Closing Address

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Introduction

I am grateful for the opportunity to make some concluding remarks at this conference on the functioning of the international monetary and financial system.

For many people the international monetary system is a rather abstract phenomenon: it is identified largely with the international institutions and their financing mechanisms that were established at Bretton Woods in 1944. It is more, however. It encompasses all players in the monetary and financial playing field of today as well as their interdependence. Therefore, it also needs a spirit of cooperation and it should provide a set of rules: the rules of international coordination; non-discriminatory rules to ensure fair treatment of all participants.

The fitness of the current system should be judged against this background. Has it been able to overcome serious problems in the past and will it be capable of responding adequately to the challenges the world faces today?

The institutions have indeed changed in character and refocused their activities. It should thus not come as a surprise that participants at this conference have not advocated a complete overhaul, though many refreshing comments have been made as to improvements. The Articles of Agreement of the IMF and the World Bank have withstood the passage of time reasonably well. Even as recently as 1991 the European Bank for Reconstruction and Development was modelled on the World Bank, although it has been adapted to the specific circumstances of Central and Eastern Europe. At its imminent fiftieth birthday, the basic architecture of the Bretton Woods sisters still seems to be largely suited for addressing the challenges of today:

- to invest in infrastructure and human resources;
- to restructure the former command economies and integrate them into the world economy;
- to offer opportunities for the developing countries;
- to achieve open trade relationships;
- to stem the deterioration of the environment.

However, the actual performance of the international monetary system so far has been uneven:

1. Some developing countries, especially in Africa, are caught in a trap of severe underdevelopment, insufficiently diversified export opportunities

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and a lack of confidence by investors. In order to restore their structural imbalances they are in need of an adjustment and investment programme, sustained over a long period and accompanied by a sufficient long-term positive flow of concessional resources.

2. Achievements have been made with regard to the financing mechanisms of many developing countries but we still have a long way to go.
3. Concerning the countries in transition the international monetary system itself is still in a process of adaptation.
4. On international monetary coordination among industrial countries the system has encountered severe setbacks in recent years.

Allow me to elaborate these points somewhat.

Developing countries

The mission of the international institutions has changed considerably over the years. More and more, the IMF and the World Bank have focused on developing countries. Regional Development Banks have been founded, joining their forces with the Bretton Woods sisters. All have introduced new elements into their policies, like human resource development, poverty alleviation, sustainable development and good governance. Moreover, new facilities have been established. In trying to provide a more structural solution for the ingrained balance of payments problems of the poorest countries, the IMF has set up a concessional window (ESAF). The general willingness to establish an ESAF successor is a positive signal. The structural shortage of long-term concessional development funds remains a problem, however. The World Bank has started to supply balance of payments loans in order to create a more favourable environment for investment projects. The Brady plan led over the years to a restoration of the external viability of middle-income countries, which were coping with a large debt overhang in the past. Recently, the IMF created the Systemic Transformation Facility to help to face the reform problems of former communist states, thus recognising the special needs of countries that are in the process of overhauling their entire economic system.

Another important initiative is the introduction of the Global Environment Facility in response to growing concern about the global environment. It has now been widely accepted that economic developments cannot be judged properly without taking the environmental context into full consideration. Notwithstanding the legitimacy of our budgetary and economic concerns, there is no excuse for neglecting the well-being of future generations. Therefore, one year after Rio, the Global Environment Facility deserves a higher priority on the international agenda.

There are also other grounds for concern. In many of the poorest developing countries the outcome of continued financial assistance is - to say

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the least - still disappointing. As the Bank for International Settlements illustrated recently, income inequalities between nations are widening instead of narrowing. Moreover, some developing countries remain dependent on financial assistance from the IMF, because they are unable to achieve or maintain macroeconomic stability. Obviously this is due to structural weaknesses, which make them very vulnerable to external shocks.

