Summary Proceedings

of the Fifty-Third Annual Meeting
of the Board of Governors

October 6–8, 1998

International Monetary Fund
Washington, D.C

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INTRODUCTORY NOTE

The Fifty-Third Annual Meeting of the Board of Governors of the International Monetary Fund was held in Washington, D.C., from October 6 through October 8, 1998, jointly with the Annual Meetings of the Board of Governors of the World Bank Group. The Honorable Wolfgang Ruttenstorfer, Governor of the Fund and the Bank for Austria, served as Chairman.

These Proceedings include statements presented by Governors during the meetings, resolutions adopted by the Board of Governors of the Fund over the past year, reports, recommendations and communiqués issued by the Committees of the Board of Governors at the time of the meetings, and other documents relating to the meetings.

Statements by the Governors are listed in alphabetical order by country on pages iii–v, speakers are listed by session on pages vii–ix, and a list of abbreviations used in the statements and documents is given on page 340.

REINHARD MUNZBERG
Secretary
International Monetary Fund

Washington, D.C.
November 2, 1998

ADDRESS BY THE PRESIDENT OF THE UNITED STATES[1]

William Clinton

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

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

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

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

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

Now to the matter at hand. A half-century ago, a visionary generation of leaders gathered at Bretton Woods to build a new economy to serve the citizens of every nation. In one of his last messages to Congress, President Franklin Roosevelt said that the creation of the International Monetary Fund and the World Bank—and I quote—"spelled the difference between a world caught again in the maelstrom of panic and economic warfare,

[1]Delivered at the Opening Joint Session, October 6, 1998.

or a world in which nations strive for a better life through mutual trust, cooperation, and assistance."

The Bretton Woods generation built a platform for prosperity that has lasted down to the present day. Economic freedom and political liberty have spread across the globe. Since 1945, global trade has grown 15-fold. Since 1970 alone, infant mortality in the poorest countries is down by 40 percent. Access to safe drinking water has tripled. Life expectancy has increased dramatically. Even now, despite the difficulties of recent days, per capita incomes in Korea and Thailand are 60 percent higher than they were a decade ago. A truly global market economy has lifted the lives of billions of people.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

What is troubling today is how quickly discouraging news in one country can set off alarms in markets around the world. And all too often, investors move as a herd, with sweeping consequences for emerging economies with weak and strong policies alike. We've all read of families that worked hard for decades to become middle class, families that owned homes and cars suddenly forced to sell off their possessions just to buy food. We've read of doctors and nurses forced to live in the lobby of a closed hospital. With fuel and food shortages in some countries, the onset of winter threatens mass misery. And in Asia, where the ethic of education is deeply ingrained and has led to the rise of tens of millions of people, and strong schools are the pride of nations, we now see too many children dropping out of school to help support their families.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When the IMF agrees with a member country on policy measures to restore stability, the people of that country and investors around the world should be told exactly what conditions have been set. Therefore, I urge the WTO, the World Bank, and the IMF, working with the International Labor Organization (ILO), to give greater consideration to labor and environmental protections as a part of your daily business. Only by advancing these protections will these organizations earn the confidence and support of the people they were created to serve.

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

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

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

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

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

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

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

ADDRESS BY THE PRESIDENT OF ARGENTINA[1]

Carlos Saúl Menem

These meetings provide us with a unique and historic opportunity to address the major challenge facing us at the end of the twentieth century; namely, how are we to achieve sustained economic growth that benefits all mankind?

There is a broad consensus that a globalized economy based on market forces is singularly well equipped to achieve this objective. At the same time, however, there is also a fear of recurrent financial crises, the consequences of which are likewise "globalized." Such crises cause uncertainty, and they undermine stability and the rule of law.

It is frightening to think that a person's entire assets or livelihood can be completely at the mercy of sudden market reactions triggered by events occurring in other countries. Individual nations can no longer afford the productivity gaps created by delays in reforming their political, economic, and social institutions. Make no mistake: such delays have had short-term repercussions. To make matters worse, these repercussions can assume crisis proportions and, when coupled with weak political, fiscal, and monetary institutions, may evolve from crisis to collapse.

What we are dealing with, then, is a moral issue, one which we must address if we are to muster political support for a global economy based on market forces. Lest there be any doubts, we are all well aware that inequity is not an inevitable consequence of market forces or of globalization.

Just as governments have the power to influence how fast growth occurs in a society, so too they can use that power to control how equitable that growth is. The challenge is not simply to maximize the gains to be shared, but also to maximize the number of beneficiaries. This is the philosophy of Pope John Paul II, who has just completed the twentieth year of his historic tenure as pope and with whom we in Argentina feel great affinity in every respect.

