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Statement by the Hon. **KARL-HEINZ GRASSER**,  
Governor of the Bank for **AUSTRIA**,  
at the Joint Annual Discussion



**Statement by the Hon. Karl-Heinz Grassler,  
Governor of the Bank for Austria,  
at the Joint Annual Discussion**

I would like to begin by thanking the Czech authorities for organizing the first Bretton Woods Annual Meeting in a so-called transition country in Central Europe. This is a momentous occasion whose importance cannot be over-estimated. We Austrians are proud that one of our closest Central European neighbors is hosting this event.

Let me also welcome the new Managing Director of the IMF, Horst Koehler. Mr. Koehler has the good luck to have been appointed to the helm of this important institution in times of relative calmness. This will give him the opportunity to use these calmer times to drive forward the necessary restructuring of the IMF. So far, Mr. Koehler has done an admirable job. Basically, I can say that Austria shares his visions for the IMF. I wish Mr. Koehler and his staff much luck, energy and perseverance.

**The State of the World Economy**

The World economy today is in a much better situation than in a long time: growth in the major regions is buoyant, employment increasing, unemployment falling and core inflation is under control. In contrast to the previous three years, there are no acute financial crises – even though a large number of less developed and emerging countries are struggling with adjusting to the new framework of a more globalized economy.

The major threat to further world economic growth is the recent surge in oil prices which leads to significant income transfers to the oil exporting countries from the consuming countries. This affects both developed and less developed economies, the latter to a significantly more severe extent. Recent estimates show that world growth might be impaired significantly if the present high prices for crude oil persist.

We should consider ways to avoid these recurrent strong fluctuations in oil and other raw material prices by coming to long-term agreements between producing and consuming countries that respect the legitimate interests of both groups. We all should work towards this direction. It will benefit us all, businesses and consumers, producers and distributors. We all need more stable conditions and fair and equitable prices in order to plan our respective futures.

Today, fluctuations in raw material prices are also reinforced by the fact that most of them are accounted in one major currency. Thus, strong fluctuations in exchange rates tend to increase the effects of swings in raw material prices. It is time that we together look for a strategy which leads to raw materials being priced in less volatile units.

## **Regional Imbalances**

While the overall picture of the world economy looks very positive, behind it hide a number of persistent imbalances threatening the stability of the present growth path. High and surging current account deficits, widely fluctuating stock prices and low personal savings rates overshadow the extremely commendable growth record of the United States economy. While all of us have expected a slow-down in this extraordinary growth performance for a number of years, we stand amazed at this longest upturn in recent history. Still, it is in all our interest to hope for a soft landing. This will require the reasons for the major imbalances to be addressed.

We certainly hope for a continuation of the still fledgling, but promising Japanese upswing. In order for this upswing to become sustainable, more of it will have to be supported by private investment and consumer demand. There is hardly any more leeway for public expenditure programs. The sooner the Japanese authorities can go about correcting their budget imbalance without endangering the upswing, the better founded the growth process will be.

Europe, at this time, is in a better economic position than in many years. Growth fundamentals are very sound, all EU countries have impressive growth- and also employment records. The process of budget consolidation towards balanced budgets is continuing, structural reforms in a vast number of product and labor markets are under way, a re-ordering of the industrial and financial sector business landscape is taking place, with the aim to increase productivity, cut slack and make European business more efficient in the light of increasing global competition. We are confident that a sober evaluation of this record will eventually also convince financial market players of the internal and external strength of the Euro. More realistic and less volatile exchange rates among the three major world economic powers are in the interest of all of us.

While Austria does not support ideas which call for fixing the exchange rates of the major currencies of the world, we support all plans which reduce exchange rate movements that are not called for by imbalances in the economic fundamentals of the major regions.