To what extent could changes in the international monetary and financial system contribute to overcoming these structural weaknesses? The progress of relatively less poor developing countries is mainly the result of internal adjustments. External assistance plays a role in catalysing progress and enabling them to restore the confidence of private capital markets. Although many of these countries remain relatively vulnerable to external shocks, they should be better able to face the increased mobility of international capital through a sufficient build-up of reserves and timely policy adjustments.

Policymakers in the field of development cooperation are looking for ways to increase the leverage of the international monetary and financial system, without damaging the solidity of the monetary system, of course. Proposals such as a large SDR allocation should be judged against this background, an adequate analysis of the long-term global need for reserves and policy proposals to solve imbalances in the distribution of real resources. I am looking forward to the IMF study on this with a great deal of interest.

A global structural adjustment strategy remains necessary. I would like to mention a few elements. Consensus on the characteristics of adjustment policies is growing. This is perhaps the most promising result of recent discussions within international financial institutions. Developing countries with structural weaknesses should reduce their budgetary imbalances and market distortions, and should diversify their export structure, as well as redirect their public spending to productive uses, such as investments in human resources and infrastructure. Of course, as we know from our experience, this is easier said than done. In these cases external assistance can make a difference. Secondly, governments of industrialised countries should remain committed to their efforts to reduce deficits, thus reducing the scarcity of global savings and creating more room for complying with the UN target for Official Development Assistance. Thirdly, we should do everything in our power to open up markets for products from developing countries, allowing them to reap the full benefit from a diversified export strategy and their comparative advantages in labour-intensive products. Even in the poorest countries an increase of export revenues is of even more importance than development aid. I therefore note with satisfaction that in recent years many developing countries have become members of GATT. A rapid conclusion of the present negotiations on the Uruguay Round is crucial for these countries, since trade has proved to be the most suitable instrument to

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outgrow underdevelopment. I hope that the meeting of the European Council can make significant contributions to this end.

Fourthly, solidarity with the poorest countries could be made effective through a continuation and extension of the present policy in the Paris Club. The Trinidad terms as applied at present are indeed a significant step in the right direction.

However, with a view to the gravity of the debt burden of some of the low-income countries as well as some of lower middle-income countries, I hope the Paris Club will be in a position to introduce differential treatment, bringing the degree of concessionality more in line with the debt situation of the country concerned. For example, one could consider a moderate degree of debt reduction for those lower middle-income countries for which the present Houston terms are insufficient. Naturally, determining which countries would qualify for the respective treatments should be done on the basis of objective criteria. Also, as in the past, a precondition for debt reduction should remain the willingness and satisfactory efforts of debtor countries to adjust their economies.

In short: the existing structural imbalances in financial flows should primarily be addressed by a real change in the global economic framework, not by monetary measures alone, which could easily lead to postponing these adjustments.

Eastern Europe and the former Soviet Union

The membership of the countries of Eastern Europe and the former Soviet Union is the latest challenge for the international financial institutions and the international community. To mention only a few of the problems: economic stabilisation, reform and privatisation take on a different meaning in countries which were formerly almost 100% state-controlled. As a first reaction most countries experienced (or are still experiencing) negative growth of considerable magnitude. In most countries the institutional framework needs to be re-established, property rights need to be clarified and sometimes a new currency has to be introduced. The Bretton Woods institutions are confronted with the non-existence of basic statistics; there is a lack of global coordination of programmes, resources and technical assistance; disbursements are slow. On the donor side, the development status of some of those countries still has to be clarified, and there is not always an appropriate burden-sharing among creditor countries.

The adjustment problems of these countries demand what I would call a balanced approach. Strong, but credible efforts are necessary both from the countries themselves and from the international community. All of the transition countries in Central and Eastern Europe and in the former Soviet Union should be treated equally; they deserve equal attention and support.

I hope that the countries in transition will be successful in transforming their economies. Of course, continued attention from the international community is required in order to limit the adverse effects of the transformation to a minimum.

