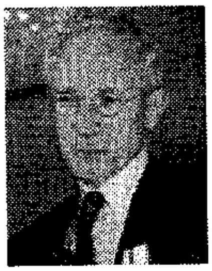

Stanley Fischer

Biography

2000 Spring Meetings

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Statement by Stanley Fischer
Acting Managing Director
to the G24 Ministerial Meeting
Washington, D.C., April 15, 2000

The Acting Managing Director made the following statement:

Thank you, Mr Chairman. It is a pleasure to meet with you and your colleagues, and to congratulate you, an old friend, for assuming the chair of this important Group. I would like especially to thank you and the outgoing Chairman, Mr. Peiris, for your kind remarks about Michel Camdessus, which I will certainly pass on to him. I know that his commitment to the developing country members of the Fund, and to this Group, represented not only the wishes of the members of the Fund, but also his deep personal commitment. I have discussed developing country issues in some detail with Mr. Köhler, the incoming Managing Director, and I have no doubt that both the institutional commitment to our developing country members and the personal commitment of Mr. Köhler will be expressed in coming meetings and in all his actions as the Managing Director of the Fund.

I would like briefly to review with you a few main items on the agendas for the Development Committee and the International Monetary and Financial Committee - which has succeeded the Interim Committee and which will have its first meeting tomorrow.

The backdrop for these meetings is a continued strengthening of the world economy, and even stronger growth continues to be expected in 2000. Buoyant activity in the United States and Western Europe provided support for the crisis-affected countries in Asia and Latin America, and has enabled them to benefit more from their ongoing structural reforms and the prudent financial policies that they have been pursuing. The recent oil price increases contributed to stronger economic performance for oil producing countries. It is often said that oil prices do not have the same effect on the world economy as they had 20 years ago. One difference is that there are many more oil producers than there are were 20 years ago, and some of them are very poor countries indeed. So the distribution of the benefits of oil price increases has changed, and producers in the Middle East, Africa, as well as Russia have benefited.

But there are, of course, reasons for caution: oil price increases are not beneficial to all; signals from Japan remain mixed; and asset price inflation - and sometimes asset price deflation, as in the last day or two - is a general concern. Also, the growing global economic imbalances could, if unchecked, lead to significant future disruptions in world growth. The policy tools are there to deal with any potential disruption, but we need to continue working toward more balanced growth across the whole membership in order for this expansion -- and it is a very impressive one; the growth rate projected for this year is as high as any in the last decade -- to be sustained.

Since last September, working in the closest collaboration with the World Bank, we have established the framework for a strengthening of the link between poverty reduction and debt relief under the HIPC Initiative, as well as an enhanced poverty focus for Fund concessional lending under the Poverty Reduction and Growth Facility. Poverty reduction strategy papers, which I regard as a subset of what is implied by the Comprehensive Development Framework, are intended to integrate poverty reduction measures into a coherent macroeconomic framework aimed at rapid growth.

The division of labor between the Bank and the Fund in the HIPC Initiative is clear. We in the Fund must take full account in the macroeconomic framework of the implications of anti-poverty policies and other structural policies needed to fight poverty and promote growth, but support for social sector policies is to be provided primarily by the Bank. The participation of the various shareholders will be critical to the development of the poverty reduction strategies that are country-owned, but the change that we are making now is a major one for us and for countries, and it will take time. As you are aware, we will have to balance the desire for speed with the need for quality, effectiveness, and especially ownership by the countries developing these strategies. We have continued to make progress under the HIPC Initiative, and we think at the moment that about 20 countries could reach their decision points under the initiative this year.

Financing of this initiative remains an issue for many of you. With your generous support, we in the Fund now have the elements of a financial package to fund our participation in the HIPC Initiative and for the PRGF. But this remains subject to U.S. legislation, which we hope will be forthcoming soon. Implementation of the HIPC Initiative requires the full participation of all creditors, and there are difficult issues for both multilateral and bilateral financing for some of your countries, and for some of the institutions in which many of you are members, and those issues are going to be have to be resolved.

The expansion of trade is also essential for promoting growth and poverty reduction. The HIPCs would benefit from duty and quota free access for their exports to industrial country markets, and all developing countries would benefit from the further liberalization of trade in agricultural and manufactured products. The links between trade and development are going to be an important issue before the Development Committee on Monday.