In order to make up for lost time, and in order to tackle the many problems and challenges ahead, it is essential to implement policies designed to reform institutional structures. Political leadership and social consensus are all that is required to move the process forward.

[1]Delivered at the Opening Joint Session, October 6, 1998.

Argentina Confronts the Crisis

In this century, there was a time when Argentina was basking in seemingly infinite prosperity, but decades of inflation and political chaos followed, leaving Argentina on the verge of social ruin. However, in the 1990s we succeeded in transforming an economy ravaged by hyperinflation, speculation, and systemic corruption.

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

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

We in Argentina have restored our society's ethical values. This is a prerequisite for the normal functioning of any economic system, particularly for a society based on private enterprise and private property.

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

Structural reforms have enabled us to put in place a sound and competitive market economy. Today, even amidst the crisis, Argentina is steadily increasing the reserves and deposits in its financial system. Deposits amount to US$76 billion, and the banking system is backed by US$40 billion in international reserves, liquidity requirements, and a contingency safety net. In addition, the World Bank and the IDB are supporting Argentina with fast-disbursing resources to assist us in our efforts to weather the global turmoil.

The financial reform measures that have enabled Argentina to achieve these results are convertibility with backing of over 100 percent; stricter liquidity and solvency requirements for the financial system; strengthened banking supervision; improved maturity structure of external public debt; privatization of official banks; establishment of a capital market through the privatization of the pension system; and adoption of rules based on transparency in financial and fiscal information, in line with IMF recommendations.

The economic boom has been based on foreign direct investment amounting to US$800 million per month. Investment in the amount of US$70 billion has been projected through the year 2002, and this for a country with a GDP of US$340 billion. These indicators evidence the peak period of record growth for Argentina in the twentieth century; further-more, its economic performance during this period has been accompanied by a strong tendency toward a more equitable distribution of the benefits of growth.

Hyperinflationary Argentina was the most dualistic period of our history. There is nothing more inequitable than the collapse of the fiscal system, financial instability, and hyperinflation. Since our work began in 1989, the poorest 20 percent of Argentina's population have increased their share in income distribution by 10 percent, whereas the wealthiest 20 percent have seen their share fall by 11 percent. In 1989, 38 percent of Argentines lived below the poverty line, whereas today the corresponding figure is only 18 percent. Infant mortality—that most revealing of social indicators—has fallen 27 percent since 1989, and 100 percent of children of school age are attending primary school. Here, we must thank the World Bank and the IDB, which have funded a portion of Argentina's social and infrastructure programs.

We have achieved this social progress in a context of sound fiscal discipline that is well on its way toward budgetary balance and allows us to project for 1999 a budget deficit of less than 1 percent of GDP. In addition, we have a precautionary extended arrangement with the IMF and have been systematically meeting all the targets agreed upon in all our programs with the Fund since we took office. Moving from endemic inflation to a stable economy has made it necessary to make the transition from window dressing to transparency, based on verifiable and public economic data.

Another example of political determination to lead a process of structural transformation can be found in Brazil under the leadership of President Fernando Henrique Cardoso, whose policies have received the unwavering support of the Brazilian people. We are absolutely certain that our partner and brother Brazil will be successful.

The Challenge Today

Crises bring opportunities for change, but they do not always come with ready-made solutions. Simply put, crises demand change but do not point the way. It is necessary to rethink the traditional country categories, which are no longer useful for understanding the events currently unfolding around the world. There are emerging countries that are profoundly stable, such as Argentina, and there are other countries that are extremely unstable and are currently posing a danger to the world economy. The time has come to adopt a more universal approach. The next step is global integration with a view to sustainable development for all—in other words, development that benefits countries and their peoples. However, we must wipe out the last vestiges of protectionism and production subsidies still lingering in the developed economies if we are to achieve free and fair trade. Moreover, it is absolutely vital to pursue transparency and ensure continuity in the economic reform processes. This is the time for all to defend the principles of globalization. In order to move in this direction, however, we must strengthen and modernize the Bretton Woods institutions. Because the IMF and World Bank have a vital role to play in restoring market confidence and stability, these institutions must be provided with full financial support and be equipped with the resources they need to carry out their tasks successfully, drawing upon the lessons learned in the past in order to avert such situations of instability more effectively.