## **The Reform Program for Austria**

Let me briefly cover my own country, Austria. The new Austrian government recently revised its medium-term budget plan, an issue of previous criticism by international institutions, like the IMF, the OECD or the European Union. We have moved forward in a series of bold steps and will slash our budget deficit to three quarters of a percentage point of GDP by the end of next year, and balance it in 2002. We are convinced that a large, front-loaded program, supported by structural reforms, a retrenchment of the state, and more efficient provision of public services where they are needed, is the right thing to do – especially in times of a very benevolent cyclical situation. This program is flanked by major market-oriented reforms in all areas of product, service and labor markets. Our

aim is to give new impetus to the after World War II "Austrian economic miracle" and make Austria one of the most competitive economies in the world.

Some of the major reform points include a reform of the pension system which suffers from aging problems; an administrative reform which aims at re-focussing the government's activities on its core competencies and leave other functions to the market; a modernization of the Austrian welfare state which provides security and help where it is needed and not to every citizen; and, very importantly, on a major campaign to increase the innovative capacity of Austrian society and economy in such a way that Austria will be able to fully participate in the benefits of a more globalized economy.

### **Austria Is a Strong Supporter of the IMF**

We appreciate the help and advice which the IMF has given us in the past in this endeavor. Our interest in the IMF stems from the benefits which the IMF as co-provider of a world public good, namely financial stability, can bestow not only on Austria, but on the world economy as a whole. The experiences of the financial crises around the world during the past three years have proven once more that contagion effects can occur very rapidly and affect even countries with sound policies, if unchecked. It is in this sense that crisis prevention, management and resolution are global public goods which can only be provided by global organizations.

Our interest in the IMF is also grounded in the role it plays in the transition countries, especially the European ones. Orderly transition with well-planned sequencing of market liberalization will eventually lead to market oriented and competitive structures and behavior which are so necessary. The further Eastward from the Austrian border we look, however, the greater the problems become of leading these transition countries into the world economy. The Bretton Woods institutions still have a lot of work to do.

As a small country we want to stress once more that the principle of universality of the IMF is a very important one. Only in such an institutions can small countries make their voice heard. For this reason we are skeptical as far as the mushrooming of informal fora dealing with matters of financial stability is concerned. This endangers the viability of the whole organization, since it reduces the "sense of ownership" of the smaller countries not included in these outside fora. This is not in the interest of the IMF, it is not in our interest.

We appreciate the return to its "core competence" by the IMF and its re-invigorated cooperation with the World Bank. We are convinced that in the context of the efforts to reduce poverty, both the Fund and the Bank have an important role to play – within their field of competence – and that they must work together.

One specific area where the Fund can contribute to alleviating poverty is the great challenge posed by globalization. Globalization opens up new opportunities for all countries, also and especially for developing countries. But the examples of Asia and

Latin America during the last two – three years, show that there may be dramatic threats to prosperity. In such cases, the IMF has a crucial role to play in advising and assisting countries to make most of the positive side of globalization while avoiding the risks as much as possible. Surveillance, improved codes and standards, transparency – the IMF is in the ideal position to promote these to all countries. At the same time, the IMF can and must take into account the specific needs of each country and avoid a simplistic "one rule fits all" approach.

The new strategies stressed by the new Managing Director go into this direction. We support them whole-heartedly. I welcome, in particular, the renewed efforts to an even closer cooperation than in the past between the IMF and the World Bank as outlined by the joint declaration of Mr. Koehler and Mr. Wolfensohn.

As we will face a dramatic increase in poverty over the next 25 years, joining forces is a must. Moreover, if we were to reverse the trends, in addition to the cooperation of the Bretton Woods Institutions, we must ensure that all other institutions, multilateral and bilateral, developing countries and donor countries, will have to work together in a meaningful division of labor and cooperation taking into account all the elements necessary for a sustainable development of countries and their societies.

