

BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 54

September 26–28, 2000

Statement by the Hon. **GERRIT ZALM**,
Governor of the Bank for the **NETHERLANDS**,
at the Joint Annual Discussion

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Governor of the Bank for the Netherlands,
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Mr Chairman,

Ladies and Gentlemen,

[1] Introduction

Who could have thought, just about ten years ago, that we would have our annual meeting in 2000 here in Prague? In the past decade, the Czech Republic has made tremendous efforts to transform its economy. Such a transformation process is never easy and requires difficult policy-decisions as well as endurance. The Czech authorities have effectively worked with the international financial institutions in their efforts to adapt to changing circumstances. Now that the Czech republic is preparing for accession to the EU, I have full confidence that this process will continue. Similarly, the IMF and World Bank have to keep adjusting themselves to a globalising environment. The current positive global economic outlook creates a favourable climate for making significant advances in refocusing the roles of both the IMF and the World Bank. I can subscribe wholeheartedly to the views Horst Köhler and Jim Wolfensohn expressed in their recent joint statement on the division of labour between IMF and World Bank.

I endorse the views MD Köhler has put forward on adapting the Fund to a changing environment. In the first months of his tenure, he has shown a great capacity of bringing different views together and of being receptive for the need to critically review the mission of the IMF.

The Fund should be at the core of the discussions on the international financial system. First, because we need the expertise of the Fund staff. Second, the universal membership of the Fund enables each country to make its voice heard in the decision-making process.

[2] Continuing the process of reform

Clarity on the future role of the IMF is needed to give guidance and maintain progress on issues like conditionality and private sector involvement. Let us not make the mistake of changing everything: the Fund should stay concentrated on (1) crisis prevention by promoting macro-economic stability and (2) effective crisis management. The Fund's contribution to crisis prevention can be enhanced by paying more attention to surveillance of financial sectors and continuing the work on early warning indicators.

At least as important in crisis prevention is the involvement of the private financial sector. As far as this is concerned, I welcome the initiative of the MD to establish a Capital Markets Consultative Group. The regular and informal dialogue with the private sector will facilitate the exchange of information and so increase transparency. The private sector also has a role to play in crisis resolution. While recognising the fact that

every crisis is different, I believe there is a need for further operationalizing our framework in this area.

I welcome, therefore, that with every meeting we are able to elaborate our framework a bit further. I consider the IMFC communique as another step forward. The differences between those who advocate rules and those who prefer the case-by-case approach seem to have given way to a constructive discussion on how to put PSI into practice. It is now up to the IMF and its shareholders to operationalize these principles in the design of programs.

I welcome Horst Köhler's attention for the scope of IMF conditionality. In some program countries, Fund conditionality has been too detailed. Therefore, in the months ahead, we should take time to analyse and review the role and scope of conditionality in IMF-programmes. We should strive to make conditionality more effective by focusing on macro-economic and financial issues. Furthermore, we should ensure equal treatment of countries and prevent micromanagement through an excessive number of conditions. In this regard, the Fund and the World Bank should complement rather than overlap each other.

In the World Bank, I appreciate recent initiatives to adopt an approach towards working with borrowing member countries, in which the country's own vision on economic development and poverty reduction strategy is the starting point. The Bank's involvement is determined by an analysis of this vision. I appreciate the attention given to the World Bank's role in middle-income countries, including transition economies, where poverty is often still prevalent. Once again, recent experience has shown, that also within middle - income countries, crises hit the poorest groups most severely. This shows the significant tasks the Bank still has in middle-income countries in strengthening the economic, financial, institutional and corporate structures and in formulating policies that address the needs of the poorest. While I believe that World Bank financing should be additional and should catalyse private financing where possible, I strongly support the World Bank's development role in these countries.

[3] IMF/World Bank and poverty reduction

Let me now turn to the subject of pro-poor growth and poverty reduction. The World Bank is leading in this field with the promotion of institutional and governance policies, which are essential for pro-poor growth and poverty reduction. In tandem, the Fund can contribute with its expertise on creating an environment conducive to macro-economic stability and sustainable economic growth. The necessary stabilisation measures will of course have to be designed in such a way that the negative effects on the poorest segments of society are minimised and that opportunities for inclusion of the poor are increased. Furthermore, both institutions have to work closely with the poorest countries to improve debt management. All this means, that close and ever improving co-operation between the World Bank and IMF remains of utmost importance. In this context, I welcome the initiatives of Horst Kohler and Jim Wolfensohn which further this co-

ordination, also by attempting to place conditionality of lending within the framework of a PRSP with the institution where it is most appropriate.

Ongoing debt relief shows the commitment of the international financial institutions to improve the situation of the highly indebted poor countries. We support the objective of Horst Kohler and James Wolfensohn to bring 20 countries to their decision points by the end of 2000. At the same time, donors want to be assured that countries' savings stemming from debt relief are used for pro-poor spending. A balance must be struck between speedy debt relief on the one hand and the assurance that resources are appropriated for pro-poor growth, while maintaining macro-economic stability. The establishment of the Joint Implementation Committee of the IMF and World Bank should prevent delays on the part of the financial institutions. Moreover, since we can expect that an increasing number of HIPC countries will reach the completion point next year, donors will have to deliver quickly on their pledges about concrete and full financing. In addition, the recent terms-of-trade shock must not jeopardize the achievements we have set ourselves with the HIPC initiative and makes the call for full – and even additional – financing all the more urgent.

[4] Representation

The Netherlands finds itself privileged to be part of a constituency which consists of a mix of IDA-only countries, countries with an SBA-program, borrowers from the Bank and donors of official development aid. The success of the formula does not only show in the fact that our constituency has won the largest number of gold medals at the Olympics in Sidney to date. Such a constituency also provides a rich mix of experiences, views and interests which leads to balanced positions in Bank and Fund discussions. The Netherlands is happy to assist the borrowing member countries of our constituency in their dealings with Bank and Fund, to support their reform efforts with grants and technical assistance and to represent their views in the Executive Boards. I believe that this type of cooperation in a constituency contributes in a constructive way to a better balance in the Bank and Fund between debtors and creditors and avoids polarization.

[5] Final remark

I have talked about the role of both the IMF and World Bank in middle- and low-income countries. Here in the Czech Republic, I also have to mention the significant contributions made by the international financial institutions to the transition economies. Now let me end by thanking the IMF for the assistance they provide to a part of the Kingdom of the Netherlands, namely the Netherlands Antilles. We highly appreciate this. Thank you for your attention.