that this facility is operational as soon as possible. . . .

. . . We are pleased to state that those economic policies that we have pursued in Papua New Guinea have resulted in sound management of our economy and have been fully endorsed by the World Bank and the Fund.

Papua New Guinea is currently going through a challenging period, and the difficulty that we currently face is not one that has resulted from economic mismanagement but rather a unique and unforeseen development beyond the Government's control which has affected the major export revenue generator for Papua New Guinea.

Papua New Guinea, as a resource-endowed country, is fully aware of the benefits of natural resource developments in contributing to the progress of our country and we are keen to see that these benefits are maximized. However, we are also conscious of the costs of developing these projects—particularly on the side effects on the environment, which directly affects the lives of our people. In this regard, we applaud the World Bank's efforts to ensure that all environmental concerns are taken into account before loan agreements are concluded.

In conclusion, I would like to state that, as smaller developing member countries, we attach much importance to our association with the World Bank and the International Monetary Fund in pursuit of economic and social development for our people. We would like to see that this association is one of partnership rather than that of a bank and client relationship.

PERU: CESAR VASQUEZ BAZAN

Governor of the Bank

As Minister of Economy and Finance of the Republic of Peru, it is a great honor for me to address this Annual Meeting and to share with the most distinguished representatives of the international financial system some economic and political thoughts from the perspective of a citizen of a middle-income country with external debt problems.

I would like to group these concerns into three general areas:

1. The problem of countries with overdue obligations to the Fund.
2. The desirability of a new approach in the adjustment programs.
3. The need to reform the structure of the International Monetary Fund.

The problem of countries with overdue obligations to the Fund

I would like to begin by turning to the problem of countries with overdue obligations to the International Monetary Fund and to look back over recent developments. In 1981, twenty members of the IMF had overdue financial obligations to the Fund totalling SDR 34.4 million. Eight years later, despite the adjustment efforts made by the debtor countries, the situation has worsened. As of September 20, 1989, overdue obligations exceeded SDR 2,996.0 million. In other words, rather than decreasing, overdue obligations to the IMF have increased eighty-seven times.

This situation is worth analyzing. In our view it has not come about by chance nor does it stem from an unwillingness on the part of the nations concerned to pay. Let us leave aside the technical euphemisms. Many of the countries with arrears are impoverished, underdeveloped countries, with a low per capita gross domestic product and high population growth.

What is more, a large proportion of their inhabitants live in conditions of abject poverty, underemployment, low wages and alienation. These are communities where the signs of exclusion from the mainstream are unmistakable: inequitable distribution of wealth and a precarious standard of living.

In short, these are countries where—under the current rules of the international financial game—the future is uncertain and hope is wavering.

In this context, the increase in arrears is an indicator of similar problems in various Third World nations. The rise in overdue obligations reflects the serious difficulties being encountered in the external sectors of a number of countries in Latin America, Asia and Africa. It is also evidence of the failure of the approaches used thus far in tackling the external debt problems of our countries.

If the current conditions persist, the problem is likely to become more acute in the future. We must therefore think constructively—with a real sense of cooperation—of human solutions to the problem of overdue obli-

gations to the Fund and the legitimate aspirations of growth and economic development of our countries. Punitive measures against countries with arrears will not solve the problems. On the contrary, they will make relations between the rich and poor countries even more difficult.

A new approach for the adjustment programs

This brings us to the controversial adjustment programs suggested by the International Monetary Fund. These programs are well known to the poor countries. They are based on policies to reduce aggregate domestic demand and therefore they usually include recommendations to restrict fiscal expenditure, control the money supply and reduce real wages. They also recommend policies to reallocate the factors of production based on changes in relative prices. To this end, among other measures, they recommend continual devaluations and policies to liberalize foreign trade.

The results of these programs are also well known to the people of the Third World. Many of them have given rise to serious recessionary and inflationary trends, and a high social cost into the bargain. At best, they have led to unsatisfactory economic growth.

Consequently, we must come up with new economic approaches. The countries with arrears need programs that recognize compliance with a new conditionality:

(a) First of all, these countries need to recover their payment capacity. To this end we must implement economic programs supported by new and positive flows of investment and external credit, which will make it possible to strengthen the production sectors of the countries encountering difficulties. We all know that the maturity period for external capital is not one or even three years. Rather, we are looking at a medium- and long-term problem, which must receive support from the international financial community.

(b) Similarly, it is essential that the international community understand the serious problems facing the developing world. The industrial countries must understand that it is not simply a matter of lifting protectionist barriers and creating "support groups" for the countries with economic and external debt problems. A broader perspective is required, including the transfer of technology, long-term agreements for the promotion and diversification of the exports of the underdeveloped countries, and improvements in the terms of trade for their exports.

(c) It is also crucial that formulas be sought that make it possible to reconcile the adjustment programs with the growth and development needs of our countries. To this end, a more human approach is required, one which includes programs directed specifically at promoting and improving the quality of life in the poorest sectors.

Given this, the multilateral financial agencies must have more resources for financing the imbalances in the debtor countries. For the countries of the South, such as Peru, it is clear that access to the financing provided by these institutions is limited by both the sheer volume of the fund needed and the now classic conditionality of the IMF.

Forty-five years after the historic debate between Keynes and White on the resources that the IMF would need for the operations, the world is again witnessing a similar discussion. A clear majority of countries is calling for an increase in the resources of the fund so that it can in turn support economic recovery in most countries, especially those with the heaviest debts. Nevertheless, a few countries have chosen to ignore that call and continue to object to an increase in quotas.

It is incomprehensible that half a century later we are still discussing the same issue. From the standpoint of an indebted country, it is clear that Keynes' proposal is especially valid during these times.

Today more than ever we must reiterate that the greatest—and most over looked—imbalance in the global economy is precisely the growing asymmetry between the rich and poor nations.

How right Keynes was in stating that adjustment policies must be mutual and symmetrical. In other words, they must be implemented by both the creditor and debtor countries. Logically, the adjustment must be made by both the surplus and deficit nations. To one extent or another, we must all participate in the economic adjustment effort.

After decades of mandatory adjustment, the poor countries cannot continue single-handedly to carry the weight of economic change. If this is not accepted and the countries of the South continue to have to make superhuman sacrifices, the problems of debt, arrears and abject poverty in the developing world will in all likelihood become more acute in the short run.

Indeed, effective North-South international cooperation will become a reality only when all countries can participate fully in global well-being and economic growth.

Nevertheless, the problem transcends the mere obtaining of more resources for the Fund. Another factor has been overlooked, perhaps because it is so obvious. The underdeveloped countries must feel that they are full-fledged members of the Fund and not step children. To that end, the inadequate participation of the Third World in decision-making and their unbalanced representation in the IMF must give way to a true international community of sovereign nations.

Thus, in the cooperative spirit behind our participation in the international institutions, these agencies must be made more democratic.

We do not understand why the Fund and the World Bank do not put into practice the same voting rules used by other international institutions,

whereby all member countries are on an equal footing and as such have the same decision-making power, expressed in a sovereign and egalitarian vote.

In this vein, the countries of the South must be represented in the highest managing bodies of the organizations, as they are in other fora such as the United Nations.

My Government considers that the proposed measures and actions would greatly enhance international cooperation and permit a clear understanding of our problems, and would also help us identify realistic solutions.

There are some ideas I have taken the liberty of putting forward in a constructive spirit, hoping that they will enrich the debate on the role of the Fund in the next decade, as we search for a more just international economic order.

Peru is facing serious social and economic difficulties. In addition to those stemming from scarcity of domestic resources, the country faces difficulties related to trade and external financing. The Government has also been actively fighting drug trafficking. However, as President Bush put it so well, this is a shared international problem whose only real solution lies in a joint response that takes into account the needs of development and economic progress in the coca-producing countries.

In addition to drug trafficking, the Government of Peru has to grapple with terrorism, which has claimed more than 16,000 human lives and in nine years caused more than US$59 billion in damages, i.e., approximately four times our total external debt.

In this context, the Government and people of Peru hope to find understanding in the international community for both its efforts and limitations. We say this because only with mutual support can we successfully deal with the problems we all share.

PHILIPPINES: JOSE B. FERNANDEZ

Governor of the Fund

The debt problem is now nearly a decade old. For many heavily indebted countries, this would be a decade of lost opportunities for economic progress and poverty alleviation. It has impaired the overall flow of capital resources from both commercial and official sources to the developing countries. In many of them, the burden of existing debt has increased because no economic growth has occurred.

It was in this context that Secretary Brady's statement last March, building on earlier initiatives of Japan and France, was welcomed for its recognition that the conventional prescription of policy reform, combined with new money and rescheduling, was not adequate for a lasting solution to the burden of many heavily indebted developing countries. In light of this, the debt strategy had to be strengthened by placing at least as much emphasis on debt reduction as on the provision of new resources if the objectives of

economic growth, external viability, and eventual access to voluntary capital markets for developing countries are to be achieved.

To the credit of the Fund and the Bank, these institutions moved swiftly to establish broad guidelines on how their resources could best be committed toward the debt reduction called for under the Brady initiative. In tandem with Fund arrangements, the Government of Japan also offered to extend parallel financing within the framework of the strengthened debt strategy.

Yet translating principles into guidelines and guidelines into working agreements has not been easy. This has been reflected in the protracted and complex negotiations that have characterized the recent limited attempts to implement debt reduction.

Our collective interests lie in the speedy implementation of the strengthened debt strategy. A key determinant will be the availability and timeliness of adequate official financing to implement the basic debt reduction program, which could then catalyze sufficient private financing flows to ensure the financing of a sound economic program. Thus the strength and timing of actual official flows will essentially define how quickly we can progress in the path of debt reduction.

Many of the rules of this game are being made up as we go along. In such a setting, flexibility rather than distinction by form between various types of debt reduction schemes seems to be called for. At the end of the day, what matters is the efficiency of debt reduction rather than its form.

But we recognize that the strengthened debt strategy does not lessen the need for sound economic and financial policies by the debtor countries, particularly the ability to mobilize domestic savings and to improve the efficiency of investment. Such an economic environment makes sustained growth possible, and in the final analysis, the best way to solve the debt problem should be to grow out of it.

The timeliness of the new debt strategy surely is underlined by the findings in the latest Annual Report of the World Bank on the negative net transfer of resources, which has steadily increased from $10.2 billion in 1984 to $50 billion in 1988. The development process cannot continue with this perverse flow of resources. All sources, private and official, must participate in reversing this net negative resource transfer.

However, while resource flows are absolutely essential for the continuance of the development process, the large industrial countries should also address other policy distortions that not only aggravate the debt burden of developing countries but also complicate their economic planning processes. Among these are the volatility of exchange and interest rates. The coordination of such policies is also important. For example, rising interest rates at a time of falling LDC terms of trade have adverse economic consequences.

We note also that protectionism remains a concern. It has not abated. Worse, it has begun to assume less transparent forms that make the problem even more difficult to control. Every economy must bear some responsibility for improvements in this area. But the leading economies—owing to the significance of their trade to the world trading system—surely have a higher responsibility to lead the way. The Uruguay Round provides a clear-cut opportunity to demonstrate concretely each nation's commitment to a free and open trading system.

Finally, while the international debt strategy clearly relies on market-oriented and voluntary mechanisms, this is not the same as saying that the major governments have a less active role to play. Market mechanisms are very much influenced by the tax and regulatory environment for financial institutions. There is much scope for regulatory improvements that would encourage new lending and the granting of meaningful debt relief and discourage nonparticipation.

The Fund now occupies a central role in the management of the international debt problem. It will continue to play a leading part in expediting the process of adjustment. The Brady initiative has also thrust upon it a major financing role in the debt reduction. Both these tasks require the Fund to have adequate financial resources to fulfill its role. Thus, there is urgency in coming to an agreement to substantially increase Fund quotas. In this respect, the major industrial economies collectively hold the key to its realization.

We are also encouraged that the World Bank has collaborated with the Fund very closely and has been moving to put in place arrangements to support debt reduction for heavily indebted countries.

In the Philippines, the pace of adjustment has proceeded with vigor. We have managed to recover strongly from the severe recession in the mid-1980s. In the past two and a half years, our real GNP growth has averaged over 6.0 percent and we have managed to keep inflation at low single-digit levels. We are optimistic that for 1989 as a whole, we can achieve progress consistent with the objectives of our economic program.

We would note here that this progress has been achieved while we continue to make net payments to our commercial creditors amounting to $2.3 billion between 1987 and 1988. These payments contributed to a total net resource outflow equivalent to about 5 percent of GNP during the same period. Our good performance can be sustained only if these outflows are reduced and then reversed.

We are also happy to report substantial progress in our discussions with our creditor banks for both new financing as well as meaningful debt reduction. Our experience confirms that there need not be internal inconsistency in such a financing package. The essentials of the Philippine financing package of 1989 are that it is a combination of debt reduction and new money;

it was done largely on a voluntary basis and provides some prospect of renewed access to the international credit market. We consider this only the first stage of our debt reduction effort. We intend to follow up with further debt and debt service transactions in the future.

We conclude our statement by reiterating our call for an unwavering commitment to find a lasting and equitable solution to the debt problem. That task clearly entails responsibilities for all—for debtors to proceed with adjustment, for governments to ensure an environment conducive to that difficult task, for lenders to concretely manifest support and rise above self-interest, and for the Fund and the Bank to continue to assist in the process of adjustment in both developed and developing economies. These elements must be put together in careful balance.

POLAND: LESZEK BALCEROWICZ

Governor of the Fund

Poland rejoined the International Monetary Fund and the International Bank for Reconstruction and Development three years ago. We attach special importance to our membership in these two organizations. We highly appreciate the opportunity for policy discussions with the Fund and the Bank on economic and development issues. We also attach great importance to the recommendations from both institutions.

Poland is undertaking a historic transition to a parliamentary democracy and to a market economy. The new Government enjoys widespread public support which strengthens the chances for fundamental economic reforms. Unfortunately, the reforms must be carried out under extremely adverse economic conditions. The standard of living is lower today than it was ten years ago, and in recent months hyperinflation has broken out. The crisis is exacerbated by a heavy external debt burden. Despite these difficulties, the Government of Poland plans to press ahead rapidly with the creation of a modern market economy with an appropriate ownership structure. We are fully aware that there is no other way of solving our problems.

We are confident that despite the adverse conditions, our reform program will succeed. We know that by limiting the scope of the state sector and by releasing the forces of competition and entrepreneurial spirit, our economy will gain a new vigor. But we must also count upon the goodwill and financial support of the world community as we put our reform program in place. This is why we noted with hope the statement made today in this room by President Bush. We are also encouraged by statements made by the representatives of some other countries, especially the countries of the EEC.

The comprehensive program we are preparing will have two basic elements: macroeconomic stabilization and structural adjustment.

The key steps to be taken in the next few months under the stabilization plan will include:

—a sharp reduction of the budget deficit;
—a tight monetary policy;
—the establishment of a realistic, unified exchange rate; and
— abolishing administrative controls over most prices.

The structural adjustment program will involve fundamental institutional changes in the economy, such as:

—eliminating the remaining restrictions that impede the development of private firms;
—launching a major privatization program; and
—hardening budgetary constraints of state enterprises.

In addition, a reform of the tax system will be designed to ensure that entrepreneurial effort is not stifled. The development of a capital market and banking system will be accelerated. Major reform of the budgetary system will be initiated.

We undertake our task with full awareness of its historic importance. The stakes are high, and the risks are great. Foreign financial assistance would lighten the burden of the transition and significantly increase our chances of success.

For this reason, let me conclude by briefly outlining the main kinds of financial assistance that we seek in conjunction with our economic programs:

—a rapid agreement with the IMF on a stand-by arrangement;
—a rapid agreement with the World Bank on a structural adjustment loan;
—a multilateral stabilization loan from the advanced industrial countries to help Poland build international reserves and thereby help to stabilize the value of the currency; and
—relief on debt service payments for the next year, and future negotiations leading to a permanent reduction of the debt burden to the Paris Club and the commercial banks.

The support that we expect is not a substitute for our own efforts. This support is needed to increase the chances for success of our own decisive actions, and this success will be in the best financial and political interest of the international community.

ROMANIA: ION ZIPIS

Temporary Alternate Governor of the Bank

These Bank-Fund Annual Meetings are a special opportunity for the international community to consider recent developments in the world economy and to review and set priorities related to the various actions and measures to be taken in the future.

In this connection, I would like to present the views and proposals of the Socialist Republic of Romania and President Nicolae Ceausescu for improving the international financial system.

As is well known, the world economic situation continues to worsen, mainly affecting the developing countries. At the same time, protectionist measures are on the rise, most frequently employed by the industrial countries to keep goods produced in the developing world out of their markets. The foreign debt burden has grown, and despite its particular impact on the indebted developing countries, it is severely undermining economic growth in the developing countries as a whole. We are still facing a paradoxical situation in which financial flows have reversed, going from the developing to the developed countries and reflecting an anachronistic situation in which the economies of the poor countries were subordinated to those of the rich countries. Interest rates on the capital markets and those associated with the lending operations of the international financial organizations and banks have reached high levels that directly constrain the ability of the heavily indebted countries to cope with their debt service burden.

In this situation of economic instability, where external factors play a major role in the economic growth of the developing countries, the Fund and the World Bank would have been expected to play an active role in fostering economic recovery, mainly in the countries facing serious external debt problems. In our opinion this did not occur and, moreover, financial flows reversed, moving from the poor countries to the Fund and the Bank, which in fact negates the efforts to promote economic development and repay external debt.

Because of this critical situation, which has troubled the world economy for many years now, Romania's President Nicolae Ceausescu has stated on various occasions the country's position, advocating revolutionary approaches and bold solutions aimed at establishing a new and equitable international financial and economic order. Thus, when debt issues are being discussed, the only realistic and efficient approach is a global political and economic solution based on criteria and principles taking into account the level of development of the debtor countries, their payment capacity, and the efforts they have to make for their economic and social development. Such an approach and solution to the problem are possible, in our view, only with the participation of all countries, both developed and developing, in the framework of an international conference under the auspices of the United Nations where the necessary measures should be established by consensus. Those measures would include forgiveness of a part of the poorest countries' debt, cancellation of the debt resulting from excessive interest rates—sometimes running as high as 20 percent—and rescheduling of the remaining debt over the long term. It is the duty of the Fund and the World Bank, as international financial organizations in the United Nations system,

to take effective measures that help solve the external debt problems of the developing countries.

Deeply committed to a new approach to improving the international financial system, Romania considers that the International Monetary Fund, the World Bank, and other financial and banking institutions must use fixed interest rates, which should not be higher than 4-5 percent annually, for loans to member countries. However, for current loans as yet not repaid, cancellation of the debt of the heavily indebted countries with low per capita income should be considered.

Debt rescheduling arrangements should allow greater flexibility regarding grace periods and maturities. Interest rates should be no higher than 2-3 percent.

As a member of the Bank and the Fund, Romania is concerned over the political trends in those international financial organizations regarding their lending operations in accordance with the Articles of Agreement as well as their relationships with borrower countries. As a member country of those organizations, Romania must state its point of view on current trends in the lending policy, because we feel that the wide range of conditions imposed by the Bank and the Fund on their lending operations is unacceptable neocolonial interference in the internal affairs of the developing countries.

It is especially important for the financial bodies to cease imposing political conditions on their loans, so that they serve as incentives for so-called privatizations in order to develop the private sector. On the contrary, the World Bank and the Fund, as well as other banks, which bring together a large number of developing countries, should support the development and strengthening of public ownership, with people being the real owners of national wealth. Under such circumstances, certain sectors offer better prospects for both economic development and the timely repayment of loans.

At the same time, Romania condemns the practice of lending against the raw materials produced by developing countries or of taking control over the production and sale of such goods. One such practice is control over the beneficiaries of credit. Another is the practice of some creditors that results in both production and sale being handled by the creditor, who ultimately sets the prices. Such practices are throwing the economies of debtor countries into disarray and hampering the development of social ownership and progress in these countries. In this decade their growth has stagnated or even declined.

