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Report to the Board of Governors of the
International Monetary Fund by the Chairman
of the Interim Committee of the Board of Governors
on the International Monetary System,
the Hon. **CARLO AZEGLIO CIAMPI**

STATEMENT BY THE HON. CARLO AZEGLIO CIAMPI, CHAIRMAN OF
THE INTERIM COMMITTEE

MR. CIAMPI: Mr. Chairman, Governors, ladies and gentlemen, I welcome this opportunity to report to the Governors on the activities of the Interim Committee that I have now the honor to chair.

The world economy is at a critical juncture. Large areas are facing declining or negative output growth, disquieting financial instability and sharply falling living standards.

Of particular concern is the magnitude of the contagion effects on otherwise sound economies which have been worse than anticipated. The economic picture, however, has some positive aspects, that, if reinforced, can help countries to overcome current difficulties. I am now referring in particular to the continuing generally solid growth amid low inflation in the industrial countries of North America and Western Europe and to the Economic and Monetary Union in Europe that is already contributing to monetary stability.

Today's problems in the world economy are not insurmountable, but their solution requires more than ever a clear sense of their action as regards the economic and the financial adjustment that must be introduced, determination on the part of the countries in implementing rapidly all the

necessary measures, particularly structural reforms and solidarity within the international community of member countries to make the difficult task both manageable and socially acceptable.

The Interim Committee considered at length these challenges and deemed it essential that the member countries take forceful action of broad range of policies in order to restore market confidence and growth where needed.

Given the present global situation, a strong cooperative effort is now required and should be pursued by all countries and institutions in order to support those countries that have been most adversely affected and which are implementing sound adjustment programs.

In discussing the policy response to the crisis, the Committee called on member countries to adopt confidence in restoring policy measures by addressing domestic and external sources of vulnerability. They were also concerned about the depth of the recession and its negative impact on large sections of the population.

A major contribution to overcoming the current deterioration of economic conditions has to come from appropriate policies being followed in the industrial countries. Continuing fiscal stimulus and the decisive measures for bank restructuring

are essential in Japan, to revive economic activity on a durable basis.

On the United States and the European Union countries, the Committee welcomes the recent interest rate reductions and supports the readiness to take other measures in view of maintaining durable growth and financial stability.

In the context of the overall strategy, the International Monetary Fund, in particular, is called to provide, as is its institutional mandate, policy guidance, financial support and assistance in policy implementation.

The IMF should keep a central role in this strategy and, to this end, it must be endowed with all necessary resources to fulfill this task.

The reach of the crisis has underscored the need to reexamine and to strengthen the architecture of the international monetary system in order to better tailor its roles and institutions to the evolving needs of the global economy and international financial system.

The Committee stressed the need to widen the scope of recent work in order to encompass other crucial aspects concerning the management and the resolution of the financial crisis. The institutional components of the international monetary system also require a thorough review, including the

possibility of strengthening and transforming the Interim Committee itself.

On a number of points of great importance for financial stability in the international system, there is already broad agreement. These include developing and disseminating internationally accepted standards to increase transparency as regards countries' economic policies and the financial markets' participants, more openness on the Fund's policies, new approaches for a greater involvement of private financial institutions in foretelling and resolving financial crises, the importance of the countries creating the necessary preconditions for capital movement liberalization, particularly in terms of a solid financial system and effective prudential framework, understanding the Fund's policy of lending into arrears.

The Committee also drew the attention of the potential contributor countries to the urgency of securing the necessary financing of the ESAF and of the HIPC Initiative, and encouraged potentially eligible countries to start the needed adjustment programs as a prerequisite to benefit from these initiatives.

To conclude, Mr. Chairman, I wish to express my personal satisfaction for the substantial work carried out by the Interim Committee during the past year. In the last Committee session that I had the privilege of chairing, I was impressed by

the spirit of the meeting, no incriminations, certainly a profound awareness on the part of all the participants for the difficult passage that the world economy is now undergoing.

I was struck by the unanimous commitment to work together for overcoming the present difficulties. This spirit of cohesion and cooperation will deserve, I am sure, the renewed market confidence.

Thank you, Mr. Chairman.

[Applause.]