### **Bank Strategy**

We support the Bank's proposal to improve upon its strategy in low and middle income countries as a means to become an even more efficient and effective development player. Today, the global as well as local environments are changing rapidly. Both of them equally require responses. The Bank must respond to new circumstances quickly. Given the rapid external changes, prudence calls for a continued process of adjusting its procedures and instruments. In this respect, the Bank's role and strategy in low income countries has been constantly adjusted through the IDA- and HIPC-process to become clearly into the direction of a clear anti-poverty focus. Nevertheless, the Bank must continue to enhance its strategy vis a vis and together with the poorest countries.

We agree that middle income countries have been affected most by the recent global changes and that the World Bank Group must continue to help them to fight poverty in these countries and to adopt new strategies to make them better and sooner prepared for taking advantage of the opportunities that globalization can bring. We must not underestimate the role the World Bank plays in middle income countries, even in the more advanced ones. Thus the need to adopt a new strategy is obvious. We basically agree with the proposal regarding the new instruments, though we would like to call for cautious implementation as we do not yet know the financial and human resource implications. The newly established Task Force on the World Bank Group Strategy for Middle-Income countries, in addition to its other tasks, will have the difficult task to develop appropriate ways to support also non-borrowing Part II countries in their efforts to improve their structural and social policy agenda. However, given the additional

economic and sector work required, the Bank will have to ensure that it can deliver on these ambitious goals.

### **Global Public Goods**

We share the view that global public goods play an increasingly important role in furthering the development process. Because of opening boundaries and increasing world integration global collective action can substantially benefit developing countries and the Bank can play an important role in this area along the lines discussed in the Development Committee. Thus, we support an increased focus of the Bank activities on global public goods as an effective means to increase development efficiency and effectiveness. An important aspect of the topic is the formation and development of partnerships to push the issue forward and to raise awareness about the opportunities and benefits of global action, as well as to secure proper financing. Only a strong partnership with global and local players will ensure that global action has a long-term and sustainable perspective.

### **Austria Supports HIPC**

We have expressed our full support of the enhanced HIPC-Initiative and we appreciate the progress made so far in implementing the initiative. Much progress has been made with respect to linking debt relief to poverty reduction in order to ensure that the poor are benefiting from HIPC. We have noted with satisfaction that the new PRSP-framework for the efforts of the Bretton Woods Institutions to support low income countries, which was approved at the last Joint Meeting of the IMF-Committee and the Development Committee, is widely accepted among the developing countries as well as the development community at large. Considerable work has followed from this effort. We are encouraged to see from the experience up to now that the Poverty Reduction Strategy Papers provide the necessary tool for ensuring sustainable long term debt relief and support its mainstreaming into the Bank's and IDA's business through the CAS.

While we assess the recent developments to have been very positive, I also want to issue a word of caution. Recent HIPC cases have shown that the success of the Initiative, especially with respect to poverty reduction programs, will very much depend on these programs not becoming routine affairs. Rather, it is essential that the viability and implementation of all agreed program measures is discussed with all stakeholders and that a sustainable long-term strategy is found. If this does not happen, we know from past experience that the process most likely will fail. Therefore, as important a speedy implementation of the initiative is, the quality of economic and social policies in support of the poor is by far more important. In addition, I urge both institutions, management and Board alike, to make sure that, while ensuring utmost efficiency, they provide in the framework of their administrative budgets the resources necessary to support the strategies agreed upon.

### **Austria Contributes to HIPC**

In the past we not only voiced our full support to the Initiative, but we were always committed to contributing our fair share to HIPC-financing. However, we consider it important that funding of HIPC is based on an equal and fair burden sharing formula. This is even more important as the financing requirements for the Initiative are enormous. Substantial efforts have been made to close the financing gap. Within the next couple of months, I will propose to the Austrian government and subsequently to the Austrian parliament to pass a law to secure an Austrian contribution the HIPC-Trustfund while a law to secure financing of the IMF portion of HIPC has been presented to the Austrian parliament already. My proposal for a HIPC-Trustfund contribution will be oriented along our share in IDA over the past few years and should be the basis to deliver our contribution in the near future.