Some may conclude that the Bank and the Fund have strayed from the purposes for which they were established. As a member of the Bank and the Fund, Romania cannot be party to a policy that in fact means support for the plundering and exploitation by multinational companies and the international financial and banking institutions in their relations with the developing countries.

The Bank and the Fund must therefore fully reconsider their policy and practices and democratize the whole of their activity, so that the developing countries play a larger role in adopting measures and decision making within both international financial bodies.

Romania's concern for improving the international financial system is part of the larger context of the complex world economy. Romania's President recently emphasized once again that it is necessary to promote a new world economic and financial order that takes into account the interests of all countries—both developing and developed. All peoples of the world should be involved in the establishment of equitable economic relations that will improve the standard of living for more than 4 billion poor persons.

The issues on the agenda of these meetings have special importance for the development of the complex world economy. As such, the international community paid them due attention, but did not concern itself with whose interests—the developing or developed countries—were being served.

We are now witnessing complex and contradictory global changes, which should allow real democratization of international life and result in more just and equitable economic and financial/monetary relationships. Given this ongoing process, Romania feels that the Bank and the Fund should be, through their policies, more responsive to their members' desires for economic and social progress.

The measures regarding the economic growth of the developing countries must emanate from their own governments, and structural adjustment programs must be the domain of national authorities, consistent with the social and economic requirements of those countries. Such adjustment programs must be bolstered by a favorable international framework, with creditor governments, international financial organizations, and commercial banks assuming greater responsibility in resolving the external debt problems of the developing countries.

At the same time, the international community must be sensitive to the problems created by the degradation of the environment; the World Bank must play a greater role in changing the passive policy of industrial countries vis-à-vis environmental problems. It will have to support—even through lending—those programs and actions designed to prevent environmental degradation and a worsening of the situation in the developing countries. This is because of the close relationship between poverty and destruction of the environment.

In view of the interest shown at the last meetings by most Fund members in a new quota review and a new SDR allocation, Romania supports the adoption of such actions. But such an allocation must permit the member countries to use cheaper financing than that offered by the commercial banks.

As you are probably aware, at the end of March this year, Romania repaid its external debt, which in 1980 amounted to more than $11 billion. In total,

from 1975 until March 1989, we paid off about $21 billion, of which the interest represented more than $7 billion.

At present, our country is owed more than $2.5 billion from loans made to other countries. Without question, repayment of the external debt required great efforts. Romania had to ensure both the maintenance and further increase, in physical and spiritual terms, of its people's standard of living and the gradual repayment during the period of its entire external debt.

As stated by Romania's President, when we decided to pay off our entire external debt in this decade, we felt that only in that way would we be able to ensure the country's full economic and political independence, so that it could steadily carry out its economic and social development programs.

Thus, between 1981 and 1989, more than $200 billion was allocated for development. Consequently, this year compared with 1980, industrial output is 50 percent higher; agricultural production will be 1 1/2 times higher; and the volume of retail sales, in current prices, 40 percent higher. The total wage bill increased in this period by about 60 percent and the average wage by about 50 percent. At the same time, child allowances were raised by about 70 percent, and social expenditure per capita increased by more than 44 percent; more than 1 million housing units were built. We can conclude that only the general development of the production factors, science, and culture through sustained effort enabled us to pay off the external debt and ensure the social and economic development of the country.

The repayment of our entire external debt does not mean that Romania will not cooperate further in different areas with the international financial community or that it will not be an active member of the international financial organizations.

We sincerely wish to cooperate with other countries and the specialized financial organizations in establishing an international financial and monetary system advantageous to all countries and in which prevails a concern for healthy economic development, free of outside hegemony or interference in the sovereign right of every country to make decisions.

As a country which paid off its external debt by its own efforts, Romania cannot accept the continuation of financial practices and mechanisms that exploit other peoples. We would like to see the establishment of an international financial system that protects the indebted countries and ensures they have the means to offset the negative consequences of unstable currencies and interest rates and the policies of the international financial and banking institutions.

Deeply committed to more democratic relationships among countries, Romania, like other countries, assumes the responsibilities incumbent on it in establishing more equitable financial and economic relationships aimed at ending underdevelopment and establishing a new world economic order.

ST. LUCIA: JOHN G. M. COMPTON

Governor of the Fund
(on behalf of the Joint Caribbean Group)

I am honored to speak on this important occasion on behalf of the members of the Caribbean Community and Common Market (CARICOM), namely Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

I would first of all like to extend a welcome to the Government of Angola on their accession to the Fund and the Bank.

In the wide range of issues with which the international community is confronted, I would like, on behalf of the Caribbean Community, to bring four of these to the attention of this meeting.

First, the general conditions under which economic growth and development are taking place; second, the vulnerability and fragility of the economies of the region; third, the transfer of resources from rich to poor countries; and fourth, the situation of small states in the total economy.

The general environment under which economic growth and development is currently taking place is not propitious for the great majority of developing countries.

These countries, nevertheless, are taking significant steps to create the correct macroeconomic environment for their development. In cooperation with the Fund and the Bank through the mechanisms of structural adjustment programs and structural adjustment loans, they have implemented appropriate fiscal and monetary policies, removed trade restrictions, reduced or eliminated subsidies, and encouraged the use of the market system for the efficient allocation of resources.

It is incumbent on the developed countries to match the political will and the willingness to undergo these stringent programs being implemented by the poor countries, by taking the appropriate measures to ensure noninflationary growth, currency and interest rate stability, as well as access to their goods and financial markets by the developing countries. Without this meshing of policies by both groups of countries the climate would not exist for self-sustaining growth.

A special word should be said about the threat of protectionism. This threat has been identified by both the Managing Director of the Fund and the President of the Bank in their presentations to this meeting. There is a serious and self-defeating asymmetry between trade liberalization as required under Fund and Bank programs implemented in developing countries and the rampant nontariff protectionism that is fast becoming the norm in the industrial countries. This is particularly evident in the area of textiles and agricultural products.

In this regard note should be taken of the growing trend toward regionalization as evidenced by the movement toward a Europe without frontiers in 1992 and the North American free trade area between Canada and the United States.

It is hoped that these developments will not interfere with the progress of the Uruguay Round or lead to the growth of barriers to trade with other countries not involved in these arrangements.

There is an urgent need for a speeding up of the progress toward liberalization of global trade. The impediments, of both a tariff and nontariff nature, to international trade must be dismantled if developing countries are to have a chance of sustaining any modicum of growth and development.

As I speak to you the damage caused by Hurricane Hugo is still being assessed in the Eastern Caribbean islands of Antigua and Barbuda, Montserrat, Dominica, St. Kitts and Nevis, Guadeloupe, the Virgin Islands, and Puerto Rico. At our meeting just one year ago we had to confront the destruction caused by Hurricane Gilbert in Jamaica. We are confident that the quick response that characterized the response of the multilateral institutions and the international community on that occasion will again be in evidence in this, our hour of need.

These natural disasters emphasize with stark and frightening reality the vulnerability of the countries of the region. Many of the hard-won gains of economic development can be wiped out in a few hours by an act of nature and it takes many years for countries to attain their former economic status. The countries of the Caribbean live under the threat of destruction by hurricanes for six months out of every year and it is now urgent that the Fund and the Bank should create programs for these and other disaster-prone areas in order to meet their special circumstances.

While there are programs in the Fund that have been used in these circumstances, they need to be more specifically tailored to these needs by being quick disbursing and carrying reasonable terms of repayment. In the case of the International Bank for Reconstruction and Development there is a need for it to rediscover that portion of its name that applied in the immediate postwar period when the institution was created to assist in the reconstruction of Europe after the Second World War. Programs should be developed which can assist in the reconstruction of such disaster-prone areas that have no other recourse but to approach the international community for assistance.

Natural disasters, however, are not the only causes of the vulnerability and fragility of our economies. The external economic environment, in the form of fluctuation in commodity prices and international currencies, can have a damaging effect on monocultural or one-sector economies.

We now come to the critical matter of the transfer of resources from rich to poor countries. The conditions under which growth and development

have taken place historically have involved a transfer of financial resources in some form, whether portfolio or direct foreign investment, or borrowing by the developing countries. Today's circumstances militate against the development of the majority of countries in the global system because there is a massive reverse flow of funds from poor to rich countries. In fact, the figures, with respect to the operations of the Bank alone, indicate that the latter half of the 1980s witnessed a sharp decline of net transfers from a positive of about US$112 million per year to a negative of about US$71 million per year.

In the case of the Caribbean there has been a significant decline in the flow of resources to the region with all categories—official development assistance, loans, and direct foreign investment—sharing in the fall. Official development assistance declined by some 40 percent between 1981 and 1988 despite the efforts of the Caribbean Group for Cooperation and Economic Development. This has occurred because the physical and social infrastructure vitally necessary for the successful development of the region has not yet been put in place. To compound this problem many of the islands, and in particular those in the Organization of Eastern Caribbean States (OECS), are faced with graduation from IDA in circumstances in which they cannot access resources on similar terms from other institutions, and in the face of their vulnerability to regular natural disasters and the external economic environment.

The flow of commercial bank credits has also diminished in the face of the urgent need to access new money for balance of payments purposes and to restart the growth process in many of the countries now involved in structural adjustment programs.

The flow of direct foreign investments has also been curtailed despite significant changes in the posture toward it by the countries of the region. The macroeconomic environment, under the influence of structural adjustment programs, has been significantly altered to create a climate for the proper allocation of resources and the appropriate mix between public and private investments.

The reverse flow of resources is now a fundamental global issue and is both cause and effect of the global debt crisis. We welcome the Brady initiative as an appropriate response to this crisis and propose that its scope be broadened to encompass more countries and varying conditions as is deemed necessary. The crushing debt and debt-servicing burdens of so many countries is not an environment in which growth and development can take place. We would like, therefore, to identify the special circumstances of our region which, because they do not rival the absolute magnitudes of the highly indebted countries of Latin America or the debt distressed countries of Sub-Saharan Africa, have virtually removed our countries from the serious attention they require. For the record, the debt and debt-servicing

obligations of some of our member countries are among the highest in the world. In the case of Guyana, the external debt amounts to almost three times its gross domestic product, and for Jamaica the ratio is approximately 150 percent. The problem is compounded by the fact that, in some cases, most of the debt is to multilateral institutions which do not reschedule, and in one particular case, that of Trinidad and Tobago, their commercial debt does not qualify for treatment under the Brady proposals. We therefore urge special consideration and recognition for countries that do not fall under these two major categories.

Special note must be taken of the situation of Guyana and the path-breaking work of the support group led by Canada. The work of this group has led to some ray of hope and has established a basis for nursing countries back to economic health in the face of almost insurmountable difficulties.

The Caribbean is a community of small states that face serious obstacles in their quest for development. Many of these problems derive from the fact of small size and the many diseconomies of scale which flow from this factor. Small states, however, are a fact of life and the international community must pay special regard to their needs and aspirations.

The Bank must therefore pay particular attention to the investment needs of this part of its membership in order to ensure their viability and effective participation in the international economy.

It is clear that a concerted effort must be made to reverse the flow of resources from poor to rich and to create a climate conducive to growth and development. There is need for an international conference on debt and the transfer of resources to parallel the work now being undertaken in the Uruguay Round. The North-South dialogue needs to be restarted, and the trend toward bilateralism reversed, so that a global approach to the issue that can be more self-sustaining and systemic can be launched in the 1990s. We congratulate the Nordic countries on their commitment to the increase of concessional flows to 0.7 percent of gross national product and urge the other developed countries to move in this direction.

In this vein we support a significant increase in quotas for the Fund in order for it to carry out its mandate, and an increase in the allocation of SDRs in order to improve international liquidity. In the case of the Bank, we support a replenishment of IDA-9 that exceeds the Eighth Replenishment in real terms.

In conclusion, as we move toward the twenty-first century, the time is appropriate for a re-examination of the Bretton Woods institutions and the international economic system. The system is clearly in crisis and we owe it to humanity to organize an international system that can not only deal successfully with the arms race and turn our swords into plowshares, but also increase and distribute the benefits of new technologies so that the scourge of poverty will be removed from the planet Earth.

SOUTH AFRICA: B. J. DU PLESSIS

Governor of the Fund

It affords me much pleasure in associating myself with fellow Governors in welcoming Angola as the one hundred and fifty-second member of the Bank and the Fund. It happens at a time when we are observing with interest the evolution of the respective roles of the Bank and the Fund in grappling with the difficult economic issues of the 1980s. The shift in emphasis by the Bank from project lending toward more structural and sectoral adjustment lending, and by the Fund from short-term stabilization issues and balance of payments adjustment to structural reform, seems justified.

While these trends have inevitably led to some overlap between the activities of the two institutions, creating the need for coordination and a clearer definition of their respective roles, we regard these developments as a healthy and realistic response to the needs especially of developing countries: short-term stabilization and structural reform are clearly both necessary conditions for improved economic performance of these countries.

World economic developments over the past year give much cause for satisfaction. It is gratifying that a further substantial rise in production in the industrial countries did not significantly contribute to inflation, and that the developing countries as a group also experienced one of the highest growth rates in the past decade. It is noted with concern, however, that large parts of the developing world, and especially many of the poorer countries of Africa, did not share in these positive global conditions.

Sound macroeconomic policies obviously remain a prerequisite for sustained and stable growth in any economy, and the greater emphasis on structural adjustment should not reduce the Fund's traditional conditionality requirements. At the same time, however, the Fund and the Bank operate in a new environment in which developing countries have to rely, to a much greater extent than in the past, on financial assistance from these international organizations for the financing of their development needs. The supply of loan and investment funds from private markets has for most of these countries dried up. It is therefore necessary to consider strengthening the resources of the Bretton Woods institutions.

Regarding the proposed adjustment of quotas under the Ninth General Review, South Africa strongly supports, as we have in the past, a substantial and appropriate increase in the Fund's resources. This would give due recognition to the growth of the world economy and to changes in the relative economic position of members and reaffirm the Fund's role as a catalyst at the center of the international financial system. Increased resources would help the Fund strengthen its international debt strategy and fund the implementation of growth-oriented structural adjustment programs. These programs would embody the necessary preconditions for the

reversal of private capital flows back to the Third World and offer the desired escape from the present vicious circle of high indebtedness.

In the light of the worsening economic plight of the less privileged countries, especially in Sub-Saharan Africa, South Africa is encouraged by the progress already made in the negotiations for a Ninth Replenishment of the International Development Association's resources. We trust that these negotiations will soon be concluded, with real resources at least remaining intact, but hopefully increased, so as to address the growing needs of the low-income countries.

It needs to be reiterated that the people of my country identify with the aspirations and development needs of Sub-Saharan Africa and within our means we stand ready to actively render support where possible.

Regional cooperation, with a view to optimizing economic growth, is of the utmost importance, since small internal markets and low purchasing power are barriers to international competitiveness in many of the countries in the region. Regional cooperation offers opportunities for the smaller countries to derive substantial benefit from economies of scale, avoiding unnecessary duplication and improving their competitive position. Access to well-developed facilities, such as transport, communications, and financial markets in more fortunately endowed neighboring countries, is likely to contribute to an acceleration of economic progress in individual countries, thus synergistically contributing to enhanced prosperity in a regional context.

Having recognized the importance of structural reform for our own economy and having set ourselves on a course of bringing it about, we are gratified to note the attention given in recent years by the World Bank and by regional institutions such as the African Development Bank and the Economic Commission for Africa, to structural reform issues on our continent. We take note of the experience gained from structural adjustment programs in a number of African countries, and we concur with some of the important conclusions drawn. Structural reform should not stop short at financial adjustment, but should encompass much more widely ranging transformation of the structures of developing economies.

We also agree strongly that the impact of structural reform measures on the poorest sections of the population should be a serious consideration in the design of such programs, which should be aimed at alleviating rather than further worsening the already desperate situation of the poor. To make this possible, we support efforts at easing the debt burden on African economies in ways that can release resources for productive domestic applications and open up renewed access to foreign resources.

In this regard, the greater emphasis now being placed on debt reduction schemes should not divert the attention from the need for a more fundamental and longer-term solution to the debt problem of the developing

countries. Forced debt reduction schemes can in the longer term indeed be counterproductive and result in a further inhibition to the international financial institutions to restore the flow of private sector funds to the developing world.

Longer-term planning and structural adjustment programs are therefore also needed for the many countries now experiencing external debt-servicing problems. The encouragement of domestic saving, the more productive utilization of domestic resources, the expansion of international trade, and the strengthening of the current account of the balance of payments for these countries are objectives that must form an integral part of their structural adjustment programs. However, the maintenance and expansion of protectionist policies, in whatever form, negate the desired objectives of these adjustment programs. Furthermore, debt reduction through compulsory write-off schemes without a simultaneous structural adjustment program of this nature will also be an exercise in futility.

For a country to extricate itself from an international debt-servicing problem is, as we have learned first hand, a traumatic and painful adjustment process. The greater involvement of the Fund and the World Bank in providing assistance to these countries should therefore be encouraged. Confidence in the ability of a country with a debt service problem to absorb new foreign capital will not be restored through debt forgiveness, but rather through the successes achieved with the restructuring of its basic economy.

Successful adjustment programs entail the development not only of infrastructure but also of human resources. In so many respects we are also a developing country, experiencing the typical constraints in creating and supporting an adequate educational system. We understand too the need for basic facilities to be able to utilize the sophisticated educational aids capable of supporting the educational process, both quantitatively and qualitatively.

Broadly based education for all, including technical training, constitutes a powerful and necessary agent for sustained economic growth. It acts, furthermore, as a conduit to establish the principles of the market system and to promote a sound work ethic and entrepreneurship.

In conclusion, we wish to express our appreciation that environmental concerns are being given a balanced but rightful place, especially in the program of the World Bank. The new Environmental Assistance Program is a welcome development, and South Africa supports this initiative and that of other major industrial countries in their commitment to this endeavor. Aware of the spillover effect of environmental problems, South Africa pledges its full support in preserving the natural environment in the interest not only of itself but also of the region and the world at large. To this end, South Africa is committed to actively promoting a responsible environmental protection ethic.

SPAIN: CARLOS SOLCHAGA

Governor of the Fund

I would like to begin my statement today by extending a warm welcome to the People's Republic of Angola as a new member of our institutions.

In the year that has passed since our last meetings, the development of the world economy has been satisfactory. On the one hand, the industrialized countries have completed their seventh straight year of expansion, the longest period of prosperity in the postwar period, while inflationary pressures, which just a month ago threatened the stability of their growth, have gradually been brought under control. On the other, the external debt strategy announced early in the year has begun to crystallize in specific agreements that will contribute effectively to unblocking the impasse in the economic situation and strengthening the democratic systems in many heavily indebted developing countries.

In an ever more interdependent international community, maintaining growth without inflation in the industrial countries, supporting the adjustment efforts of the indebted countries, and eliminating the negative transfer of resources that has taken place in recent years, constitute the only possible strategy for harmonious world economic development.

Consequently, identifying areas in which less promising results have been achieved and strengthening the economic policy coordination mechanisms seem to be the tasks to which we should give special priority in the coming months.

For the industrial countries, the three priority issues are unquestionably: maintaining control over price pressures, reducing the high rates of unemployment recorded in the European countries, and correcting the imbalances in the external accounts of the United States, Japan, and West Germany.

In the area of inflation, we must congratulate ourselves on the rapid reaction of the economic authorities to the initial symptoms of the problem. The adjustments made in their economic policies, especially monetary policies, and the disappearance of some factors which temporarily pushed up prices, have made it possible today to predict reasonable inflation rates for the 1989-90 period. Nevertheless, in a number of developed countries domestic demand has been growing at a faster rate than output for some time, which has increased the pressures on domestic and external balances.

To prevent the emerging price pressures from leading to increases in both unit labor costs and profit margins, and thus resulting in a resurgence of inflation, it is essential that economic policy be designed to bring nominal expenditure in such economies back to levels compatible with their production potential in the medium and long term.