The extent of the debt problem of Eastern Europe cannot be compared to the debt problem of Latin America in the eighties. Nevertheless, the experience in coping with Latin American debt can teach us lessons on how to assist the countries in Eastern Europe and the former Soviet Union.

The main lesson is the importance for the countries concerned of sticking to sound macroeconomic and structural adjustment programmes. Creating hard budget constraints is the first inevitable step in finding a solution. Furthermore, social safety nets and education and health care systems have to be modified. The political backing for the economic reformers is an absolute prerequisite, which seems to indicate the need for major efforts to muster cross-party support for the main principles of reform and the avoidance of polarisation.

In addition, countries with a large external debt may need exceptional financing by way of debt relief both from the commercial banks and governments necessary to cover the financing needs, in particular during the period of transition. However, the only viable and lasting solution to the problem of foreign reserves shortage of these countries is market access. After the collapse of the communist trade block most of the countries in Eastern Europe and in the former Soviet Union have seen their traditional export markets shrink or even disappear. The EC should set an example in opening markets.

International monetary coordination

Let me finally make a few remarks on international monetary coordination among the industrial countries. It must be said that the quality of coordination of economic and monetary policy has diminished. Financial markets have confronted the world, and Europe in particular, with the consequences of diverging competitive positions and cumulative inflation differentials. Substantial exchange rate adjustments proved necessary in several cases, both within the EMS and in relation to the dollar. This shows once again that closer multilateral surveillance of countries' economic, budgetary and financial performance is called for. The basis for improved coordination among countries should be sound domestic policies: external balance starts at home.

The need for enhanced coordination becomes even clearer when looking at the current economic developments throughout the world. In Europe we will experience no growth in 1993, unemployment is on the rise again from already high levels; while real interest rates continue to be relatively high for

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this phase of the business cycle. Furthermore, as a consequence of growing current account imbalances, conflicts in the field of trade are stirred up. Focusing on bilateral imbalances acts as a political magnet and threatens to start a slide into managed trade.

Fortunately, some positive developments can be reported as well. A successful conclusion of the Uruguay Round might be in sight before the end of this year. Indeed I hope that this time all participants are determined to conclude the negotiations in a cooperative spirit that will let world trade and production prosper. Furthermore, in reaction to the slowdown, the United States, Japan and the European Community have each launched stimulative packages in order to broaden the basis for recovery. This would also be helpful to the world at large. The preparations for the implementation of the EC's Edinburgh initiative are already in full swing. Stimulating economic activity will take place mainly through re-allocating government spending from consumption to investment, most notably in infrastructure. In many countries the automatic stabilisers in the budget are allowed to work. Hopefully, the present combined strategy will show the first results within the near future in order to stop the rise in unemployment and to restore the prospects for sustainable growth.

A stable monetary environment is essential for international trade. An increased role for the international financial institutions is called for. The major industrial countries should be prepared to enable the international institutions to fulfil the tasks allotted to them according to their charters. Too often G-7 initiatives confront the rest of the world with faits accomplis. Since policy measures taken by these major countries have a global impact, the coordination of policy measures and new initiatives should take place through discussions in the appropriate fora like the IMF, the World Bank and the OECD. The fact that G-7 initiatives are to be financed by the international financial institutions also calls for their early involvement.

Conclusion

I will conclude with the main theme of this conference, financial assistance to developing countries. As many of you emphasised, there is a need for adaptations in response to changing circumstances. In some cases financial assistance should be more readily available. This certainly applies to the poorest developing countries. At the same time we should realise that these adaptations will never be a panacea for the problem of underdevelopment. Imbalances in financial flows are often the result of imbalances in the real economy. Without adjustments in the real economy, either within developing countries or in global trade patterns, many developing countries will not be able to restore the balance.

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We very much need international cooperation and coordination. A global economy is emerging fast. Our international institutions must take up the challenge, in the interest of industrialised, transforming and developing countries alike. Our own interests are best served by giving common interests priority. That is a lesson which also applies particularly to international financial institutions in the years ahead.

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