Argentina's 1999 budget provides for an increase in its appropriations for these institutions. It is our responsibility as political leaders, businesspeople, and academics to implement policies that will enable us to seize the opportunities and overcome the challenges of the new world era. I have arrived at these conclusions in my capacity as head of state and political leader. Today, as we face the future, we should be more optimistic about the crisis and how it will develop; however, I wish to emphasize that overcoming the crisis will require concerted efforts on the part of the advanced countries and emerging countries. It is incumbent upon the more advanced countries to take up their responsibility at this time of global crisis and to turn that sense of responsibility into immediate political action. I am firmly convinced that with the support of all the world's nations, and with the leadership of the United States and the G-7, it will be possible for us to meet these global challenges head-on. I have every confidence that at our next Annual Meetings, we shall be applauding the success of our concerted policy efforts.

As we stand on the threshold of a new millennium, we should reaffirm our goal, which must be to establish in all countries of the world a political leadership that can overcome the difficulties that arise after the collapse of all ideologisms. We must strive untiringly to impart a social dimension to the course of history, which is currently proceeding along the path of globalization. That is why we are emphasizing policies of enlightened cooperation able to make a positive social impact since for us the ultimate aim of our efforts is precisely the welfare of our people. We believe that the human being should be our prime concern and that all our political, social, and economic efforts should be for the benefit of mankind. We are convinced that in order to address the serious problems facing the world, the Argentine program, adapted to the special circumstances of each nation, is the path that leads us out of the current crisis.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS AND GOVERNOR OF THE FUND AND THE BANK FOR AUSTRIA[1]

Wolfgang Ruttenstorfer

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

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

My fellow Governors, as we stand here in the twilight of the millennium and in the midst of these uncertain times, we might well ask ourselves where we—the international community and the membership of the Bank and the Fund that comprises it—are headed. Does the past provide a useful guide for the future? The postwar period has been a remarkable and unique period in human history. For the first time, we have—in the shape of the UN, the Bretton Woods institutions, and recently the WTO—organized fora for international cooperation on a global scale. This has included a gradual opening of the Bretton Woods institutions to new members, and in particular the transition economies, making them truly universal.

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

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

[1]Delivered at the Opening Joint Session, October 6, 1998.

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

What is even more important than the architecture of a house is how the people inside behave toward each other and how they resolve conflicts. Here, we have good principles that have served us well over the past decades: cooperation, democratic principles, predictability, and accountability toward each other. We, therefore, need to build on this foundation to strengthen the architecture of the international financial system, adapting it to new challenges.

European Economic Monetary Union

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

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

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

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

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

Benefits and Risks of Globalization—Recent Crises

Integration into the world economy, such as the transition economies have been experiencing, nowadays called globalization, can provide enormous potential for growth and prosperity. The Austrian experience is a case in point, highlighting in particular the importance of international integration for small economies. For the past decades, Austria has successfully pursued a strategy of international openness, culminating in the accession to the European Union nearly four years ago.

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

While the potential benefits from globalization are widely accepted, we see the potential for destabilizing risks in those countries unable to withstand the stress of the dynamic forces of globalization. Since we met last year in the Hong Kong Special Administrative Region, developments in some parts of the world economy have taken a turn for the worse. Recessions in several Asian economies have deepened. The recent crisis brought to the forefront deep-seated problems in many countries, particularly weaknesses in the banking and financial sectors, weak supervisory and regulatory systems, and lack of good corporate governance. Recent developments in Russia have been worrying. Contagion effects have been compounded by homemade problems, such as poor fiscal policy performance and the failure to address structural weaknesses in the financial sector and also in the real economy.

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

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

Architecture of the International Monetary and Financial System

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

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

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

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

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

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

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

Efforts to Assist the Neediest Members

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

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

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

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

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

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

We must also pledge to ensure that a sufficient level of resources is made available for the proper functioning of the Enhanced Structural Adjustment Facility (ESAF), and we should redouble our efforts to secure the necessary financing. We welcome efforts to strengthen the ESAF following the recent evaluations. We must ensure that countries adopting courageous policy reform programs aimed at sustainably reducing poverty receive strong donor support. The International Development Association (IDA) is a key instrument in support of the poorest countries. Reaching an agreement in the coming weeks on the twelfth replenishment of IDA is critical to demonstrate to the poorest countries—particularly those with sound social and economic policies—that their plight is not forgotten and their efforts will be supported, even as the world community responds to crises elsewhere.

Resources

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

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

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

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

As you know, I come from Austria, a mountainous country, where we had to learn long ago how to deal with the perils and uncertainty of uncharted terrain in mountain territories. In such a situation, markers along the way are important in helping to orient ourselves. Much like in the deep snows of the winters in Austrian mountains, these markers may be hidden to us, but it is our duty to work to reveal them to the international community. We are all in that challenging situation now. We have a difficult time ahead of us, but I am certain that our common effort will lead us to resolve our problems in an equitable manner. Let us now, together in this meeting, set those markers that will carry us through the difficult time ahead.