The focus which must be placed on the general orientation of economic policy and the distribution of responsibility between monetary and fiscal

policies does not, however, have to lead to a slowdown in the job creation rate, a priority objective for many European countries, which are still facing high levels of unemployment. Reasonable growth rates must be maintained and structural reforms continue to be expanded if current levels of unemployment are to be quickly absorbed. For this reason, as clearly shown by the measures already adopted in some countries, including Spain, the reduction in nominal expenditure must be achieved carefully, by means of consistent domestic policies.

Even greater uncertainty about the immediate economic future is aroused by the persistent external imbalances in the United States, Japan, and West Germany. Although recent developments with respect to the dollar and the investment income balance are to a large extent responsible for the apparent lack of progress in correcting the imbalances in nominal terms, the fact is that the current account imbalances in terms of GDP remain very high.

Although the passage of time has convinced us that in a world of free movement of capital and integrated financial markets, the question of whether or not these deficits and surpluses can be sustained is not the serious concern that it was in the past, we must point out that this situation is jeopardizing the efficient operation of the international economy in two ways. On the one hand, in the deficit countries protectionist pressures are gradually gaining strength and threatening the system of open multilateral trade on which our prosperity over the past four decades has been based. On the other, the external financing needs of the United States put continual pressure on the financial markets, making it impossible to avoid monetary and exchange policies that are not always desirable *a priori*.

Following the exchange adjustments in 1985-86, the unanimous recommendation in the international institutions was that changes in relative prices had to be supported by an acceleration in the rate of expansion of domestic demand in surplus countries and a slowdown in domestic expenditure in the deficit country. Under current international economic conditions, this prescription is only partially valid. To be sure, it is still crucial that the United States step up its process of fiscal consolidation. However, the margin for continued expansion of domestic demand in the surplus countries has narrowed considerably as a result of changes in their fiscal positions and the re-emergence of pressure on prices.

Although there is no doubt that both Germany and, especially, Japan have ample latitude for action in the area of structural reforms, it seems very likely that in the future most of the measures which remain to be taken will depend on the restoration of adequate public and private savings rates in the United States.

However, the international coordination of economic policy cannot remain restricted to this group of countries. The vulnerability of the international economy must be reduced through a common effort by all countries forming part of the international community.

In this regard, Spain—an economy which has since its entry into the European communities in 1986 rapidly opened up to the exterior—has not only adopted monetary and fiscal measures throughout the year in order to moderate the nominal expansion of its domestic demand, but also reaffirmed its commitment to maintaining a path of noninflationary growth, having decided in June 1989 to bring the peseta into the European Monetary System. At the same time, since our entry into the EC—particularly in the first half of this year, during which we held the presidency of the Community—my country has given strong support to the proposed European economic and monetary union, believing that this union will certainly help to strengthen international economic stability.

As for the developing countries, yet another year has gone by and their economic situation has not improved, as the external debt problem continues to constitute a serious obstacle to growth.

Spain has on many occasions at these meetings argued the need to develop schemes—in keeping with the case-by-case approach—for reducing the stock of debt and debt service of highly indebted countries which clearly show that they are prepared to apply appropriate economic policies. For this reason, we must congratulate ourselves on the decisions adopted during the spring meetings and the measures that have been developed since then.

Spain will continue to support this strengthened strategy, which emphasizes three essential components: first, the existence of programs which combine far-reaching structural reforms and sound financial policies in the debtor economies; second, the continued participation, at the forefront, of the IMF and the World Bank; and, finally, sharing of the cost between private and official creditors.

For this reason, we are concerned at the continued reluctance of some commercial banks to make efforts similar to those already made by the official creditors. The ongoing support of the commercial banks for the debt and debt service reduction schemes is essential if a solution to the debt problem is to be found. We reiterate that, where appropriate, the authorities of the creditor countries must amend the accounting and fiscal regulations governing the provision of funds by the banks.

As we said earlier, we believe that the Fund and the World Bank should continue to play a central role in the problem of the external debt. For this reason, we approve the policies involving the use of Fund and Bank resources to support the debt and debt service reduction mechanisms. However, these new measures should not jeopardize the revolving nature of IMF resources or the availability of funding for projects in the World Bank. Furthermore, the cooperative nature of the IMF brings us to call upon members which have outstanding obligations to the Fund to regularize their situations as quickly as possible.

So that our institutions may contribute effectively to solving the debt problem, it is essential that they be able to set aside an adequate volume of

resources in support of their programs, which means that they must have sufficient resources of their own. We consequently feel that it is urgent that a consensus be reached on a significant increase in IMF quotas in the context of the Ninth General Review of Quotas. We also reiterate our position in favor of a new allocation of SDRs.

These positions are in keeping with our ongoing willingness to provide the IMF and the World Bank with the resources and instruments they need to perform their roles effectively in the 1990s.

SRI LANKA: D. B. WIJETUNGA

Governor of the Bank and Fund

On behalf of His Excellency R. Premadasa, President of the Democratic Socialist Republic of Sri Lanka, the Government, and the People of Sri Lanka, let me express our warm felicitations and good wishes to all of you.

I consider it a great privilege to participate in the Annual Meetings of the World Bank and the International Monetary Fund for the first time, and to have this opportunity of addressing this distinguished assembly as a representative of the Government of Sri Lanka.

At the outset, we welcome Angola into our membership.

As we conclude this decade, we can look back with a sense of relief that our structures and institutions were able to avert a crisis in the international economy. At this point, the question that practical-minded men should ask is whether and to what extent we are ready to face the challenges of the 1990s. Our overriding concern should not be the search for tools with which the Bretton Woods institutions can deal with a crisis. To do so would be shortsighted. It would reduce these institutions to instruments of crisis management. The present situation should rather be put to much better use so as to endow these institutions with a capability to prevent the development of crisis situations, while promoting a broad-based and a respectable growth in the world economy.

Let me dwell briefly on the main issues facing the Fund and the Bank. First, during this decade, as much as we witnessed a prolonged period of world economic growth, we have also seen a contraction in the size of these institutions in terms of the world economy. The Fund has the responsibility of promoting economic conditions conducive to growth, price stability, and balance of payments viability. The Bank has the objective of promoting economic growth and conditions conducive to efficient resource allocation and sound investment. The ability of these institutions to perform these functions efficiently would be at substantial risk if their size were to decline in relation to the world economy. . . .

. . . Third, is the international debt problem. Here, the Fund and the Bank should play a forward-looking role in rehabilitating the environment

for private capital flows. In particular, private commercial creditors should be encouraged to resume lending to creditworthy middle- and low-income countries. In this connection, we commend the Executive Boards of the two institutions for rapidly opening up additional windows to help the heavily indebted countries. In developing these new initiatives, we hope that attention will be paid to those countries that managed their debt problems effectively despite enduring domestic hardship. Specifically, dealing with the debt problem of some should not result in a reduction of resources to others.

Fourth, we still have the need for balance of payments assistance to many low- and middle-income countries in Asia, Africa, and Latin America. Further, as economic policy reforms continue, especially in the trade area, there should be a preparedness to meet new situations, even in some industrial countries. . . .

. . . Both the Fund and the Bank have recently taken new initiatives. In the Fund, the extended Fund facility has been revitalized; in order to protect economic programs from unforeseen events, a compensatory and contingency financing facility has been developed. The Fund and the Bank have crafted a framework of support that includes debt and debt service reductions as part of the debt strategy. The World Bank's structural adjustment lending has an increasingly complementary role to support the Fund's stabilization focus. These developments, if they are to have any operational meaning, underline the urgent need for a substantial increase of resources. A quota increase that is inadequate runs the risk of not merely impairing the financial standing of these institutions but also of being a disincentive for the other partners to play their respective roles. These considerations make us strongly urge the few members who are yet undecided to provide the remaining links to achieve unanimity and so speedily resolve the question of the Ninth General Review of Quotas. For the World Bank, the general capital increase and IDA-9 issues should be settled. . . .

. . . I have concentrated on the subject of finance because the level and quality of finance plays a crucial role in the success or otherwise of a country's economic adjustment program. Inadequate finance would make necessary a sharper adjustment. We no longer speak of adjustment at any cost. We have come to recognize that a sustained adjustment is one that is growth oriented. The people's participation is essential for any economic program, however technically perfect it may be in its design. Hardships are necessary, and their tolerance will be forthcoming if they could see the light at the end of the tunnel.

Besides the question of finance, it is necessary to look to the external environment in which economic policies have to be implemented. Both the Fund and the Bank place strong emphasis on the reduction of protection and the liberalization of external trade in programs of assistance. In many a program, it is a condition of assistance that the borrowing country should

remove various import restrictions and open up its borders for exports from abroad. Trade obviously promotes mutual interests. But an issue needs to be highlighted. While the borrowers, which are middle- and low-income countries, have an ongoing record of trade liberalization, reciprocal action from industrial countries is less forthcoming. We join others in encouraging industrial countries to resume the momentum for reducing restrictions of all sorts in their markets. The Uruguay Round presents this opportunity. The resulting improvement in the external environment can support adjustment as substantially as the provision of finance.

We strongly welcome the poverty focus in World Bank lending. More recently, we have noted the concerns shown by the Fund in this area. As I mentioned earlier, unless the people at large can see and feel the benefits, an adjustment program is bound to meet with reverses. Sri Lanka since 1977, after a major turnaround in policies, has pursued a Fund- and Bank-supported adjustment path. We have scored many successes. But the adjustment path has also left behind several problems.

Many benefits accrued to society. But they were not seen to trickle down soon enough and in adequate amounts to relieve conditions of widespread poverty. This discontent has also bred and nourished divisive elements in society. It is primarily with a view to attacking the roots of poverty that rehabilitation and adjustment measures have been designed. Alongside macroeconomic and financial policies, we are targeting a program of poverty alleviation. In essence, it is aimed at increasing the productive potential of poverty groups. Sri Lanka's potential lies in its educated and skilled labor force. Harnessing this fully is the prime socioeconomic objective of my Government, and we are working closely with the Fund and the Bank to this end. We appeal to the international donor community to assist Sri Lanka in this task.

Finally, a word on the Bank's activities regarding the global environment. We welcome the stress placed on the need for action by industrial countries to protect the global environment. This is rightly so, since this is not a matter merely, or even largely, for developing nations. Statistics are not wanting to show that the bulk of globally accumulated pollution and resource depletion is attributable to industrial countries. Instead of going separate ways on this vital subject, there should be collective responsibility for preserving the environment. Poverty alleviation, which I mentioned a little earlier, is but one aspect of this strategy. Another aspect is the regulation of industrial waste. Yet another is the threat to the ozone layer, and so on. We would urge the World Bank to take the lead role not merely in focusing on the subject but also in making this area worthy of investment support.

All too often, we encourage member countries that come to these institutions to come early; we say that delay makes matters more difficult. We should likewise turn the focus on ourselves—the Governors and our Exec-

utive Boards—to speedily resolve these issues and thus maintain our confidence and belief in international cooperation.

SYRIAN ARAB REPUBLIC: MUHAMMAD IMADY

Governor of the Fund
(on behalf of the Arab Governors)

It gives me great honor to address these Annual Meetings on behalf of the Arab Governors of the World Bank and the International Monetary Fund. The Arab countries share not only a common national heritage but also common interests and objectives, especially in their drive toward social and economic development and in their efforts toward economic integration.

At the outset, I would like, on behalf of the Arab Governors, to warmly welcome Angola as a new member of the IMF.

When we look at the current world economic situation, we see a picture which is mixed at best. While the economic performance in the industrial world has continued to be generally favorable during the past year, there is reason for concern about the sustainability of noninflationary growth in the major industrial countries. The persistence of large external imbalances in the three largest economies and the lack of sufficient progress in addressing the underlying causes of these imbalances continue to cast a cloud over the outlook of the world economy as a whole. Unless these external imbalances are reduced in a timely manner, the world economy will continue to be threatened by the possibility of a substantial slowdown in economic activity and/or a building up of inflationary pressures. Perceptions about the unsustainability of the external positions of major countries could also jeopardize the stability of financial and foreign exchange markets.

Together with further fiscal adjustment in the deficit countries, a key requirement for sustaining noninflationary growth and correcting the external imbalances in the major industrial countries is further structural reform in these countries. This is also crucial for improving growth prospects of the developing countries. Structural reforms, particularly those aimed at dismantling trade protection and discriminatory subsidies, can contribute greatly to the developing countries' efforts toward external adjustment, diversification, and growth. Given the cost to developing countries of protectionist barriers in the industrial world, it is understandable that the developing countries may be somewhat concerned that the trend toward regional liberalization in Europe and North America will divert attention away from the need for truly global trade liberalization. Since there is little disagreement on the potential benefits of structural reform, it is hoped that the process of policy coordination, which so far has been limited to macroeconomic policies, can also be extended to structural reform in order to improve the management of the world economy further.

We all agree that the developing countries themselves have a primary responsibility in continuing to pursue economic policies which are conducive to noninflationary growth and financial stability. But as we are all aware, the prospects for developing countries also depend in an important way on the external environment facing their economies. Aside from their access to industrial country markets, another major element of that external environment is the level of international interest rates. The increase of real interest rates over the past year has significantly increased the burden on the indebted developing countries. It is therefore crucial that economic policies in industrial countries, both individually and in the framework of their policy coordination, take fully into account the impact of their policy choices on the rest of the world.

Since the early part of this decade the Arab countries, like other developing countries, have had to cope with a difficult external environment. The sharp decline in oil prices over the past few years has had a particularly adverse effect on our region. Not only did the oil exporting countries themselves suffer a sharp decline in their revenues, but the non-oil Arab countries were also affected negatively by the regional slowdown. In response to these adverse developments, the Arab countries have embarked on strong adjustment efforts which included substantial cuts in their public expenditures as well as structural measures aimed at enhancing private sector activity and growth. In some of the middle-income and low-income Arab countries, the adjustment process also had to cope with mounting debt service obligations.

We deplore Israel's arbitrary policies in the occupied Arab territories which have continued to weaken the economic base, hamper growth, and disrupt the structure of production in those territories. These policies and practices run counter to international law and common human values and call for a concerted effort in order to put a stop to them.

As you know, the Arab countries represent a wide spectrum of the developing world. They include fuel exporting countries which have made big strides in developing their economies and at the same time provided substantial assistance to other developing countries. Indeed, despite the sharp decline in the income of these donor countries, they have continued to provide external assistance which, in relative terms, remains significantly higher than that provided by industrial countries. The Arab countries also include a number of low-income countries which face the same difficulties and challenges faced by other low-income countries of the world. They also include middle-income countries which are trying to deal with a large external debt burden and at the same time restore adequate rates of growth.

The difficult external environment facing the Arab countries and their efforts to adjust their economic policies in response to that environment are reflected in the increasing number of Arab countries which have embarked in recent years on adjustment programs with the support of the Fund and/

or the World Bank. There are currently eight Arab countries which are either implementing programs supported by the Bretton Woods institutions or are in the process of formulating such programs. We hope that these countries will receive the support needed for the success of their efforts.

The reorientation of the debt strategy toward more emphasis on debt reduction constitutes a potentially important development for the heavily indebted commercial borrowers. However, the debt situation of lower- middle-income countries whose debt is owed mostly to official creditors is, in many cases, just as severe and deserves similar attention. The official creditor community has made significant efforts in recent years to provide debt relief to the poorest countries and we would encourage the creditor community to intensity these efforts, particularly since the distinction between low-income and other countries has perhaps been drawn too sharply. In our view, it is crucial for the debt strategy to address the problems of all debtor countries according to their circumstances. Such a global approach to the debt problem underlies the proposals which were put forth by one member of our group, Kuwait, both during last year's regular session of the UN General Assembly and more recently in the meeting of the nonaligned nations in Belgrade.

While still on the question of debt, let me add that we consider it of crucial importance that official support for debt and debt service reduction does not lead to a reduction in other forms of bilateral and multilateral assistance to the developing countries. It is also crucial that such official support be provided to countries on the basis of objective criteria and be extended to all indebted countries which may benefit from such support.

Given the degree of capital market integration which has occurred in recent years, we welcome the ongoing efforts to harmonize bank regulatory and accounting standards. However, let me again express our concern over the new framework for measuring the capital adequacy of international banks, which has been recommended by the Basle Committee and endorsed by the Group of Ten and which classifies countries into two groups for the purpose of calculating country transfer risks. Such a classification could have adverse implications for many creditworthy developing countries as well as for debtor countries that manage to improve their creditworthiness. . . .

. . . In performing its financing role, it is important that the Fund avoid the tightening of its access policy and ensure that assistance is provided to members on an equitable basis. Of at least equal importance is the quality of adjustment programs which are supported by Fund and Bank resources. We welcome the increased recognition given in adjustment programs to members' growth objectives, and the attempts to incorporate in those programs measures to mitigate the adverse effect of certain policies on the poorer segments of the population. We encourage the two institutions to

strengthen this trend further by integrating adjustment programs into the broader and longer-term objectives of development, taking into account the particular social and political circumstances of individual members.

The Arab countries fully endorse the current efforts of the international community, including the World Bank, to adopt effective measures to protect the global environment. However, as Mr. Conable emphasized in his statement yesterday, it has to be recognized that industrial countries are the source of most of the environmental damage in the world today. We, therefore, urge these countries to make more intensive efforts to address their domestic environmental problems and to extend much needed technical and financial assistance to developing countries implementing environment projects. We also urge the World Bank Group to exert its efforts to induce more effective measures by the industrial countries, and to avoid undue pressure on borrowers to an extent that may turn environmental considerations into an integral part of lending conditions.

The Arab countries welcome the increase in commitments of the World Bank Group in FY89. However, the regional distribution of the Bank Group operations again shows that despite a small increase in FY89, the relative share of Arab countries remains small. More attention should be given to the need for a more active role of the Bank Group and expanded technical assistance and consultative services to these countries. We also note that although IFC investments increased substantially in FY89, investments in the Arab countries continued the sharp decline which began in 1987. This points to the need for more intensive efforts by the Corporation in the Arab countries.

We look forward to a successful conclusion of the current deliberations of IDA Deputies. We hope this will lead to a meaningful replenishment of IDA resources commensurate with the urgent needs of low-income countries which suffered more acutely than other groups because of the shortage of financial resources and the debt burden. We also expect that the additional resources, including repayments, will make it possible to cover members which, despite their eligibility, are not currently benefiting from IDA resources.

Finally, we appreciate the preparatory work undertaken by MIGA since the middle of last year and welcome the active response of investors in many countries. This response in the formative year is a promising indication of a constructive role for the Agency in promoting private investments in the developing countries, including the Arab countries.

THAILAND: PANAS SIMASATHIEN

Governor of the Bank

On behalf of the Government of the Kingdom of Thailand, I am privileged to have the honor of addressing these Annual Meetings of the World Bank

and the International Monetary Fund. I wish to join fellow Governors in welcoming Angola as a new member of the two institutions.

Thailand is a member in good standing of the Bretton Woods institutions, and we have worked extremely hard to play our part in the vision of attaining sound and stable growth and thus reducing poverty and, most important, in ensuring an enhanced and improved quality of life for our people, with the support of the World Bank and the Fund. It is heartwarming to hear once again a renewed emphasis on this vision from Mr. Conable and Mr. Camdessus. It is a vision which some of us may have already misplaced or allowed to slip from our priorities.

As the Bank and the Fund reach their fiftieth anniversary, there needs to be a renewal in the spirit, vision, and support by all member countries, in particular, the more fortunate industrial member countries. We need new vigor and the reordering of development priorities for the decade of the 1990s.

Achievement of sound socioeconomic development and growth in developing countries requires a timely and sustained flow of both domestic and external resources. This has not been the case in the 1980s. Sustained growth in world development requires an environment of free trade, but that is again not the trend in the 1980s. Indeed, the Uruguay Round is indicative of the growth of protectionism, not its reduction.

The environmental issue is a concern of the 1980s and 1990s, but its causes are over 75 percent due to the industrial economies. For the 1990s, we of the developing world, who are responsible for less than 25 percent of the problem, are asked to share in the cost of the cure.

The international monetary system in the 1980s has been marked with instability and exchange fluctuations, which have on the whole been less than beneficial for developing economies. In fact, the debt burden of the borrowing member countries has increased substantially due to exchange risks. Terms of trade have been adverse for the past five years.