Let me turn now to a few other items on the IMFC agenda. We have recently conducted an internal review of surveillance, which follows up on last year's external evaluation. Surveillance has been strengthened in key areas, which include exchange rate policies, financial sector issues, and capital account developments. The Board has agreed that our areas of surveillance should generally satisfy a macroeconomic relevance test-that is, that we should pick up other issues only when they have clear implications for macroeconomic and financial stability. As we look ahead, we see that many of the initiatives to strengthen the international financial system will come together in the vehicle of Fund surveillance, especially the experimental work on transparency, standards and codes in financial sector assessments. These initiatives are very resource-intensive, and they will all pose special challenges for surveillance. We will need to develop ways to draw on the ongoing work and special skills in our bodies.

Standards and codes are an important area for Fund surveillance. I realize that many of you have concerns on how this work will be integrated into surveillance. The members of the Fund will need to work closely together if we are to ensure that this integration is done in a way that addresses the concerns of all the membership. We have engaged with others, especially the World Bank, in experimenting on how best to undertake assessments of the extent to which standards are observed. Modular reports - that is with separate units on each of the standards and codes - on the observance of standards and codes, the ROSCs, have already been published on the Fund's external website for 11 countries, and they are in preparation for a further 20. It is clear that if countries are going to integrate successfully into the global economy and secure the benefits of that integration, there needs to be rapid progress on the development and implementation of key standards and codes.

One of the issues that has seemed most difficult to resolve has been that of private sector involvement in forestalling and resolving financial crises. There has been a lot of progress here recently, and it is appears that the principle of private sector involvement is reasonably well accepted, even by the private sector. Market participants rightly underscore the importance of debtors maintaining a dialogue with their creditors in good and bad times alike. When we meet with private sector participants, they all tell us, please urge members to stay in touch with us in good times; then, when they need to approach us in bad times, it will be much easier. This is a point that we need to reinforce in our own contacts with our member countries. There has been some experience with the efforts to secure private sector involvement with members that have lost access to capital markets, and I think it is encouraging. We have made progress toward an operational framework for decisions on private sector involvement in the context of Fund-supported programs. It will not be the case that concerted private sector involvement would be insisted on in all cases. In many cases, we expect to do business in the usual way, relying on our normal catalytic role. But, when a country's medium-term balance of payments is not sustainable, or if programs might have to be very large without concerted private sector involvement, then there would be a requirement for that. We have made a good start, but the application of the framework raises difficult analytic issues, and it is certain to remain on the agenda in the months ahead.

Let me refer to several recent instances of misreporting of information and the misuse of Fund resources. These have been few and infrequent, but they threaten the Fund's credibility and reputation, and the relationship of trust with our members. I fear that it is one of the most potentially corrosive issues on support of the Fund in member countries. The perception could be that we lend and do not know what happens to our resources. For that reason, and to enhance governance in the Fund and in member countries, the Board has agreed on a range of steps to require appropriate audits and information provision by central banks in connection with the use of Fund resources, and to strengthen our rules on misreporting. We want to, we should, and we must continue to operate on the basis of trust. But these are important complementary measures, consistent with the seriousness of the issue. We need to put the emphasis on prevention of these issues arising. By the time they arise, it really is too late, and applying remedies for misreporting is not something that is attractive to anybody. We need to avoid these circumstances arising. In that way, we can strengthen our ability in the long term to help members through financial assistance and policy advice.

Finally, let me mention that we have initiated a fundamental review of the design and operation of our nonconcessional financing facilities to ensure that they continue to meet members' needs as the world economy evolves. This effort has produced a significant streamlining through the elimination of four facilities in the last few months, and the Board will be exploring potential modifications to other facilities, in particular to encourage greater efforts of crisis prevention by members, in part through the provision of precautionary arrangements and efforts designed to make the Contingent Credit Line more usable and more useful. We will be looking for ways to find the right balance of incentives and disincentives regarding the use of our resources in the context of increasingly, but far from universal, access to private financing by member countries. As we make progress on this issue, we will in essence also be clarifying the role of the Fund in the international financial system, and so there is a close interaction between debates on the role of the Fund and decisions on the types of facilities we have.

The discussions of the Development Committee and the IMFC will reflect significant progress, and they will also help shape a large ongoing agenda. The nature of the initiatives that we have embarked upon require that we work ever more closely together, and with a common strategy, and that strategy includes the need to deliver the debt relief we have promised to our poorest members, and it includes building the architecture to make the international system, of which the Fund is a critical part, more resilient, more responsive to our members' needs, and of more help to our member countries.