The international debt problem continues to be the major issue of this decade and very likely will sap the vigor of the international economy well into the 1990s. While we welcome the recent guidelines on the strengthened debt strategy and the recent Brady initiative, we would like to sound a note of caution. Indebtedness is a contractual issue between the lender and the borrower. With the introduction of a third party, namely the Bank and the Fund, use of their presently limited resources should be based on the principle of additionality. As Bank and Fund resources are for the benefit of shareholder countries, an evenhanded approach is mandatory. For countries that have worked hard to maintain financial integrity but are also in need of scarce domestic and external resources to sustain their development growth, an additional collaborative burden is beyond their means.

The World Bank and the International Monetary Fund are collaborative institutions. They have 152 shareholders. Although the overwhelming ma-

jority of members are developing countries, their votes are few. But it is the borrowing member countries which pay for the services and the loans. In addressing the need for development and adjustment in member countries, these institutions should give the landlocked and least-developed countries of Asia equal priority with the Sub-Saharan region.

On this note, we are pleased to see that the Bank has attempted an initial reform of its lending system. You will recall that Thailand and other member countries have repeatedly requested the Bank to change its currency pooling methodology, which added an onerous burden on borrowing countries—at times increasing their debt to the Bank by over 40 percent of the original contracted amounts. The effort to balance the currency involved in the currency pool will marginally alleviate this burden. To solve this problem for all borrowers, not merely the heavily indebted countries, will require either a change in the Articles establishing the World Bank or the setting up of an exchange risk fund to assist member countries in refinancing the increased foreign exchange portion of their loans, resulting from the old currency pooling system. What the new system does, for which we are grateful, is to make the World Bank loan more transparent, but it does not fully address the negative impact of currency fluctuation—the passing on of all exchange risks to the borrower who has no effective recourse or remedy.

It is imperative that this issue be addressed in its entirety and not merely cosmetically or simply for the net income of the Bank itself. Moreover, the new system seems to be only temporary in nature, emphasizing a limited reduction in the commitment charge for this year—while many other reservations remain for further management review. It is our hope that the development aspects of the current system be fully considered in this matter.

The emphasis on interest rates, commitment charges, and terms of repayment is not enough. The development institutions must look at the effective final cost of the loans. To do otherwise, the Bank loans will ultimately be more burdensome to borrowers than loans raised commercially.

Thailand looks forward to the 1990s as a decade of achievement rather than one of hope. We must act now and not merely postpone the issues. If the present debt strategy had been in place ten years ago, there would have been no debt problem now. The money and time spent in such exercises would have been better used to enhance the development of all concerned.

We are hopeful that at the next Annual Meetings, and definitely by 1991 when Thailand will be hosting the Annual Meetings in Bangkok, Mr. Conable and Mr. Camdessus will be able to announce a substantial improvement in the world development outlook and the completion of the Ninth General Review of Quotas.

TONGA: JAMES CECIL COCKER

Governor of the Bank

I am pleased and honored to participate in the Forty-Fourth Annual Meetings of the World Bank Group and the International Monetary Fund. On behalf of the Kingdom of Tonga, I wish to convey cordial greetings to the Chairman of these Meetings, to the President and management of the World Bank Group, to the Managing Director of the Fund, to the Executive Directors, to the Governors and delegates of all member countries, and to the special guests at the joint Annual Meetings. I also take this opportunity to congratulate President Conable and Managing Director Camdessus and their respective staffs, for another successful year of operations and their vision for the future directions of the Bank and the Fund.

Although small in a world context, Tonga too has to contend with the changing economic conditions thrust upon it by the rest of the world. In particular, prices in Tonga are very sensitive to global developments, and commodity prices, especially for copra products and vanilla beans, are major determinants of export income. Nevertheless, as in most small South Pacific island economies, the vagaries of climatic conditions, particularly cyclones, play havoc with our aspirations for continual economic growth at high, yet sustainable, levels. Aggregate real output in Tonga grew during fiscal year 1988/89. But the result was considered disappointing, as it followed a drought-induced decline in fiscal year 1987/88. Once again, unkind weather was the main factor preventing more rapid growth.

On other fronts, economic developments in Tonga have been more favourable. Inflation, as measured by consumer prices, grew by just over 3 percent in fiscal year 1988/89, and external reserves, although below the peak levels reached at end-1987, still provide a reasonably comfortable import cover of about five months. Central government continues to operate appropriate fiscal policies, and external debt is not a problem. In recognition of the need for continued adequate and prudent policies, a new institution, the National Reserve Bank of Tonga, was established and commenced operations in July this year.

Tonga wishes to record its appreciation for technical assistance it is receiving, particularly long-term technical assistance from the Fund. If this is to achieve its goal, it is important that there be continuity in personnel.

It is pleasing to note the improved state, and outlook, of the global economy since the Annual Meetings in Berlin (West). The overly rapid growth of global output in 1988 is now forecast to slow to more sustainable rates during 1989 and 1990. Primarily this reflects policies in the industrial countries, but most developing countries, in our integrated world, should benefit from these encouraging developments. Similarly, although a moderate acceleration of inflation is projected for the industrial countries during

1989, the slowing of global activity will no doubt foreshadow reduced global inflation next year.

Turning now to World Bank issues, I would first like to focus on IDA and the likely size of the Ninth Replenishment. The needs of the IDA recipients have not decreased since the Eighth Replenishment, and this surely means that donor countries should make every effort to ensure that the replenishment is substantially more in real terms than that provided for IDA-8. It is pleasing to note that the proportion of IDA commitments to be directed to OLICs in fiscal year 1990/92 is to rise to 20 percent from 16 percent in fiscal year 1987/89. This would seem appropriate in view of the large declines in primary commodity prices in the period 1980-88, coupled with the impact of protectionism.

The issue of voting power for small countries such as Tonga needs to be sympathetically addressed; a permanent solution needs to be agreed, one which takes into account the financial obligations that may be incurred as a result by such members.

May I welcome the establishment of MIGA as an operating entity. I understand the first transaction is to be concluded shortly, and hopefully this will be the first of many to smooth the path of private foreign investment.

The new emphasis to be placed by IFC on the advisory role and the fostering of entrepreneurship in small and medium-scale enterprises is to be applauded. I understand that IFC is considering the establishment of a South Pacific project development facility to help promote this emphasis and Tonga wholeheartedly supports this initiative. The conferral of Triple "A" ratings for IFC debt is another welcome milestone which should enhance capital market access and terms.

The roles being played by the Bank and the Fund in formulating an appropriate strategy to deal with the debt problem are welcomed. Tonga wishes the institutions well in this important endeavour. However, care should be taken to treat all debtors in an evenhanded way including those who pay on time. It is often said that "virtue is its own reward"—but perhaps the reward should be greater in this context.

The size of the Ninth General Review of Quotas has been deliberated at length. Quotas should grow in line with the world economy if the Fund is to continue to play its central role in the international monetary system. There is an obvious need to maintain member's access levels to Fund resources, particularly if the debt problem is to be contained. It is prudent to reduce reliance on borrowed resources, so that if liquidity is to be maintained a sizeable increase in quotas is considered essential.

There is a good case to be made for another allocation of SDRs. The need to augment the amount of owned reserves, particularly of developing countries, is still valid and the questions of a further allocation should still be pursued.

In conclusion, I wish the managements of the Bank and the Fund another successful year and hope that their efforts in the coming decade will be crowned with similar success.

UNITED KINGDOM: NIGEL LAWSON

Governor of the Fund

Let me start by extending a welcome to Angola as a new member of the Bank and the Fund.

Eastern Europe

The outstanding event since we last met has undoubtedly been the dramatic developments in Eastern Europe, and in Poland and Hungary in particular. Many of us have had the pleasure of meeting the new Polish Finance Minister and hearing his energetic and forceful description of the economic challenges ahead for Poland and the radical action his Government plans.

I very much welcome the strong commitment he and others in the new Polish Government have made to the swift introduction of a market economy in Poland. That is the key to successful economic reform. We in the West must do all we can to help, offering assistance and advice on freeing up markets, on training, and on removing the obstacles to inward investment.

In this connection, I very much welcome the part the Bank's International Finance Corporation is playing in both Poland and Hungary. It has already approved seven investments in joint ventures in Hungary and has offered a program of assistance to Poland, including investment in joint ventures, advice on Poland's privatization program, and help with the creation of new banks.

The West must also provide appropriate financial assistance. It would be a historic error if economic reforms in Poland and Hungary were to fail for lack of external support. The first step must be for Poland to negotiate a Fund program as soon as possible.

But it is the market reforms within both countries that are crucial. They provide the great hope we all share—that Poland and Hungary will be able to unlock the vigor and enterprise of their people and develop into strong and successful market economies—in the process, providing a clear example for others to follow.

World Economy

Turning to the world economy as a whole, performance has been generally satisfactory, in particular in the industrial countries.

Growth is slowing to a more sustainable level without any sign of the lurch into recession that some had feared. Investment has continued to grow

rapidly, which will help improve performance in the future, while inflation has peaked, thanks to swift action to tighten monetary policy in all the countries concerned.

There is general agreement that the major countries are adopting policies likely to promote continued noninflationary growth. If passages in the Group of Seven communiqué on policy actions have a familiar ring, it is a reflection of the continuing consensus, right around the table. Cooperation remains strong, and we share a common view of the importance of controlling inflation and implementing supply-side reforms. And that cooperation was demonstrated by the effective action by central banks in the markets this week.

Not that we have found—or ever will find—a solution to all the problems and difficulties that will inevitably arise. There will always be fluctuations in growth and in inflation, though we can try to minimize them. The problems of many developing countries remain severe, but sound and stable policies in the major industrial countries offer the best prospect for steady growth in the world economy as a whole.

Longer-Term Changes

The most striking development of the past decade has been the movement toward deregulation, reliance on markets, and a smaller role for governments. In particular, the virtual abolition of foreign exchange controls in the major economies, coupled with domestic deregulation and advances in information technology, has led to the creation of a global financial market. This has had far-reaching effects on our economies and on the conduct of policy.

One impact of this new freedom is that economic behavior has become less predictable. For example, people's spending is less constrained by the short-term path of their disposable income, given their greater ability to borrow. However, predictability is far from the prime virtue of an economic system. The improvement in performance from a less regulated economy is what matters. And that is what we have seen.

Of course, the effects of greater financial freedom are much wider than this—in particular, the emergence of a world market for savings. This has had profound effects, not least on the balance of savings and investment between countries, and this has come at a time when, for the world as a whole, there are growing signs of a shortage of private savings in relation to planned private investment.

Perhaps the strongest evidence for this shortfall is the historically high level of real interest rates. The persistence of these high rates throughout the developed world suggests that this is no mere cyclical phenomenon.

It is now apparent, too, that the total of private sector savings in the major industrial countries has been declining as a share of GDP during the

1980s and particularly in the last few years. It is impossible to be sure why this has occurred, but we can identify a number of contributory factors. Better economic performance may have boosted consumer confidence. Increased personal wealth seems to have lessened the perceived need to save, and cultural changes too may have played a part.

These factors may well persist, so it is important that governments accept the consequences. High real interest rates—however unwelcome—are likely to be with us for the foreseeable future. This underlines the need to eliminate budget deficits in those countries that have them.

At a time of shortage of private savings in relation to planned private investment, it is surely wrong for governments to appropriate private savings to finance their own expenditure. It would also be a mistake to do anything which discouraged savings, even in the surplus countries.

One Keynesian legacy has been a preoccupation with an incipient shortage of demand, whereas it is an incipient shortage of capital that is emerging as the real problem. The fall in savings in the industrialized world as a whole conceals very different patterns in different countries. By contrast, the pattern of investment has been much more uniform among the major nations. Thus, in the Federal Republic of Germany and Japan, sector savings exceed investment, with the inevitable counterpart of a current account surplus. In the United States, the United Kingdom, and France the reverse is true.

This represents a major change of behavior, compared with the 1960s and 1970s. For most of that period there was a strong similarity in each country between the levels of savings and investment.

At a time when exchange controls were prevalent and capital was, in general, less mobile, governments had little option but to respond to current account deficits by tightening fiscal and monetary policy. This had the effect of reducing or offsetting the threatened difference between saving and investment within each country. All that has now changed, with capital flowing from those countries where savings are in excess of investment to those where they fall short of investment, thus financing current account deficits, sometimes for a sustained period.

We have to go back to the era of the classical pre-1914 gold standard to find an extended period of free capital mobility and so little government intervention. At that time, too, there were large and persistent current account surpluses and deficits on the same scale as recent years. A new study estimates that between 1880 and 1913, six out of the eight economies for which data are available recorded an average current account surplus or deficit of over 2½ percent of GDP. This contrasts with the 20 years to the mid-1980s when only one of the countries studied had an average imbalance of that size; and none of the five major nations had an average imbalance of as much as 1 percent of GDP. These figures reinforce the conclusion that in a world of capital liberalization and the integration of financial markets, large current surpluses and deficits are not unusual.

The international capital markets are carrying out one of their fundamental roles—allocating excess private sector savings to the countries with investment opportunities that exceed their domestic savings. For any one country, this means that investment is not constrained by its own savings. For the world as a whole, the increase in imports and exports of capital has almost certainly produced benefits analogous to the gains from trade.

Without the safety valve of international capital flows, any excess or deficiency of savings would have been concentrated in the countries themselves. By one means or another in the deficit countries, savings would have had to rise or investment fall, or more likely, a combination of both. That is no easy matter, and it is worth recalling that the *raison d'etre* of the Fund was to provide bridging finance to assist with this problem. So far as the major nations are concerned, this role has now effectively been taken over by the private capital markets, and this has inevitably led to a change of emphasis in the role of the Fund itself.

Some observers remain concerned about these large-scale capital flows and the current account deficits they finance, and consider them unsustainable and dangerous, regardless of their origin. But I note that the Fund takes a more measured view. As its latest World Economic Outlook points out, "Inasmuch as they reflect private saving and investment decisions . . . external imbalances should be seen as efficient and self-correcting, and the role of policy should be limited to the removal of any distortions affecting such decisions."

It follows that current account imbalances do not carry any necessary implications for exchange rates. To draw such implications is to give the exchange rate an exaggerated role in the adjustment process. It is a mistake to look to the exchange rate to resolve a set of circumstances of the type I have been describing. Nor should we attempt to fine-tune fiscal policy. Now that once again we have worldwide capital mobility, last seen in the pre-1914 gold standard days, it would be wise to recall the conventional wisdom of that period about fiscal policy—namely, the principle of the balanced budget.

In the short run, some fluctuations are inevitable. But we will be better served by adhering to this important principle of budgetary balance than by trying to compensate for private sector savings and investment imbalances by making offsetting movements in public sector savings or investment. To do so would require sharp changes which would unnecessarily disrupt the stability of tax rates or sensible planning of public expenditure, with damaging economic consequences.

These developments and, in particular, the increasing interdependence of the world economy, also increase the importance of policy coordination. As our meetings here in Washington have demonstrated, that fact is widely recognized. One aspect of this coordination is a desire to maintain a rea-

sonable degree of exchange rate stability. This too has echoes of the period before 1914 when freedom of capital flows took place within the context not only of balanced budgets but also of a general adherence to the gold standard.

The U.K. Economy

Finally, I turn to the U.K. economy, which grew particularly rapidly in 1987 and 1988 following five years of relatively steady growth. Domestic demand was driven by a welcome investment boom, with total investment growing by 23 percent over the past two years. But with consumer spending also growing strongly, pressures on capacity intensified, and, as a result, inflationary forces emerged.

Over a year ago, the Government tightened monetary policy sharply, and that is now producing its intended effects. Domestic demand growth this year is likely to turn out to be less than half of last year's figure of 7 percent. Consumer spending has slowed markedly; and the housing market, which proved to be the engine for much of the excessive growth of demand in the past few years, has not gone into reverse. Investment growth remains strong, and the capacity that has been added in recent years will play a significant role in expanding supply in the future.

The Government continues to run a large budget surplus, but the fall in private savings and the growth in private investment have meant the emergence of a substantial current account deficit. The decline of private savings seems to have come to an end this year, as high interest rates increase the attractiveness of saving and, in particular, increase the cost of borrowing to finance consumption.

The slowdown of demand is even evident in the current account figures. In recent months domestic demand growth has been broadly in line with the growth of output. Although the deficit for this year will turn out higher than forecast last March, I warned a year ago that the current account would be one of the last indicators to respond to monetary tightening.

In time, the growth of domestic demand will fall below the growth of output, and the current account deficit will begin to diminish. In the meantime, the deficit can be readily financed during what is likely to be a gradual process of adjustment.

Of much greater importance are the clear signs that monetary policy is working and inflation declining. The underlying rate, which had risen from around 4 percent in the first half of 1988 to 6 percent in May, fell back to 5.7 percent last month and is set to decline further. Getting inflation down by maintaining high interest rates for as long as is necessary remains the cornerstone of our policy.

UNITED STATES: NICHOLAS F. BRADY

Governor of the Bank and Fund

This Forty-Fourth Annual Meeting, the last of the 1980s brings to a close a decade of both great challenges to, and significant achievements by, the international community. As we move from the 1980s into the last decade of the twentieth century, it is fitting that we reflect upon several of the major challenges we have faced together and how together we have met them. It is appropriate that we do so in this forum because the past decade holds both achievements to inspire our future endeavors as well as continuing issues of mutual concern which compel us to greater cooperative efforts.

The foundation of our successful endeavors to date, and the key to our future success, remains noninflationary economic growth. The sustained economic growth of the past seven years is a remarkable accomplishment. Just as we all will ultimately share in the benefits from economic growth, we also all share in the responsibility for the continued expansion of the world economy. The industrial countries must continue to play a leading role in this effort.

The IMF estimates that the industrial countries will achieve average growth of 3¼ percent and world trade will expand by some 6½ percent this year. The expansion of trade at a rate greater than that of economic growth is particularly significant because world trade is the engine of world growth. Both are essential to meeting our global economic objectives.

One of our principal economic objectives is the reduction of external imbalances. We have made progress. The U.S. trade deficit narrowed by more than 20 percent in 1988 and is continuing to decline this year. While we can take satisfaction in what has been accomplished so far, we must also acknowledge that further progress is required. Surplus and deficit countries must exercise greater discipline in reducing internal and external imbalances. Achieving continued reduction in these imbalances and sustained low-inflationary economic growth is a challenge that our nations face both individually and together.

Policy coordination is the process which we have used to support growth in the international economy. And policy coordination has paid off. However, when we measure the success of coordination we must maintain a sense of perspective. We must not confuse the short-term fluctuations in currencies or statistics with an effective policy coordination process that produces lasting results. Pundits would have us judge ourselves in terms of yesterday's rally or drop in the exchange markets. In truth, policy coordination should be judged by whether the world economy is experiencing solid growth. And it is.

Sustained economic expansion is, and will remain, crucial to the strengthened debt strategy which the Interim and Development Committees endorsed last spring. We should be heartened by the progress achieved in

implementing our new approach. The recent agreement reached between Mexico and its commercial bank creditors stands as an important illustration of the progress debtor countries and their creditor banks can achieve.

The combined effect of solid economic policies and a new financing package is already providing a major boost to Mexico's economy. Mexico's experience since reaching agreement with its creditors is a compelling example of the result we should seek. Domestic interest rates have dropped from 55 percent to 34 percent. This has cut government interest payments by over $10 billion a year, reducing the fiscal deficit by 5 percent of GDP. Reserves have increased by over $2 billion due to reflows of private capital.

Confidence in Mexico's economy is clearly on the rise—businesses and individuals are investing in Mexico's future. The message is plain, the benefits to Mexico go well beyond the terms of the agreement. A cloud has been removed from Mexico's horizons, and the world knows it.

Preliminary agreement has also been reached between the Philippines and its commercial bank creditors. Again, this holds great promise for the Philippine economy and further illustrates progress in bringing parties together in realistic negotiations where they can seek solutions to their common problems.

A dynamic process is under way—the strategy's key elements can be implemented to fit the individual needs of a wide range of countries. There is no one right way. Some may seek a broad package including debt and debt service reduction, and new money, fully negotiated up front. Other countries may prefer a more market-based approach, with flexibility in bank waivers to permit buy-backs and development of other instruments over time. And some may choose to pursue limited debt reduction without entering into broad negotiations with commercial banks.

Several countries—including Costa Rica, Venezuela, Morocco, Uruguay, and Chile—are already working toward new financing packages consistent with the strengthened strategy. As they discuss their needs and options with the international financial institutions and commercial banks, their varied interests have become increasingly clear. While reducing debt burdens has been the emphasis of many, new financing is still important for many countries. Although the elements and the mix will vary from case to case, it is important that there be a proper balance between new money, debt and debt service reduction.

Priority needs to be given by all parties to negotiating agreements that assure financial support for those countries carrying out significant reform programs. This will require the engagement of top level policymakers on both sides. However, an important challenge at the moment appears to be the problem of unrealistic expectations—both among the debtor countries and the banks.

In one sense, improving expectations was essential to restoring forward momentum in the debt strategy. Progress had come to a halt and there was

a growing sense of hopelessness. In another sense, however, we must recognize that rising expectations need to be tempered by realism. This is part of any negotiating process—but in this case time is money. Excessive expectations can only promote delays, increase the risk of breakdown in negotiations, and ultimately raise the economic costs to the banks and debtor countries.

However, debt reduction cannot be seen as a cure-all for the economic problems of debtor countries. It cannot assure economic prosperity. Rather, debt reduction is meaningful only if it supports the economic reforms that are the key to long-term sustained growth. Economic reform must be the foundation on which financial support is built.

Increased investment and return of flight capital are essential objectives of the strategy. And debt-equity swaps offer debtor countries important vehicles to channel such resources into their economies. Privatization programs and reduction of barriers to foreign investment can also signal that private capital will be welcome.

In the judgment of the financial markets, the impact of the new strategy on both borrowers and banks has been positive. The secondary market value of bank debt has increased for most key debtors, as has the value of the shares of many international banks with significant LDC loan exposure.

While concentrating on the individual elements of our debt strategy, we must not lose sight of the larger accomplishment. Working together, we have opened the windows of hope for debtor nations. And we have done so by recognizing that just as we were all party to the creation of the debt problem, we must all be party to the creation of the solution. There is now a growing sense of understanding that while no solution will be perfect for all parties, there can be no resolution beneficial to any party without the full cooperation of every party.

The World Bank and the International Monetary Fund have critical roles to play in the debt strategy. The centerpiece of their efforts is to assist the debtors in shaping and implementing the economic policies that are central to establishing economic growth. These institutions have shown increasing effectiveness in doing just that. As we look to the future, they will need to put even more emphasis on policies designed to promote foreign investment, repatriate flight capital, and reduce government interference in the marketplace.

The Fund and the Bank also provide important financial support for the debt strategy. President Conable and Managing Director Camdessus, I commend you and your staffs for your first-rate work in moving swiftly to provide financial and policy support.

Fundamentally, economic growth is important for one reason—to improve the quality of life for us all. But this quality cannot be assured by growth alone. It also depends upon protecting and renewing our environ-

ment. Our land, our air, our waters, and our national resources must be protected.

It is essential that the World Bank exercise strong leadership as the global community strives to grow and conserve our scarce resources for the future. The Bank has already accomplished much in this area, but the time has come for it to establish as a guiding principle of its activities the precept that development and environmental protection must go hand in hand. We must redouble its efforts toward this end.

Preserving the environment is just one of the many great challenges we face as we move into the last decade of the twentieth century. As we face those challenges together, the IMF and World Bank will play a pivotal role in our efforts to build a prosperous world economy and a stable international financial system.

These institutions will continue to be central to our efforts to achieve sustained development and growth. We will look to them as a forum for discussion, coordination, and implementation of our initiatives. And we will look to them for the kind of multilateral leadership and cooperation that they have so ably demonstrated during the past decade.

VIET NAM: CAO SI KIEM

Governor of the Fund

On this occassion of the Annual Meetings of the World Bank and the Fund, I would like, first of all, to welcome Angola as a new member to the Bank and Fund family. I take this opportunity to describe to the international financial community Viet Nam's recent developments. The following statement will highlight the macroeconomic and structural measures undertaken to restore economic growth, bring down inflation, and establish external viability. Prospects for the immediate future are also highlighted.

Following the adoption of a wide range of new economic policies and measures under the medium-term economic strategy in December 1986, which emphasized the importance of a market-determined price system, as well as a greater role of private sector activities in the economy, Viet Nam introduced during 1987 and 1988 a number of important structural measures, which included price and exchange rate adjustments, removal of some foreign exchange restrictions, agriculture and banking reforms, and promotion of foreign investment. Although some tangible progress was achieved in the real sector in 1988—output growth was restored to about 6 percent—there was virtually no improvement with regard to inflation performance, or in fiscal and external positions. The inflation rate, at more than 300 percent in 1988, remained very high; the budget deficit increased; and the balance of payments position continued to be very vulnerable. While some of these problems were attributable to unfavorable external factors,

including adverse weather conditions in 1986 and 1987, as well as to the lack of experience in macroeconomic management, it is quite clear that they also reflected policy slippages in some areas because of the lack of a political consensus on the magnitude and pace of the economic reforms.

Under this difficult situation, which in essence represented a transitional stage away from a state-run economy, Viet Nam renewed its determination to fully implement the necessary additional macroeconomic and structural measures, taking into account the Fund's recommendations. Earlier this year, a far-reaching economic policy package was adopted to restore macroeconomic stability while laying down a framework for a more sustainable growth.

In order to bring down inflation, a number of measures have been introduced to reduce excessive demand, including a remarkable restructuring and sharp curtailment of central and local government expenditures. These measures have also been appropriately complemented by credit restraint through controlling reserve money and by maintaining positive but flexible real interest rates. Accordingly, both bank deposit and lending rates were increased in March 1989 and were subsequently adjusted in line with price developments. In addition, beginning March 1989, reserve requirements have been strictly enforced and state bank financing of the specialized banks has been greatly tightened.

On the external front, several important measures have been introduced to improve the balance of payments situation, and in particular, to build up international reserves. In this connection, in March 1989, the authorities unified various exchange rates, and then substantially devalued the exchange rate from D 900-4,000/U.S. dollar to D 4,500/U.S. dollar. It is Viet Nam's intention to flexibly adjust the unified exchange rate in line with inflation rate developments.

We acknowledge the enormity of the task ahead in achieving an enduring public sector, including enterprise reform. Nevertheless, we believe that many key steps have already been taken despite the continued difficult socioeconomic and political situation. In order to substantially reduce expenditures, Viet Nam has virtually ended all subsidies and terminated budgetary support for loss-making enterprises. On the revenue side, in addition to tax reforms, which are expected to improve revenues in the medium term, we have also taken a number of short-term revenue measures, including the sale of government assets. These measures have been strengthened by our efforts to improve efficiency and financial performance of state enterprises. Furthermore, under the restructuring program, chronic loss-making enterprises will be permitted to shift into other productions, be put up for bids, or leased to other enterprises.

There are some encouraging signs that the economic program is on the right track. The rebound in output growth in 1988 is largely attributable to a substantial improvement in agricultural production, reflecting a positive

response to the new market-oriented pricing policy and agricultural decentralization and to other new economic policies and measures. At the same time, industrial growth rate was maintained at slightly above 10 percent. Helped by bumper crops in early 1989, the tighter stance of fiscal and monetary policies has successfully brought down the inflation rate from more than 300 percent annually in 1986-88 to a historical low level of 1-2 percent a month since April this year. Market prices have become stable during the past six months. Furthermore, bank deposits have responded well to the positive real interest rate policy, and for the first time now, there is virtually no differential between the official and parallel foreign exchange markets.

We are quite optimistic about the future prospects of the economy. We are determined to continue our economic reforms in the same direction. The economic prospects would, however, be more enhanced if financial assistance from the Fund and the World Bank and other international support could be secured, and trade and financial embargoes on Viet Nam could be lifted. In this regard, it is quite clear—as recognized by the Fund in its recent Article IV consultation discussion with Viet Nam—that Viet Nam has immense financing needs that will require the concerted response of the Fund, the World Bank, and the international community at large.

A credible economic adjustment program is now in place. Viet Nam has met, in a very short time and in a very substantial measure, its commitments as part of the Fund's intensified collaborative approach. Viet Nam now requests that the Fund play its part in the intensified collaborative approach by assisting Viet Nam toward the formation of a donor group that would help mobilize the necessary financing for the program and for the clearance of its arrears to the Fund to which Viet Nam accords the highest priority. It is our sincere hope that with the restoration of our normal relations with the Fund, Viet Nam will regain its credibility with the international financial community.

Regarding its relation with the World Bank, Viet Nam, one of the poorest member countries, has so far fulfilled its obligations to the Bank. Viet Nam's present economic adjustment and structural program deserves this institution's financial assistance. We urge the World Bank, after the most recent economic mission to Viet Nam, to resume its normal lending to Viet Nam in the immediate future.

WESTERN SAMOA: TUILAEPA S. MALIELEGAOI

Governor of the Fund

(on behalf of Kiribati, Solomon Islands, Vanuatu, and Western Samoa)

I am honored to speak here today not only on behalf of my own country, Western Samoa, but also on behalf of the other small island countries of our constituency—Kiribati, Solomon Islands, and Vanuatu.

World economic conditions, according to Fund reports, improved significantly in 1988. In both the industrial and developing countries, output growth strengthened markedly. World trade expanded at its fastest rate since 1976, which had important spillover effects on many developing countries, particularly the exporters of manufactured goods.

For us, the small island countries of our constituency, our economies continue to be dominated by increasing trade deficits as a result of rising import bills and relatively low export receipts. Consequently, we rely heavily on inflows of foreign funds to finance the outstanding balances of our external accounts. We have limited resource bases, and our isolation from the major export markets has generally made the prices of our export commodities less competitive. Of course, restrictive trade practices of the developed countries have also adversely affected our efforts to compete.

In its recent World Economic Outlook, the Fund indicated that restoration of an adequate growth performance in large parts of the developing world remains a particularly urgent concern. However, the recent rise in interest rates in the major industrial countries will raise the cost of finance, which could hinder growth in the developing countries. . . .

. . . Investments in the private sector of the small island nations require relatively small capital injections. Perhaps a facility could be created to cater for these needs, which currently cannot be met by the domestic financial institutions. What we need is financial assistance combined with technical assistance to identify projects. While we are encouraged by the latest IFC initiatives, it is important to ensure that any proposed scheme should complement those already in existence.

The resources of IDA must be increased, and its graduation criteria be re-examined to take into account the special conditions and needs of the small island countries.

We ask the World Bank to increasingly consider the track record on economic and debt management of recipient countries when setting financial conditions for its project loans. Given the varying economic and political philosophies, the recipient countries need more flexibility on how they shape their public policies as long as they are within the confines of sustainable macroeconomic policies.

We are encouraged by the progress of MIGA in its first year of operation, and we look forward to receiving assistance from this institution. We are hopeful that MIGA's involvement in the Pacific region will attract participation by foreign investors in the development of our small economies.

Being small both in size and population, we need assistance to train our nationals to adapt to increasing administrative demands and changing economic conditions. Therefore, the advice and experience of the experts provided by the Fund and the Bank, through their technical assistance programs, have been most beneficial. The courses provided by the Fund and

the Economic Development Institute have also played a very important role in the training of our manpower resources. For this, we are grateful.

It is important that the Fund does not also lose sight of the needs of the small island countries with relatively less severe financial conditions to assist these countries maintain and improve their economic performance. We therefore strongly urge the Fund to increase its resources for technical assistance and training.

Finally, I extend to you, Mr. Chairman, our appreciation for the smooth conduct of these meetings and wish all Governors and members of delegations a safe trip home.

YUGOSLAVIA: BRANIMIR ZEKAN

Governor of the Bank

The Ninth Summit Conference of Nonaligned Countries held in early September in Belgrade, the capital of Yugoslavia, was unanimous in recognizing that the world economy and international economic relations are undergoing fundamental and long-term changes. The Belgrade Summit emphasized that differences between industrial and developing countries are even greater, despite a general improvement in international political relations and the increasing interdependence of development. Furthermore, the acute deterioration of economic and social conditions in many developing countries threatens to adversely affect favorable economic trends in developed countries, as well as the stability of the global international political system.

IMF and World Bank documents also note certain improvement in world relations and a steadier economic growth of industrial countries. There is a greater recognition of the problems faced by developing countries and readiness to assist the poorest among them. The debt strategy aimed at solving the indebtedness of the middle-income countries is being diversified. Environmental protection is receiving much greater attention. Impediments slowing down or hampering successful implementation of economic adjustment programs in developing countries have been properly identified. This can serve as a sound basis for further actions that will ensure more humane and decent living conditions in all corners of our globe.

Regardless of their continuous efforts, developing countries, particularly the highly indebted, continue to face difficulties in ensuring sustainable economic growth, further expansion of manufacturing capacities, and provision of funds needed to improve the living standard of the population. This is amply stated in the IMF and World Bank documents prepared for our meetings.

Developing countries have been endeavoring to stabilize their economies and achieve sustained economic growth. However, technological progress

and adjustment processes in the world economy still elude them. It is indisputable that economic recovery of developing countries and their successful integration into the international economy must be based primarily on their indigenous and strongly determined adjustment programs, which are to be financed substantially by their own savings. It is also indisputable that such programs are likely to succeed provided they are implemented in accessible international markets accompanied by adequate capital flows, coordinated economic policies, and symmetrical adjustment of developed countries. Briefly, only joint responsibility and awareness can ensure the success of adjustment processes in the international economy and create a more amenable external environment for the progress of the world.

For the majority of developing countries, external debt is the biggest impediment to their economic and social development. The Conference of Heads of State or Government held in Belgrade welcomed new initiatives aimed at reducing their external debt burden and its servicing. However, in order to achieve the desired results, these initiatives will have to be further diversified and better adapted to the specificities of debtor countries and backed by substantial financing by the international community. The current situation and future prospects of debtor countries leave little room for the pursuit of appropriate macroeconomic policy and efficient debt management. Their position is, therefore, easily affected by unfavorable external factors, such as deteriorated terms of trade, increasing protectionism in international trade, the rise of international interest rates, the negative transfer of resources from developing countries, and insufficient industrial countries' economic policies.

The initiative for debt burden relief of highly indebted middle-income countries has certainly been in the focus of the international financial community this year. There are still many uncertainties as regards its application in practice, which requires prompt attention. First, whether and to what extent the inflow of fresh money from the Fund, the Bank, and private sources will decrease; second, whether the lending conditions, as set by the Bank and the Fund for these purposes will mean harsher terms for the economic adjustment and growth of debtor developing countries; third, how to ensure that debt burden reduction be at least at the level of the already established market value and equally beneficial for debtors and creditors alike.

Bearing in mind the Fund and the Bank role in stabilization and development financing programs, strengthening their financial position is a matter of priority. It is, therefore, necessary to speed up the Ninth General Review of Quotas. My country is advocating their doubling. Also, the IDA-9 Replenishment should exceed IDA-8 in real terms.

The Bank should further revise its financial policy with a view to decreasing lending costs. It is unacceptable that the major international development financing institution transfers the entire exchange risk to its borrowers

by simply applying mathematical formulas. We welcome the recent decision of the Bank to reduce commitment fees and to simplify the currency pooling system. This is, however, insufficient, and we urge the Bank to bear a part of the exchange risk and to ensure the maintenance of lower commitment fees.

Allow me briefly to refer to the efforts my country is making to recover and to reduce inflation, which is at this point a major economic problem. Yugoslavia is a highly indebted country, implementing comprehensive and radical economic and social reforms, despite an unfavorable external environment. These reforms should result in an efficient market-oriented economy, which would allow Yugoslavia to integrate successfully into international economic processes. An undertaking of such a nature requires enormous efforts and sacrifices, but also appropriate external financial support.

Pursuant to the new economic policy concept, the Yugoslav Government, which took office last March, has been further promoting market principles under which enterprises should operate. The Government also prepared ground to curb the increasing rate of inflation. About 85 percent of industrial product prices are currently freely set and 86 percent of imports have been liberalized, whereas enterprises, regardless of the form of ownership, have free access to foreign exchange and unrestricted imports. Customs duties and import levies on goods for export-oriented production, as well as for consumer goods, have been abolished. The share of the budget in the social product has decreased, and highly restrictive monetary policy is being pursued. Due to the complexity and radical nature of these reforms and the short period of their implementation, the measures undertaken could not have yielded the desired results as yet. The external sector of the economy has registered exceptionally good results. Exports have increased by almost 7 percent during the eight months of this year and by about 9 percent to the hard currency area. At the same time, imports rose by about 9 percent or 16 percent from the hard currency markets. Immigrant remittances rose too. Tourist earnings increased by 18 percent in the first semester. Foreign exchange liquidity is sound and the level of foreign exchange reserves satisfactory. Obligations in relation to foreign creditors are timely and regularly honored, while total foreign debt has been reduced. Moreover, aggregate internal demand is slowing down, while enterprises are operating more in line with market principles.

The attained results are all the more significant since they have been achieved despite a massive net outflow of resources, which amounted to about US$2 billion, or 5 percent of GNP, in eight months of this year. This inevitably led to a deteriorated economic development and lowered the living standard of our population. Moreover, this has further fueled inflation. External assistance, particularly from the Fund and the Bank, was mainly in providing advice on how to devise and pursue macroeconomic

policies. Financial support has until now been lacking. In view of the substantive nature of economic reform undertaken by the Yugoslav Government, there is no justification for the Fund and the Bank to hesitate in providing faster and ample support. It would prevent the further negative net transfer of resources and back the implementation of economic reforms, as well as alleviate the burden borne by my country.

CONCLUDING REMARKS BY MR. CONABLE

In your eloquent opening address, Mr. Chairman you reminded us that we had come together "to preserve and enhance our commitment to global prosperity through international cooperation." Yesterday, the President of the United States expressed the same conviction, saying: "When we cooperate, we all come out winners."

The need for cooperation has been a key theme in Governors' speeches, and your mutlilateral institutions appreciate the strong support you have expressed here for our cooperative efforts.

On Monday of this week, the Development Committee, in the words of its able Chairman, Minister Chidzero, "came to grips with key issues," including the structural adjustment experience, the development prospects of the severely indebted countries, and the essential link between the environment and development. Over the past two days, Governors have shown in their remarks that there is a strong consensus on the crucial need to tackle these and other issues with energy and imagination.

There was widespread support for a prompt agreement on a Ninth Replenishment of IDA that will be at least as large, in real terms as IDA-8. This is essential if we are to continue our support of efforts to reduce poverty, protect the environment, and support effective programs of adjustment in the low-income countries.

At both the Development Committee and the Annual Meetings, there was growing consensus on the need for development to go hand in hand with protection of the environment. I also noted recognition that the Bank has made headway in integrating environmental concerns into its work. I was pleased by the willingness of several of our shareholders to provide additional financial support to Third World countries wrestling with environmental issues. Minister Beregovoy's suggestion that the Bank study a special program for the environment and his offer to have France provide F900 million over a three-year period for such a program is a specific case in point. We shall examine carefully each of these proposals.

In my opening remarks, I mentioned that one of the challenges facing the development community in the 1990s was to assist the centrally planned Eastern European member countries of the Bank in their reform efforts. The Bank is already embarked on this process in Hungary. And it stands ready to play an active role in Poland.

In the year since the Berlin (West) Annual Meetings, important progress has been made in tackling the debt problems of developing countries. In the wake of announcement of the Brady initiative, the Bank has moved quickly to adopt guidelines for its debt and debt service reduction activities. The Bank has approved its first loans with set asides for debt reduction. More will follow. Internal policy reform remains crucial. But so does our support.

We will continue to provide our highly indebted member countries with support to get back on a sustainable growth path, and I expect we will be joined by the commercial banks and others.

Primary responsibility for the formulation and implementation of development policy in our borrowing member countries rests with the developing countries themselves. To help strengthen the capacity of governments in these countries, Minister Hashimoto has announced that Japan is prepared to contribute $300 million over a three-year period to establish in the Bank a Special Fund for Policy and Human Resources Development. We welcome this generous proposal.

Mr. Chairman, the thought I would like to leave with you today is one I stressed in my opening remarks—in the final analysis, our business is working to enhance the quality of life of hundreds of millions of poor people throughout the developing world. This is what these meetings have been all about; it is what drives the Bank's work today. And it will be our overarching priority in the 1990s.

My congratulations to the Governor of Kenya, who will be next year's Chairman. And my thanks to you, Mr. Chairman, for the admirable way in which you have conducted these Meetings.

My best wishes to you all. Have a safe journey home and to your families.

We look forward to seeing you here again next year.

CONCLUDING REMARKS BY THE CHAIRMAN, THE HON. KYU SUNG LEE

It is now my duty as Chairman of the Boards of Governors of the Bank Group and the Fund to bring to a close the 1989 Annual Meetings.

I think we can all agree that these Meetings have provided the opportunity for fruitful discussions on some of the main issues facing our economies. In my opening remarks to this gathering two days ago, I outlined a number of issues on which I felt Governors might wish to focus during this week. On the positive side, I mentioned the impressive performance of the world economy in recent years, progress through policy coordination in reducing external imbalances, the support given to our strengthened debt strategy, and the move toward economic reform in certain Eastern European member countries.

On areas of concern, I took note of the continuing obstacles to free trade and the need for improved structural adjustment. It is accepted that agreement on the existence of problems is the first step toward their resolution. The attention that my fellow Governors have given in their interventions to the challenges ahead has strengthened my confidence that we can move to solve them together. While Governors spoke on many and diverse topics, I found the following six of particular interest—the global economic situation and prospects, debt, the resource needs of the developing countries, structural adjustment, recent reforms in certain countries, and the environment.

Global Economic Situation and Prospects

Governors noted the strong but unevenly distributed expansion of the world economy in 1989 and the prospects for continued growth at a more sustainable rate. Policies in industrial countries need to remain geared to preventing a resurgence of inflation and, where appropriate, to a further reduction of fiscal and external imbalances. There is an urgent need for resumption of sustainable growth in indebted developing countries which requires both strong domestic policies and an open international trading system. Everywhere, structural reforms are required to raise savings and investment and improve resource allocation. Surveillance through the Fund is crucial in this process.

Debt

Many Governors welcomed the progress already made in a number of cases in implementing the strengthened debt strategy consistent with the operational guidelines on debt and debt service reduction that have been approved by both the Bank and the Fund. At the same time, the institutions were urged not to overlook the needs of the lower middle-income countries whose debts are mainly to official creditors and of those countries which,

despite high debt burdens, have been able to preserve their access to financial markets.

Resource Needs

Both Mr. Conable and Mr. Camdessus referred to the need for additional resources to enable their institutions to fulfill the roles foreseen for them in the 1990s. I join with those Governors who called for a substantial Ninth Replenishment for IDA to help the poorest countries whose need for assistance is most pressing. Likewise, many Governors pointed to a need for a substantial increase in Fund quotas to ensure that it remains able to meet the needs of the membership in a period of rapid economic change and to instill confidence in members. The Ninth General Review should be completed by the end of the year, and the distribution of quotas should reflect members' relative positions in the world economy.

Governors welcomed the additional resources that are being provided to the private sector in developing countries by IFC and stressed the important role that MIGA is to play in providing policy advice and guarantees for private investment.

In view of the importance of new financing for many countries, including those that are attempting to reduce their debt burdens in the context of the strengthened debt strategy, the decrease in flows from commercial banks is indeed regrettable. I am sure that Governors can agree with Mr. Camdessus when he invites the banking community to join with us in making sure that the opportunity to achieve lasting progress for the developing countries not be lost. In that context, we have urged the banks to be fully contributing partners to the strategy by providing timely financial support to countries undertaking essential economic reforms.

Structural Adjustment

Governors commended both the Bank and the Fund for their increased support to structural adjustment. While those efforts should continue, they noted that measures should also be taken to mitigate the transitory adverse effects of economic reforms on the poorest segments of society. In addition, I would like to repeat the Development Committee's statement that, although growth-oriented structural adjustment can yield positive results even under unfavorable external conditions, the pace, scale, and sustainability of benefits would be adversely affected by an insupportive external economic environment. The industrial countries are therefore urged to adopt trade, agricultural, and industrial policies that will provide the needed support for developing countries' economic reforms.

Recent Reforms in Some Eastern European Countries

I would like to note that a recurring theme was the changing status of several of the countries of Eastern Europe. I am gratified by the hope

expressed by the Interim Committee and a number of individual Governors that these countries' economic reforms could soon be integrated into strong and sustainable programs that could be supported by our institutions.

The Environment

A large number of Governors welcomed the strong emphasis placed on the environment. Mr. Conable outlined the Bank's expanded environment effort and the new initiatives that are being pursued. It was also noted that the Bank has expanded its collaborative work on the design and financing of environmental programs. We are encouraged by President Bush's support for these efforts.

As Governors, we all have our parts to play. We must return to our countries and encourage our governments to provide the support and resources essential to meeting the goals we have set.

Fellow Governors, it has been a great honor for Korea and for me personally to have served as your Chairman for the 1989 Annual Meetings. As they draw to a close, I know that you share my appreciation and gratitude for all those who have worked to make them a success.

Before closing, I want to congratulate the Governor for Kenya who will serve as Chairman of the Boards of Governors for the coming year. I wish him good luck and much success in carrying out the tasks before him in the coming year.

I thank you for your cooperation, and I wish you all a safe journey home.

REMARKS BY GEORGE SAITOTI

Governor of the Bank and Fund for Kenya

Kenya is honored to have been elected to chair the Boards of Governors of the Bank and the Fund, especially as we enter a new decade of challenge and opportunity. I consider this not only an honor to myself and my country, but also to the entire continent of Africa.

In carrying out the responsibilities of this office, we will strive to match the standards of excellence and with the cordiality that have characterized these meetings under the chairmanship of Kyu Sung Lee, Minister of Finance and Governor for Korea.

The Bank and the Fund continue to play a crucial role in promoting world stability and growth. We all appreciate the fact that they have taken a leading part in assisting the world to maintain noninflationary growth throughout the 1980s. At the same time, however, we are seriously worried by the fact that some regions have not benefited from this prosperity. In the case of Sub-Saharan Africa, for example, it has been a virtually lost decade. A major challenge that lies ahead, therefore, is to strengthen the integration of these regions in the mainstream of the global economy. To move forward from here we seek enhanced resources from the Bank and the Fund to meet the global challenges of an interdependent world in the 1990s. To this end, I am confident of your full support and cooperation.

I would like to commend the dedicated work and leadership of the President of the Bank, Mr. Conable, and the Managing Director of the Fund, Mr. Camdessus. From our part of the world, we appreciate their tireless efforts to alleviate poverty, preserve the world's environment, and assist in our tremendous task of designing and implementing growth-oriented programs. I look forward to working closely with them and their staffs as well as with the Executive Directors over the coming year and to meeting with Governors of the Bank and the Fund at the 1990 Annual Meeting in Washington, D.C. Once again I thank you all for the privilege you have bestowed upon my country.

DOCUMENTS OF THE BOARDS OF GOVERNORS

SCHEDULE OF MEETINGS[1]

Tuesday September 26	10:00 a.m.	—Opening Ceremonies Address from the Chair Annual Address by President, World Bank Group[2] Annual Address by Managing Director, IMF
	3:00 p.m.	—Annual Discussion
Wednesday September 27	9:30 a.m.	—Annual Discussion
	3:00 p.m.	—Annual Discussion —Election of MIGA Directors
	6:15 p.m.	—Joint Procedures Committee
	6:30 p.m.	—MIGA Procedures Committee
Thursday September 28	9:30 a.m.	—Annual Discussion
	Following the conclusion of the Annual Discussion (approximately 11:30 a.m.)	Procedures Committees Reports Comments by Heads of Organizations Adjournment

[1]*All sessions were joint sessions with the Board of Governors of the International Monetary Fund.*
[2]*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)

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS[1]

ADMISSION

1. Sessions of the Boards of Governors of the World Bank Group Organizations and the Fund 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.

PROCEDURE 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 President of the World Bank Group, the Managing Director of the Fund, and the Secretaries.

6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairman and the Reporting Member.

PUBLIC INFORMATION

7. The Chairman of the Boards of Governors, the President of the World Bank Group and the Managing Director of the Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

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[1]*Approved on May 24, 1989 pursuant to the By-Laws, IBRD Section 5(d), IFC Section 4(d) and IDA Section 1(a).*

BANK AGENDA[1]

1. 1988/89 Annual Report
2. Financial Statements and Annual Audit
3. Allocation of Net Income
4. Administrative Budget
5. Joint Development Committee

IFC AGENDA[1]

1. 1988/89 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

IDA AGENDA[1]

1. 1988/89 Annual Report
2. Financial Statements and Annual Audit
3. Administrative Budget

MIGA AGENDA[2]

1. 1988/89 Annual Report
2. 1989 Election of Board of Directors
3. Selection of Officers and Procedures Committee for 1989/90

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[1]*Approved on July 24, 1989 pursuant to the By-Laws, IBRD Section 5(a), IFC Section 4(a) and IDA Section 1(a).*
[2]*Approved on August 4, 1989 pursuant to Section 4(a) of the MIGA By-Laws.*

JOINT PROCEDURES COMMITTEE

Chairman ..... Korea
Vice Chairman ..... Germany
Madagascar
Reporting Member ..... Ecuador

Other Members

Belize
Bhutan
Egypt
Finland
France
Japan
Maldives
Mali
Mexico
Nigeria
St. Vincent
Saudi Arabia
Spain
Tanzania
United Arab Emirates
United Kingdom
United States
Yugoslavia

REPORT I

September 28, 1989

At the meeting of the Joint Procedures Committee held on September 27, 1989, the 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. *1989 Annual Report*

The Committee noted that the 1989 Annual Report and the activities of the Bank and IDA had been discussed at these Annual Meetings.

2. *Financial Statements, Annual Audits, and Administrative Budgets*

The Committee considered the Financial Statements, Accountants' Reports, and Administrative Budgets contained in the 1989 Bank and IDA Annual Report, together with the Report dated August 15, 1989.

The Committee recommends that the Boards of Governors of the Bank and IDA adopt the draft resolutions. . . .[1]

3. *Allocation of Net Income of the Bank*

The Committee considered the Report of the Executive Directors dated June 29, 1989 on the Allocation of FY89 Net Income. . . .[2]

The Committee recommends that the Board of Governors of the Bank adopt the draft resolution. . . .[3]

The Committee submits the following report and recommendations on IFC business.

1. *1989 Annual Report*

The Committee noted that the 1989 Annual Report and the activities of IFC had been discussed at these Annual Meetings.

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[1]*See pages 229 and 237.*
[2]*See page 242.*
[3]*See page 229.*

2. *Financial Statements, Annual Audit, and Administrative Budget*

The Committee considered the Financial Statements and the Accountants' Report contained in the 1989 Annual Report, and the Administrative Budget attached to the Report dated August 23, 1989.

The Committee recommends that the Board of Governors of IFC adopt the draft resolution. . . .[4]

Approved:

/s/ K. S. Lee	/s/ J. Gallardo Zavala
Korea—*Chairman*	Ecuador—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on September 28, 1989.

[4]*See page 233.*

REPORT III[1]

September 28, 1989

The Joint Procedures Committee met on September 27, 1989 and submits the following report:

1. *Development Committee*

The Committee noted that the Annual Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) has been presented to the Boards of Governors of the Bank and the Fund pursuant to paragraph 5 of Resolutions Nos. 294 and 29-9 of the Bank and the Fund, respectively.

The Committee recommends that the Boards of Governors of the Bank and the Fund note the report and thank the Development Committee for its work.

2. *Officers and Joint Procedures Committee for 1989/90*

The Committee recommends that the Governor for Kenya be Chairman, and the Governors for Denmark and Indonesia be Vice Chairmen, of the Boards of Governors of the Bank and its Affiliates and of the Fund, 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: Chile, Costa Rica, Denmark, Djibouti, France, Gabon, Germany, India, Indonesia, Japan, Kenya, Morocco, Nepal, Nigeria, Paraguay, Portugal, Saudi Arabia, St. Kitts and Nevis, Turkey, United Kingdom, United States, and the People's Democratic Republic of Yemen.

[1]*Report II related to the Business of the Fund.*

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Kenya, and the Vice Chairmen shall be the Governors for Denmark and Indonesia, and that the Governor for Morocco shall serve as Reporting Member.

Approved:

/s/ K. S. Lee	/s/ J. Gallardo Zavala
Korea—*Chairman*	Ecuador—*Reporting Member*

This report was approved and its recommendations were adopted by the Boards of Governors on September 28, 1989.

REPORT OF THE MIGA PROCEDURES COMMITTEE

Chairman .....Korea
Vice Chairmen .....Germany
Madagascar
Reporting Member .....Ecuador

Members

Canada	Japan
China	Netherlands
Egypt	Saudi Arabia
Hungary	United Kingdom
Italy	United States

September 28, 1989

At the meeting of the MIGA Procedures Committee held on September 27, 1989, 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. *1989 Annual Report*

The Committee noted that the 1989 Annual Report and the activities of MIGA had been discussed at this Annual Meeting.

2. *1989 Election of Directors*

The Committee noted that the 1989 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 1990.

3. *Officers and Procedures Committee for 1989/90*

The Committee recommends that the Governor for Kenya be Chairman and the Governors of Denmark and Indonesia 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 that this Committee shall consist of the Governors of the following members: Canada, Chile, China, Denmark, Germany, Indonesia, Japan, Kenya, Portugal, Saudi Arabia, Switzerland, Togo, Tunisia, Turkey, United Kingdom and United States.

It is recommended that the Chairman of the Procedures Committee shall be the Governor for Kenya and the Vice Chairmen shall be the Governors for Denmark and Indonesia, and that the Governor for Tunisia shall serve as Reporting Member.

Approved:

/s/ K. S. Lee	/s/ J. Gallardo Zavala
Korea—*Chairman*	Ecuador—*Reporting Member*

This report was approved and its recommendations were adopted by the Council of Governors on September 28, 1989.

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK BETWEEN THE 1988 AND 1989 ANNUAL MEETINGS

Resolution No. 433

Membership of the People's Republic of Angola

WHEREAS the Government of the People's Republic of Angola (hereinafter called Angola) 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, by Resolution No. 426, adopted on April 27, 1988, the Board of Governors has increased the authorized capital of the Bank by 14,000 additional shares to provide for the admission of new members; and

WHEREAS, pursuant to Section 19 of the By-Laws of the Bank, the Executive Directors, after consultation with representatives of the Government of Angola, 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 Angola 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.
   (e) "1988 General Capital Increase Resolution" means Board of Governors' Resolution No. 425 entitled "1988 General Capital Increase" adopted on April 27, 1988.
   (f) "1988 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 426 entitled "1988 Additional Increase in Authorized Capital" adopted on April 27, 1988.

(g) "1979 Additional Capital Increase Resolution" means Board of Governors' Resolution No. 347 entitled "1979 Additional Increase in Authorized Capital Stock and Subscriptions Thereto" adopted on January 4, 1980, as amended by Resolution No. 419, adopted on August 17, 1987.

2. *Membership in the Fund:* Before accepting membership in the Bank, Angola shall accept membership in and become a member of the International Monetary Fund.

3. *Subscription:* By accepting membership in the Bank, Angola shall subscribe to 1,252 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, Angola 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 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 Angola's subscription to the shares set out in paragraph 3 of this resolution, the following action shall have been taken:

(a) Angola 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, Angola shall pay to the Bank the amounts set forth in paragraph 4(a) above.

6. *Representation and Information:* Before accepting membership in the Bank, Angola 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 paragraphs 7(d) and (e) of this resolution and Angola

shall furnish to the Bank such information in respect of such action as the Bank may request.

7. *Effective Date of Membership:* Angola shall become a member of the Bank with a subscription as set forth in paragraph 3 of this resolution as of the date when Angola shall have complied with the following requirements:

(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:* Angola may fulfill the requirements for membership in the Bank pursuant to this resolution until December 29, 1989, or such later date as the Executive Directors may determine.

9. *Additional Subscription on Terms and Conditions of the 1979 Additional Capital Increase Resolution:* Angola may subscribe 250 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 2 and 3 of the 1979 Additional Capital Increase Resolution, provided however, that notwithstanding the provision of paragraph 2(b) of the said Resolution, Angola may subscribe such shares up to the date on which Angola may subscribe additional shares under paragraph 10 below.

10. *Additional Subscription on Terms and Conditions of the 1988 General Capital Increase Resolution:* Angola may subscribe up to 1174 shares of the capital stock of the Bank on the terms and conditions specified in paragraphs 3(a) through 3(e) and 5 of the said Resolution, provided, however, that Angola may subscribe 195 of the said shares only after Angola shall have subscribed the shares referred to in paragraph 9 above.

11. *Shares From Additional Shares Authorized Under Resolution No. 426:* The number of shares to be subscribed by Angola pursuant to paragraphs 3, 9 and 10 of this resolution shall be subtracted from the number of shares authorized under the 1988 Additional Capital Increase Resolution and available to provide for the admission of further new members, and, to the extent any such shares are not subscribed by Angola by the dates set forth or

referred to in this resolution, they shall be added back to the said number of shares.

(Adopted August 11, 1989)

Resolution No. 434

Direct Remuneration of Executive Directors and their Alternates

RESOLVED:

THAT, effective July 1, 1989, the annual rates of remuneration of Executive Directors of the Bank and their Alternates pursuant to Section 13(e) of the By-Laws shall be as follows:

(i) As salary, $94,160 per year for Executive Directors and $78,720 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 August 21, 1989)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF THE BANK AT THE 1989 ANNUAL MEETING

Resolution No. 435

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 1988/89 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 September 28, 1989)

Resolution No. 436

Allocation of FY89 Net Income

RESOLVED:

1. THAT the Report of the Executive Directors dated June 29, 1989 on "Allocation of FY89 Net Income" is hereby noted with approval;

2. THAT the Bank transfer by way of grant the equivalent of $100 million to the Debt Reduction Facility for IDA Only Countries, administered by the International Development Association, out of the net income of the Bank for the fiscal year ended June 30, 1989, such transfer to be made at a time and in a manner decided by the Executive Directors; provided, however, that the amount of such grant may at any time be changed by agreement between the Bank and the Association into an equivalent amount in other currencies; and

3. THAT the addition of the balance of such net income to the General Reserve is hereby noted with approval.

(Adopted September 28, 1989)

RESOLUTIONS ADOPTED BY THE BOARD OF GOVERNORS OF IFC BETWEEN THE 1988 and 1989 ANNUAL MEETINGS

Resolution No. 161

Amendment of Resolutions Nos. 149 and 153 Concerning the Increase of Members Subscriptions to the Capital of the International Finance Corporation

WHEREAS, by Resolution No. 149 adopted by the Board of Governors on December 26, 1985, the authorized capital of the International Finance Corporation (the Corporation) was increased by $650,000,000 in terms of United States dollars, divided into 650,000 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 Resolution No. 149 so as to extend the subscription date and certain payment dates 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;

WHEREAS, by Resolution No. 153 adopted by the Board of Governors on March 10, 1987, additional shares of the Corporation were allocated for subscription by Hungary, Malawi and Tonga on the terms and conditions set forth therein; and

WHEREAS, the Board of Directors of the Corporation has concluded that it is desirable to amend certain provisions of Resolution No. 153 so as to bring the last two payment dates in alignment with Resolution No. 149 as herein amended;

NOW, THEREFORE, THE BOARD OF GOVERNORS RESOLVES THAT:

1. Sub-paragraphs (iv) and (v) of Section D.2.(b) of Resolution No. 149 are hereby amended to read as follows:

"(iv) payment in respect of 20% of the total number of shares subscribed, in cash in full on August 1, 1990, or, at the election of the subscribing member, within a period of six months after such date;

(v) payment in respect of 20% of the total number of shares subscribed, in cash in full on August 1, 1991, or, at the election of the subscribing member, within a period of six months after such date;"

2. The payment date of August 1, 1991, appearing in paragraph (c) of section D.2. of Resolution No. 149 in respect of subscriptions by member

countries in circumstances of economic hardship, is hereby postponed to August 1, 1993.

3. The subscription date of February 1, 1986, appearing in paragraph D.3. of Resolution No. 149, is hereby changed to August 1, 1991.

4. Paragraph F.2.(b) of Resolution No. 153 is hereby amended to read as follows:

"(b) for the remainder, twenty percent (20%) of the total number of shares subscribed, in cash in full on August 1 of each calendar year 1987, 1988, 1990 and 1991, or, at the election of the subscribing member, within a period of six months after any such date."

5. All provisions of Resolutions Nos. 149 and 153 not specifically amended hereby remain unchanged.

6. The provisions of this Resolution shall become effective when approved by the Governors on or before June 20, 1989, or such later date as the Board of Directors may determine.

(Adopted June 20, 1989)

Resolution No. 162

Membership of the People's Republic of Angola

WHEREAS the Government of the People's Republic of Angola (hereinafter called Angola) 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 Executive Directors, after consultation with representatives of the Government of Angola, 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 Angola 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, Angola shall subscribe to 837 shares of the capital stock of the Corporation at the par value of $1000 per share.

3. *Payment of Subscription:* Upon accepting membership in the Corporation, Angola shall pay $837,000 to the Corporation in full payment of the capital stock subscribed.

4. *Information:* Before accepting membership in the Corporation, Angola shall furnish to the Corporation such information relating to its application for membership as the Corporation may request.

5. *Effective Date of Membership:* Angola shall become a member of the Corporation with a subscription as set forth in paragraph 2 of this resolution as of the date when Angola 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 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

(e) signed the original Articles held in the archives of the International Bank for Reconstruction and Development.

6. *Limitation on Period for Fulfillment of Requirements of Membership:* Angola may fulfill the requirements for membership in the Corporation pursuant to this resolution until December 29, 1989, or such later date as the Board of Directors may determine.

(Adopted August 11, 1989)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IFC AT THE 1989 ANNUAL MEETING

Resolution No. 163

Financial Statements, Accountants' Report and Administrative Budget

RESOLVED:

THAT the Board of Governors of the Corporation consider the Financial Statements and the Accountants' Report, included in the 1988/89 Annual Report, and the Administrative Budget attached to the Report dated August 23, 1989, 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 September 28, 1989)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA BETWEEN THE 1988 AND 1989 ANNUAL MEETINGS

Resolution No. 148

Membership of the People's Republic of Angola

WHEREAS the Government of the People's Republic of Angola (hereinafter called Angola) 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; and

WHEREAS, pursuant to Section 9 of the By-Laws of the Association, the Executive Directors, after consultation with representatives of the Government of Angola, 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 Angola shall be admitted to membership in the Association shall be as follows:

1. *Definitions:* 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 Angola 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 subscriptions, usability of currencies and voting rights).
   (b) Upon accepting membership in the Association, Angola shall subscribe funds in the amount of $6,310,000 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 subscrip-

tions, $7,612,069, 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 Angola. As of the date Angola will become a member of the Association, 1,762 votes shall be allocated to Angola in respect to such subscriptions, consisting of 1,262 subscription votes and 500 membership votes.

3. *Effective Date of Membership:* Angola 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 Angola 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:* Angola may fulfill the requirements for membership in the Association pursuant to this resolution until December 29, 1989, or such later date as the Executive Directors of the Association may determine.

5. *Additional Subscriptions:* Upon or after acceptance of membership, Angola shall also be authorized at its option to make the following additional subscriptions:

(a) An additional subscription in the amount of $817,897 which shall carry 34,549 votes, calculated on the basis of 23,949 subscription votes and 10,600 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 Angola within 30 days after Angola notifies the Association of its intention to make such additional subscription.

(ii) The rights and obligations of the Association and Angola 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 Article 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 Article IV, Section 2 of the Articles shall not be applicable to such subscription.

(b) A further additional subscription in the amount of $158,775 which shall carry 9,351 votes, calculated on the basis of 6,351 subscription votes and 3,000 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 Angola within 30 days after Angola notifies the Association of its intention to make such additional subscription.

(ii) The rights and obligations of the Association and Angola with regard to such further additional subscription shall be the same (except as stated in this resolution) as those which are applicable to the subscriptions authorized for Part II members under Section D of the Eighth Replenishment Resolution (No. 142) adopted by the Board of Governors on June 26, 1987.

(Adopted August 11, 1989)

RESOLUTION ADOPTED BY THE BOARD OF GOVERNORS OF IDA AT THE 1989 ANNUAL MEETING

Resolution No. 149

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 1988/89 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 September 28, 1989)

RESOLUTIONS ADOPTED BY THE COUNCIL OF GOVERNORS OF MIGA BETWEEN THE 1988 AND 1989 ANNUAL MEETINGS

Resolution No. 11

Membership of the Polish People's Republic

WHEREAS the Government of the Polish People's Republic ("Poland"), being eligible to become a party to the Convention Establishing the Multilateral Investment Guarantee Agency ("the Convention"), 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. By accepting membership in the Agency, Poland shall:
   (i) deposit its instrument of ratification, acceptance or approval of the Convention and take any other action which may be required under its laws to enable it to carry out all of its obligations under the Convention and this Resolution;
   (ii) subscribe at par to 764 shares of the capital stock of the Agency; and
   (iii) pay in full to the Agency the paid-in portions of the subscription price of such shares (10% in cash and 10% in promissory notes or similar obligations).

2. With effect from the date of the fulfillment of the conditions set forth in paragraph (1) above, Poland shall be admitted to membership and shall be classified as a Category Two and developing member country for the purposes of the Convention.

(Adopted March 27, 1989)

Resolution No. 12

Admission of New Members

WHEREAS on June 8, 1988 the Council of Governors adopted its Resolution No. 2 regarding acceptance of membership of non-original members;

WHEREAS the Board of Directors has made recommendations to the Council of Governors in order to ensure the prompt payment of the paid-in portions of the initial subscriptions to the capital stock of the Agency;

NOW, THEREFORE, the Council of Governors hereby

RESOLVES:

That, from the date of the present Resolution:

1. The admission to membership of a State to which paragraph (b) of the said Resolution No. 2 applies shall become effective when such State shall have:
   (i) deposited its instrument of ratification, acceptance or approval of the Convention within the period referred to in paragraph (b) of the said Resolution No. 2 and taken any other action which may be required under its laws to enable it to carry out all of its obligations under the Convention and the present Resolution;
   (ii) subscribed at par to the number of shares of the Agency's capital stock set forth opposite the State's name in Schedule A to the Convention; and
   (iii) paid in full to the Agency the paid-in portions of the subscription price of such shares (10% in cash and 10% in promissory notes or similar obligations).

2. That the admission to membership of a State to which paragraph (c) of the said Resolution No. 2 applies shall become effective upon the fulfillment by the State concerned of such terms and conditions as shall be specified by the Council for the admission of such State in each case.

(Adopted March 27, 1989)

Resolution No. 13

Election of Directors

RESOLVED:

(a) That the Second Regular Election of Directors shall take place in accordance with the proposed Rules.
(b) That the Third Regular Election of Directors shall take place during the Annual Meeting of the Council of Governors in 1990.

(Adopted August 14, 1989)

Resolution No. 14

Membership of the People's Republic of Angola

WHEREAS the Government of the People's Republic of Angola ("Angola") 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"), Angola shall accept membership in and become a member of the International Bank for Reconstruction and Development.

2. By depositing its instrument of ratification, acceptance or approval of the Convention, Angola shall:
(i) subscribe at par to 187 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, Angola shall be admitted to membership and shall be classified as a Category Two and developing member country for the purposes of the Convention.

(Adopted September 18, 1989)

REPORT OF THE EXECUTIVE DIRECTORS OF THE BANK

June 29, 1989

Allocation of FY89 Net Income

1. The Bank's net income for the fiscal year ended June 30, 1989 amounts to $1094 million. The General Reserve has been reduced by a net translation adjustment due to exchange rate changes of $661 million. As of June 30, 1989, the Special Reserve created under Article IV, Section 6 of the Bank's Articles of Agreement totaled $293 million and, without regard to the 1989 fiscal year's income, the General Reserve amounted to $7576 million. Total reserves including accumulated net income therefore amounted to $8963 million, of which the $293 million in the Special Reserve is kept in liquid form, the remainder being used in the business of the Bank.

2. The Executive Directors have considered what action to take, or to recommend that the Board of Governors take, with respect to the net income for the fiscal year ended June 30, 1989.

3. The Executive Directors have concluded that the portion of such net income which is not necessary to retain in the Bank's business amounts to the equivalent of $100 million. They have further concluded that the interests of the Bank and its members would best be served by the transfer of that amount to the Debt Reduction Facility for IDA Only Countries, administered by the International Development Association, by way of grant. As far as drawings on the transfer are concerned, the attached draft Resolution[1] provides that the transfer would be made at a time and in a manner decided by the Executive Directors; provided, however, that the amount of such grant may at any time be changed by agreement between the Bank and the Association into an equivalent amount in other currencies.

4. The Executive Directors have added the balance of such net income to the General Reserve.

5. 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 September 28, 1989.

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[1]*See page 229.*

REPORT OF THE BOARD OF DIRECTORS OF IFC

May 4, 1989

Amendment of Resolutions Nos. 149 and 153 Concerning the Increase of Members Subscriptions to the Capital of the International Finance Corporation

1. The Board of Directors of International Finance Corporation (the Corporation) has considered the Memorandum to the Board of Directors from the President, dated April 11, 1989 on the subject of the amendment of certain provisions of Resolutions Nos. 149 and 153 adopted by the Board of Governors on December 26, 1985 and March 10, 1987, respectively.

2. The Board of Directors, having duly considered the matter and having taken into account the aforesaid President's Memorandum, has found the proposals set out in paragraph 10 thereof to be desirable. Accordingly, the Board of Directors submits to the Board of Governors, for a vote without meeting, the proposal which is set out in the draft Resolution. . . .[1]

3. The Board of Directors recommends that the Board of Governors of the Corporation adopt a Resolution in the form of the draft. . . .[1]

[1]*See page 230.*

REPORTS OF THE BOARD OF DIRECTORS OF MIGA

February 10, 1989

Membership of the Polish People's Republic
Admission of New Members

1. In accordance with Section 17 of the By-Laws of the Multilateral Investment Guarantee Agency, the application of the Polish People's Republic for membership in MIGA is herewith submitted to the Council of Governors.

2. Representatives of Poland have been consulted informally regarding the terms and conditions recommended in the attached draft resolution on Poland's admission to membership.

3. Also attached is a draft resolution addressing the question of avoiding arrears in the payment by new members of their initial subscriptions to the capital stock of the Agency.

4. The two draft resolutions[1] are recommended for adoption by the Council of Governors.

[1]*See pages 238 and 239.*

June 9, 1989

Second Regular Election of Directors (MIGA)

1. At its Inaugural Meeting on June 8, 1988, the Council of Governors adopted Resolution No. 4 ("Adoption of Rules for First Regular Election of Directors"), which (a) set out the Rules for the First Regular Election of Directors and (b) provided that the second regular election of Directors will take place at the Annual Meeting of the Council in 1989.

2. Attached hereto is a draft resolution on Election of Directors with attached Rules for the Second Regular Election of Directors. These Rules are patterned after the Rules for the First Regular Election of Directors. This report recommends an adjustment of the number of Directors to be elected to reflect the increase in MIGA'S membership since the First Election.

3. Since the first election, eight Category Two countries (Burkina Faso, Cameroon, Guyana, Kenya, Oman, St. Lucia, Vanuatu and Zaïre) and one Category One country (Finland) have become members of the Agency. In addition, the governments of Norway and Poland have submitted to their respective legislative bodies legislation authorizing ratification of the Convention with a view to becoming members before the 1989 Annual Meeting of the Council of Governors, and other countries, including France, may do so soon.

4. Article 32(b) of the Convention provides that the Board shall consist of not less than twelve Directors. Paragraph 4 of Schedule B of the Convention provides in addition that:

> One-fourth of the number of Directors shall be elected separately, one by each of the Governors of members having the largest number of shares. If the total number of Directors is not divisible by four, the number of Directors so elected shall be one-fourth of the next lower number that is divisible by four.

5. The Rules for the First Regular Election of Directors set the number of Directors at fourteen. The Directors elected at the First Regular Election come in equal number from Category One and Category Two countries. Under the above-mentioned provisions, the three largest shareholders (United States, Japan and Germany) elected Directors separately. However, an additional three countries (United Kingdom, China, and Saudi Arabia) which participated in the First Election, each elected a Director representing them exclusively.

6. Article 32(b) of the Convention authorizes the Council to adjust the number of Directors "to take into account changes in membership." Accordingly, the initial size of MIGA's Board was fixed with a view to increasing the number of Directors if deemed appropriate in the light of increases in MIGA's membership. The accession since the First Election of eight Category Two countries, of which four are in Africa, together with the accession of Finland provide justification for the addition of two seats on the Board.

7. If sixteen Directors are to be elected, the United Kingdom, the fourth largest shareholder, would become entitled to elect separately a Director of its own under paragraph 4 of Schedule B. If France becomes a member, it will subscribe to the same number of shares as the United Kingdom and, therefore, will also be entitled to elect separately a Director of its own. For this reason, an additional seat may be made available for France if it joins by the time of the next election. In this event, to maintain parity on MIGA's Board between Directors from Category One and those from Category Two countries would require a further increase by an additional chair to accommodate a Category Two candidate.

8. The Board of Directors recommends that the number of Directors to be elected be increased to sixteen; provided, however, that in the event that France becomes a member of the Agency not later than the day before the close of nominations, the number of Directors to be elected be increased to seventeen. In arriving at this recommendation, the Board discussed the issue of parity of representation in the Board between Category One and Category Two Directors. It was the sense of the Board that, in the event that seventeen Directors are to be elected at the Second Regular Election, then parity should be reestablished on the first occasion of a subsequent annual election. This principle would be met by providing for an eighteenth seat to accommodate Category Two members at the Third Regular Election. The issue will be considered by the Board in FY90 with a view to applying this principle.

9. Paragraph 5 of the Rules for the First Election of Directors set the maximum and minimum percentage of voting power applicable to the first regular election at fifteen and three percent, respectively, of eligible votes. These numbers appear appropriate for the election of the number of Directors recommended in this report and it is recommended that they be made applicable to it.[1] This recommendation applies to either alternative as regards the recommended adjustment of the size of the Board.

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[1]*In the unlikely event that these percentages are inappropriate in view of new members joining the Agency, the Council of Governors could modify them before the start of the election.*

10. Pursuant to Section 10 of the By-Laws, the terms of Directors elected at the Second Election shall be determined by the Council. It appears desirable that the terms of MIGA's Directors should coincide with those of the World Bank's Executive Directors to facilitate elections of persons to both directorships. The next regular election of the Bank's Board will take place at the Bank's Annual Meeting in 1990. Directors, therefore, recommend the term of office of Directors to be elected at the second regular election be of one year and that the third regular election of Directors be held at the third Annual Meeting of the Council in 1990 when parity in representation of the two categories of members in the Board would be reestablished.

11. Attached is a Draft Resolution[2] embodying the above recommendations.

[2]*See page 240.*

RULES FOR THE SECOND REGULAR ELECTION OF DIRECTORS (MIGA)

1. *DEFINITIONS:*

In these Rules, unless the context shall otherwise require,

(a) "Convention" means the Convention establishing the Agency.
(b) "Council"means the Council of Governors of the Agency.
(c) "Chairman" means the Chairman of the Council 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 Agency.
(f) "Election" means the Second Regular Election of Directors.
(g) "Eligible votes" means the total number of votes that can be cast in the election of the Directors to be elected pursuant to the provisions of paragraphs 6 to 11 of Schedule B to the Convention.

2. *DATE OF ELECTION:*

The election shall be held during the Second Annual Meeting of the Council, on September 27, 1989.

3. *BASIC RULES—SCHEDULE B:*

The provisions of Schedule B to the Convention shall apply to the conduct of the election. For this purpose:

(a) Sixteen Directors shall be elected, provided that, in the event that France has become a member of the Agency on or before the day preceeding the close of nominations referred to in paragraph 4(d) below, seventeen Directors shall be elected.
(b) Four Directors shall be elected separately, one each by the Governors of the four members having the largest number of shares, provided, however, that in the event France has become a member by the time referred to in paragraph 3(a) above, an additional Director representing France shall be elected separately. The person nominated by each of the said Governors shall be deemed to be elected upon being so nominated.
(c) The Directors not elected separately pursuant to paragraph 3(b) above, shall be elected in accordance with the rules in paragraphs 4 to 11 below.

4. *NOMINATIONS:*

(a) Any person nominated by one or more Governors entitled to vote in the election shall be eligible for election.
(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 the day before the election. The Secretary shall post and distribute a list of persons nominated.

5. *SUPERVISION OF THE ELECTION:*

The Chairman shall appoint such tellers and other assistants and take such other action as he deems necessary for the conduct of the election.

6. *BALLOTS:*

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.

7. *BALLOTTING:*

Each ballot shall be taken as follows:
(a) Each Governor entitled to vote shall deposit a ballot, signed by the Governor, in the ballot box placed in the office of the Secretary.
(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 certified the tally of the ballots. If a further 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 certifying the tally of the results; and such ballot, if so corrected, shall be deemed to be valid.

8. For the purposes of paragraph 6 of Schedule B to the Convention, the following percentages of total votes are decided, namely a maximum of 15 percent of eligible votes and minimum of 3 percent of eligible votes.

9. *ANNOUNCEMENT OF THE RESULT:*

After the tellers shall have certified the tally of the last ballot, the Chairman shall cause to be distributed a statement setting forth the result of the election.

10. *EFFECTIVE DATE OF ELECTION:*

The effective date of the election shall be November 1, 1989, and the term of office of the elected Directors shall commence on that date. Incumbent Directors shall serve through the day preceding such date.

11. *GENERAL:*

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 Council. Whenever possible, any such questions shall be put without identifying the members or Governors concerned.

September 27, 1989

MULTILATERAL INVESTMENT GUARANTEE AGENCY

DIRECTORS ELECTED AT THE 1989 REGULAR ELECTION

I. Directors elected separately by the Governors of the four member countries having the largest number of shares:

Candidate Elected	*Member Nominating the Candidate*	*Number of Votes*
Gerhard Boehmer	Germany	5,248
Frank Cassell	United Kingdom	5,037
E. Patrick Coady	United States	20,696
Masaki Shiratori	Japan	5,272

II. Directors elected by the Governors of member countries other than those listed in Part I above:

Candidate Elected	*Member Voting for the Candidate*	*Number of Votes*
Ibrahim A. Al-Assaf	Saudi Arabia	5,388
Fawzi Hamad Al-Sultan	Bahrain	305
	Egypt	940
	Jordan	338
	Kuwait	1,722
	Oman	333
	Pakistan	1,273
	Tunisia	436
		5,347
Paul Arlman	Cyprus	350
	Netherlands	2,346
	Switzerland	1,677
		4,373
Mario Draghi	Italy	2,997
	Portugal	812
	Spain	1,462
		5,271

Candidate Elected	*Member Voting for the Candidate*	*Number of Votes*
Jonas Haralz	Denmark	895
	Finland	777
	Norway	876
	Sweden	1,226
		3,774
Chang-Yuel Lim	Bangladesh	742
	Indonesia	1,920
	Korea	923
	Sri Lanka	627
	Vanuatu	260
	Western Samoa	260
		4,732
Andre Milongo	Burkina Faso	278
	Cameroon	355
	Côte d'Ivoire	469
	Madagascar	343
	Senegal	418
	Togo	305
	Zaïre	738
		2,906
Aliyu Mohammed	Angola	488
	Kenya	463
	Lesotho	260
	Malawi	305
	Nigeria	1,579
	Zambia	705
		3,800
Claudio Pardo	Chile	983
	Ecuador	479
		1,462
Frank Potter	Barbados	290
	Canada	3,142
	Grenada	260
	Guyana	317
	Jamaica	478
	St. Lucia	260
		4,747

Candidate Elected	*Member Voting for the Candidate*	*Number of Votes*
Bahar Sahin	Hungary	1,114
	Turkey	944
		2,058
ZHANG Junyi	China	5,390

/s/F. Fischer (Germany)
Teller

/s/N. I. Andriamanerasoa (Madagascar)
Teller

REPORT OF THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE

September 25, 1989

Sirs:

As Chairman of the Joint Ministerial Committee of the Boards of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee), I have the honor to present herewith to the Boards of Governors a report by the Committee on the progress of its work during the period July 1988-June 1989. The report is presented in compliance with Section 5(i) of the Bank Board of Governors Resolution No. 294 and the Fund Board of Governors Resolution No. 29-9, adopted on October 2, 1974.

Your sincerely,

/s/

B.T.G. Chidzero

REPORT OF THE JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

(July 1988-June 1989)

I. *INTRODUCTION*

The Committee held three meetings during the period under review. Two meetings were convened in Berlin (West) on September 26 and September 29, 1988 and one in Washington, D.C. on April 4, 1989. The regular meetings on September 26, 1988 and April 4, 1989 were chaired by B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe. The meeting on September 29 was a short procedural one for the selection of a chairman. This meeting was chaired by Bengt Dennis, Chairman of the Board of Governors of the International Monetary Fund. Senior Minister Chidzero was re-elected for another term.

The meetings were conducted in the same format as in recent meetings, with a plenary session in the morning for general statements by members and an informal session in the afternoon for an in-depth discussion on selected aspects of the items on the agendas. A luncheon restricted to members was held at each regular meeting for a private exchange on a specific topic (the impact of the industrial policies of developed countries on the developing countries was discussed in September 1988 and the development dimensions of the debt problem in April 1989).

The Committee's discussions were assisted by a number of background and issues papers prepared by the staffs of the IMF and the World Bank, as well as by the Chairman's opening statements. Papers were also presented in advance by the following official observers to the Committee:

African Development Bank
GATT
Inter-American Development Bank
International Fund for Agricultural Development
Islamic Development Bank
OPEC Fund for International Development
UNCTAD

II. *INTERNATIONAL ECONOMIC SETTING*

The Committee's discussions on development issues during the year took place against an international environment which, although more favorable, continued to pose difficulties for the developing countries. While growth in the industrial countries strengthened markedly benefiting many developing

countries and world trade expanded at its fastest rate since 1984, the outlook of many developing countries remained a cause for concern. Fiscal and trade imbalances as well as structural problems of the industrial countries continued to require correction to ensure the sustainability of long-term growth essential to the prospects of the developing countries. Growth rates in developing countries had fallen from an average of 5.4 percent a year during 1973-80 to 3.9 percent for 1980-87 and were expected to remain weak over the medium term. Economic activity was uneven with high growth in most of Asia and continued stagnation in many of the highly indebted countries of Latin America. In Sub-Saharan Africa real per capita GDP continued to fall but there were encouraging signs of economic improvement in countries adopting economic reform programs. Protectionist and trade policies continued to adversely affect many developing countries and the successful outcome of trade negotiations in the Uruguay Round was considered to be of crucial importance. Between 1980 and 1988 non-fuel commodity prices relative to industrial countries' export prices of manufactured goods declined to about 20 percent although there has been an improvement in the prices of some commodities exported by developing countries in 1988. Development prospects of the severely indebted countries were unfavorably affected by the low level of investment, little improvement in debt service ratios and high real rates of interest. There has been a declining trend in net financial flows to developing countries although since 1987 flows appear to have stabilized. Resource transfers, especially for the highly indebted middle-income countries, dropped sharply since 1982 and became negative for several of them.

III. *INTERNATIONAL DEVELOPMENT ISSUES*

The agendas for the Development Committee were determined in the light of the current international development situation and issues outlined above. The Committee had extensive discussions during the year on the following pressing development issues confronting the developing countries:

(1) International debt problems.
(2) Development in Sub-Saharan Africa.
(3) Structural adjustment.
(4) The industrial policies of the developed countries.
(5) Poverty.
(6) Environment and development.
(7) Transfer of resources.

These issues are closely interrelated but the Committee focused attention on particular topics in its agendas. Communiques of Committee meetings during the year setting out the conclusions reached by members in their discussions on each of these issues are appended to this report. The follow-

ing provides a brief summary of the progress of the Committee's work in dealing with these development issues.

1. *International debt problems*

(a) *Low-income indebted countries*

The problem of low-income indebted countries has for sometime been a critical issue under discussion in the Committee. In April 1987, the Committee agreed that additional efforts were required to ease the burden of the debt-distressed low-income countries. Creditors and debtors were urged to consider measures to achieve this objective including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. In this context, the Committee welcomed in September 1988 the consensus reached at the Toronto Economic Summit in June 1988 and the arrangements worked out by the Paris Club on the framework of comparability between various options providing additional debt relief. The Committee also called on developed donor countries in a position to do so to convert loans into grants for the poorest countries undertaking appropriate growth-oriented adjustment programs or to adopt measures with a similar effect such as increasing grants and the concessionality of their ODA.

In the Spring of 1989, the Committee welcomed the implementation by the Paris Club of the agreement to provide concessional debt rescheduling including debt and interest rate reduction to low-income debt-distressed countries undertaking adjustment programs. The Committee also agreed, at its spring 1989 meeting to work toward continuation of the collaborative framework for donor action developed under the Special Program of Assistance (SPA), coordinated by the Bank which should include examination of possible additional measures to address economic and debt problems of these countries.

(b) *Development prospects for the middle-income heavily indebted countries and the debt strategy*

As mandated at its previous meeting, the Committee in April 1989 continued to review the debt strategy so as to enhance the prospects for growth and development. The Committee expressed its concern at the low level of investment, high debt service ratio and low growth rates in the middle-income heavily indebted countries. Debtors and creditors were encouraged by the Committee at its September 1988 meeting to broaden the menu of market-based and voluntary-negotiated options, blending new money, where appropriate, with techniques which have the effect of reducing the stock of debt without transferring risks from private to official creditors. The role of the Bank and the Fund in facilitating developments in the menu approach, thereby catalyzing financial support for a growth-oriented debt strategy, was reaffirmed.

Given the continued stagnation in growth in many debtor countries, the Committee stressed the importance of increasing the level of investment in

these countries so as to improve their development prospects. In April 1989, the Committee welcomed proposals by France, Japan and the United States to review and strengthen the current strategy through stronger emphasis on a broader based approach to voluntary debt and debt-service reduction, new investments, adjustment measures, repatriation of flight capital and new lending by commercial banks. There was also agreement by the Committee that the World Bank and the IMF, as part of their support for adjustment programs, should provide support for voluntary, market-based debt reduction transactions. To this end it was agreed that both institutions should set aside a portion of their policy-based financing to support debt-reduction operations. As well, the institutions were requested to examine the possibility of limited interest support for transactions involving significant debt or debt-service reduction. The Bank and the Fund were called on to develop and implement specific proposals to achieve these objectives.

(c) *Other groups of severely indebted countries*

In its review of the international debt situation, the Committee also concluded that the development needs of low- and lower middle-income countries whose debts are mainly to official creditors should be given special attention.

The Committee directed that the evolving debt strategy and its impact on development prospects should continue to be discussed at its meeting to be held in September 1989, supported by appropriate analyses covering all indebted countries.

2. *Development in Sub-Saharan Africa*

In September 1988, the Committee requested the Bank and the Fund to present a progress report on various initiatives intended to benefit Sub-Saharan Africa. On the basis of a report prepared by the Bank and the Fund, the Committee at its meeting in April 1989 noted recent positive economic developments, particularly in countries undertaking adjustment programs within the framework of the Special Program of Assistance of the World Bank and the structural adjustment facilities of the IMF. It encouraged those countries to persevere in the adjustment effort. The Committee looked forward to continuation of the collaborative framework for donor action developed under the SPA and coordinated by the Bank, as well as the examination of further measures to deal with the economic and debt problems of these countries (see Section III(a) of this report). Bilateral donors and multilateral agencies were urged to speed up commitments and disbursements in the SPA. The Committee also concluded that the international community should work toward facilitating external financial support to African governments' adjustment efforts in the period beyond 1990. The Committee encouraged adequate investment financing and technical assistance to supplement quick-disbursing assistance to help deal with the longer term problems of Sub-Saharan Africa.

3. *Structural adjustment*

At its April 4, 1989 meeting, the Committee initiated the first global review, at ministerial level, of experience with growth-oriented structural adjustment programs assisted by the Bank and the Fund. The focus at that meeting was mainly on the design and implementation of programs. The Committee concluded that while results varied, structural adjustment programs adopted by developing countries have generally helped to make their economies more efficient and lay the foundation for the resumption of growth. The Committee identified five essential ingredients for structural adjustment programs: programs owned by governments with political commitment to sound macro-economic policies, broad public understanding of programs, integration of poverty-reduction objectives and environmental considerations into the design of programs, strengthening of the administrative and institutional capacity of countries undertaking the implementation of programs, and adequate and timely financing in a supportive external environment. The Committee agreed to continue its discussion of structural adjustment at its September 1988 meeting focusing on the resource requirements of such programs and the external environment in which these programs are implemented.

4. *The industrial policies of the developed countries*

Concern about the impact of industrial policies of the developed countries on the developing countries led to a discussion on the subject at the September 1988 meeting. The Committee noted that outward-looking industrial policies of developed countries were integral to progress on global adjustment and efforts to resolve the debt problem and were, therefore, of crucial importance to adjustment, growth and development of developing countries. Protectionist and other trade-distorting measures were noted as having an adverse impact on the export earnings and national income of developing countries which can be quite substantial in relation to the level of official development assistance. Accordingly, the Committee emphasized the particular responsibility of industrial countries to promote a more open multilateral trading system. The Committee encouraged the Bank to include in the analyses it prepared in support of development and growth-oriented programs, assessments of the impact on developing countries' export prospects of their trading partners' trade policies. The Fund was also called on, in the context of Fund surveillance and the design of Fund-supported adjustment programs, to give greater priority to industrial and trade liberalization policies in cooperation with the relevant international organizations. The Committee also stressed that actions to liberalize trade were required by developing countries in order to maximize their gains from trade. The Committee, accordingly, urged a successful outcome at the mid-term review of the Uruguay Round calling for active participation by all countries in these negotiations.

5. *Poverty*

From its April 1987 meeting the Committee had expressed concern at increasing poverty trends and deteriorating social conditions in many developing countries and agreed to have a discussion on the subject at a future meeting of the Committee. An in-depth discussion on poverty issues, including the impact of structural and adjustment policies of poverty alleviation took place at the Committee's September 1988 meeting. The Committee then concluded that these problems could only be dealt with through the achievement of sustained growth by the developing countries. It was agreed that the reduction of poverty was a crucial objective of development and that intensified efforts were necessary, in which governments of the developing countries had the prime responsibility for adopting anti-poverty policies. These efforts should be strongly supported by the international community by additional and well-targeted concessional resources. A favorable external environment was also important to stimulate growth and strengthen poverty programs particularly in low-income countries. The Committee welcomed the renewed emphasis by the World Bank to poverty reduction in its policies and operations and agreed that there should be periodic review of progress made in addressing poverty issues. The Bank was encouraged to explore further possibilities of financing poverty-reduction programs, particularly in low-income countries. The Committee also called for special attention to protecting the vulnerable groups during periods of adjustment and requested the Bank and the Fund to design adjustment programs and adopt well-targeted compensatory measures to protect the poorest segment of the population from the adverse effects of adjustment. Beyond this concern, the Committee emphasized the need to incorporate income-generating activities and investments in human resources in structural adjustment programs so as to strengthen the impact of growth on poverty reduction.

6. *Environment and development*

The Committee first began discussions on environmental issues in April 1987. At that time the Bank's current initiatives at increasing emphasis on environmental protection was welcomed. A further report from the Bank drawing on the report of the World Commission on Environment and Development (Brundtland) was encouraged. In light of the concern expressed in the Spring of 1988 about the close linkage between environmental degradation and poverty, the Bank was also encouraged to provide suggestions at a future meeting on how best to address these problems. Successive meetings of the Committee consistently reviewed the role of the Bank in respect of the environmental aspects of its work. In September 1988, after a review of a World Bank report on its environmental programs, the Committee welcomed the concrete steps taken by the Bank in integrating environmental considerations in its lending operations. The Committee, how-

ever, underlined the need for steps to be taken to strengthen public confidence in the Bank's commitment to support sound environmental practices and the Bank's Executive Board was requested to review and publish an annual report on the environmental aspects of its operations, including an assessment of selected projects having major environmental impact. This request was followed by a call at the April 1989 meeting of the Committee for a discussion at its next meeting (September 1989) of the Bank's efforts to support the environment, including the integration of environmental concerns in Bank operations and measures to increase public awareness of Bank environmental activities.

7. *Transfer of resources*

The Committee maintained a review of trends in the transfer of resources which is now a standing item on its agendas. While welcoming certain positive developments in the transfer of resources to developing countries, the Committee noted the decline in overall flows to these countries and the negative transfers to some of them, and reiterated the need for larger flows of all types for economic growth, poverty reduction, structural adjustment, resolution of debt difficulties and environmental conservation. Members reiterated the importance of a favorable climate for foreign private investment which could play a much greater role in the transfer of resources. The World Bank, IFC, and MIGA were called on to strengthen efforts in stimulating such flows and assisting in the creation of a favorable environment to private investment. Reviewing the trends in the flow of ODA, the Committee encouraged efforts, especially by donors whose assistance levels are below the 0.7 percent ODA/GNP target, to reverse the current declining trend in overall financial flows, and the negative transfers of several developing countries. The need for an increased flow of concessional resources to promote growth, poverty reduction and adjustment objectives was particularly emphasized. In this connection, the Committee stressed the importance of reaching agreement on the Ninth Replenishment of IDA, with effect from July 1990, at a level commensurate with the needs of IDA-eligible countries.

ANNEX A

Members of the Development Committee

	Member	*Countries*
1.	Mohammed Abalkhail Minister of Finance and National Economy Saudi Arabia	Saudi Arabia
2.	Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Socialist People's Libyan Arab Jamahiriya, Maldives, Oman, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, People's Democratic Republic of Yemen
3.	Giuliano Amato Minister of the Treasury Italy	Greece, Italy, Malta, Poland, Portugal
4.	Pierre Bérégovoy Minister of State for Economy, Finance, and the Budget France	France
5.	Gunnar Berge Minister of Finance Norway	Denmark, Finland, Iceland, Norway, Sweden
6.	Mohamed Berrada Minister of Finance Morocco	Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Tunisia
7.	Nicholas F. Brady Secretary of the Treasury United States	United States
8.	S.B. Chavan Minister of Finance India	Bangladesh, Bhutan, India, Sri Lanka
9.	B.T.G. Chidzero[1] Senior Minister of Finance, Economic Planning and Development Zimbabwe	Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
10.	Daim Zainuddin Minister of Finance Malaysia	Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Viet Nam
11.	Jorge Gallardo Zavala Minister of Finance and Public Credit Ecuador	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago
12.	Paul J. Keating Treasurer Australia	Australia, Kiribati, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu, Western Samoa

[1]*Saihou S. Sabally, Minister of Finance and Trade, The Gambia, served as Alternate Member to permit B.T.G. Chidzero to serve as Chairman.*

Members of the Development Committee

	Member	*Countries*
13.	Hans Klein[2] Federal Minister for Economic Cooperation Federal Republic of Germany	Federal Republic of Germany
14.	Abdoulaye Koné Minister of Economy and Finance Côte d'Ivoire	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, People's Republic of the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tomé and Principe, Senegal, Togo, Zaïre
15.	Nigel Lawson Chancellor of the Exchequer United Kingdom	United Kingdom
16.	Philippe Maystadt Minister of Finance Belgium	Austria, Belgium, Hungary, Luxembourg, Turkey
17.	Tatsuo Murayama Minister of Finance Japan	Japan
18.	Carlos Rivas Davila[3] Minister of Economy and Finance Peru	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
19.	H.O. Ruding Minister of Finance Netherlands	Cyprus, Israel, Netherlands, Romania, Yugoslavia
20.	Carlos Solchaga Minister of Economy and Finance Spain	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela
21.	Wang Bingqian State Councillor and Minister of Finance China	China
22.	Michael H. Wilson Minister of Finance Canada	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

[2]*Jürgen Warnke became Minister for Economic Cooperation of the Federal Republic of Germany in May 1989.*
[3]*In June 1989 Bolivia succeeded Peru as member to the Development Committee with Fernando Romero, Minister of Planning and Coordination, Bolivia.*

ANNEX B

Agenda of Development Committee Meeting, September 26, 1988

PROVISIONAL AGENDA

1. Poverty issues, including the impact of structural and adjustment policies on poverty alleviation.
2. Impact of industrial policies of the developed countries on the developing countries.
3. Review of developments in respect of the low- and middle-income heavily indebted countries.
4. Progress Reports:
   (a) trends in the transfer of resources;
   (b) the World Bank's environmental program;
   (c) current international trade issues.
5. Annual Report of the Committee.
6. Other Business

Agenda of Development Committee Meeting, April 4, 1989

PROVISIONAL AGENDA

1. Problems and issues in structural adjustment.
2. Development prospects for the severely indebted countries.
3. Promoting economic recovery and development in Sub-Saharan Africa—review of progress on various initiatives intended to benefit Sub-Saharan Africa.
4. Reports:
   (a) current international trade developments with particular reference to the Uruguay Round
   (b) trends in the transfer of real resources
   (c) status of negotiations for the ninth replenishment of IDA
5. Other Business

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Hamidullah Tarzi

Alternate Governor
Zalmai Ahmadi

Algeria<> =

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Mohamed Ali Hammoudi
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Roque Maccarone
Daniel Marx
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Alternate Governor
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Brian Quinn
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Mariano Gurfinkel
Mrs. Cory Ocando
Cesar A. Orantes
Antonio Juan Sosa
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Nguyen Cong Hai*
Tran Xuan Gia*

Western Samoa

Governor
Kolone Va'ai

Alternate Governor
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Jaffer Hamed Mohamed

Yugoslavia =

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Branimir Zekan

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Zaïre

Governor
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Alternate Governors
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Advisers
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Ilanga Wawa
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Mwamba Mulunda
Ngimbi Kalumvueziko
Funka Buinan Tambwe

Zambia

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Alternate Governor
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C.L.M. Chirwa
Benny Chundu
W.K. Kawana
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Salvator Mambo Tembo

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Alternate Governor
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Sibooniso Mtema
Joseph Mubika
Ms. Dinah Zuademoyo Mutungwazi

R. Parke
S.A.F. Ullyett
Mrs. A. Zanza

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Temporary Alternate Governor, MIGA
Akira Kasuya

Temporary Alternate Governor, MIGA
Masaji Takahashi

Adviser, MIGA
Yoichi Mukai

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Governor, MIGA
Dante Martinelli

Adviser, MIGA
Stephan Nellen

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Edouard Brunner
Jean-Jacques De Dardel
Ms. Monique Dubois
Paul Fivat
Jean-Daniel Gerber
Daniel Kaeser
Werner Keller
Markus Lusser
Dante Martinelli
Jean-Pierre Roth
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Samuel Nana-Sinkam
Goran Ohlin
Christian Ossa
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International Fund for Agricultural Development

Donald S. Brown
Mrs. Vera P. Gathright
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BANK
September 28, 1989

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MIGA

September 28, 1989

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	Costa Rica
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	Djibouti
	France
	Gabon
	Germany
	India
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	Japan
	Kenya
	Morocco
	Nepal
	Nigeria
	Paraguay
	Portugal
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	Turkey
	United Kingdom
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	China
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	Japan
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