

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

INTERNATIONAL MONETARY FUND

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Press Release No. 26

September 23 - 25, 1997

Statement by the Hon. **CARLO AZEGLIO CIAMPI**,
Governor of the Fund for **ITALY**,
at the Joint Annual Discussion

**Statement by the Hon. Carlo Azeglio Ciampi
Governor of the Fund for Italy
at the Joint Annual Meeting
Hong Kong, China, September 23, 1997**

Mr. Chairman,

The progress of integration, the spreading of economic growth to most areas of the world, the convergence of inflation to low levels, and the sustainability of existing current account positions offer all of us the opportunity to proceed in our efforts to make lasting contributions to international stability and prosperity. We should seize this opportunity.

For many in Europe, moving forward means establishing the Economic and Monetary Union after the Single Market. For others, it means completing the process of transition to market economies.

Economic and financial integration is already on a well-established trend. We possess good institutions, regional and global, that can help us do this but, in the final analysis, results largely depend on our policies and choices.

One year ago Italy was faced with a hard choice. The economy was stagnating, the budget deficit - though improving - was still at about 7% of GDP, and the inflation rate was double the average for the European Union. At the same time, calendar and commitments for the European Economic and Monetary Union (EMU) did not leave any room for slippage.

The Italian Government made its choice: early participation in EMU became the guiding light of our policies. The challenge was a bold one; according to some, even reckless. But today I can say that we are close to meet it. Optimism must be tempered with caution, but certainly Italy is now well-positioned to reap the benefits of the process of disinflation, fiscal adjustment, and structural reform that it has endured, despite the unfavorable cyclical circumstances of 1996 and early 1997.

The markets have appreciated our determination in facing the task of fiscal consolidation: the fall of interest rates was the reward and it has made the adjustment not too punitive for the real economy. The primary surplus in Italy is one of the highest in the world, which makes further gains in the overall budget balance easier to obtain. Confidence is returning to households and firms. We expect output in Italy to rebound this year and to continue to grow in the next: our prudent forecast of 1.2 percent GDP growth in 1997 and 2.0 percent in 1998 are well within reach. Our current account balance of payments position is among the strongest in Europe. The lira re-entered the ERM and has remained stable in it.

It is in the area of inflation that we can see the most progress. The rate of inflation, which one year ago was the second highest in the EU, is now amongst the lowest: much less than 2 percent. Behind this unique improvement there is a radical and non transient downturn in inflationary expectations. This was made possible by converging fiscal, monetary and income policies: the three pillars of a society which founds its progress and its cohesion on stability.

A reform of public administration has been launched. The budget process itself has been revamped. A tax reform has been approved and it is being implemented by the Government. It is innovative, and it has made the tax system more pro-growth and fair.

I have mentioned the structural components of our fiscal adjustment in order to underline our commitment for the “sustainability” of our budgetary position. We are well aware that some of the corrective actions taken with the 1997 Finance Law need to be consolidated by the implementation of structural measures and by a rigorous 1998 budget.

The process of fiscal consolidation needs to take into account a problem common to all industrial countries, but especially acute in Italy and Japan: the rapid ageing of the population. In Italy, we are now engaged in an attempt to collectively re-evaluate some of the basic features of our welfare system and adapt it to ensure its long-term balance, and therefore the certainty that future generations can benefit from it.

We believe that Italy can contribute to the historical change about to take place in Europe. We believe that the Euro will be stronger the more countries will participate in it, provided they comply with the Maastricht criteria. We believe that the single currency will go a long way towards giving back to Europe the capacity to compete in the global economy, to grow, and to create jobs.

The key problem of Continental Europe is unemployment. Making progress on this front requires, in addition to the resumption of sustainable growth, significant structural improvements: in physical and non-physical infrastructure to help the competitiveness of the system, in deregulation to increase competition in the markets for goods and factors of production, in taxation to make it less skewed against the utilization of labor, in the functioning of the labor market and in the composition of public expenditure to facilitate life-long education and training of the labor force and to increase the ability of workers to move within and across industries and regions.

Mr. Chairman,

Solid international institutions, regional and global, can help our societies to change and prosper.

We are fortunate to have the IMF and the World Bank at work in their respective spheres, adapting to the emerging world realities, while at the same time helping to shape them. The IMF is becoming a major supplier of credibility, aside from credit, to member countries, and a key player in preventing and handling crises. To fulfill its complex and evolving roles, the IMF must have clarity of mandates, flexibility of action and adequate resources.

For these reasons we have supported the establishment of the New Arrangements to Borrow, the expansion of the ordinary resources of the Fund and the extension of its mandate to the area of capital account convertibility. We are happy to see the first two objectives reached.

The Amendment of the Articles of Agreement that we are now contemplating is an event of historical dimension. After the successful establishment of the World Trade Organization, the extension of the Fund's responsibility from current to capital accounts would constitute a major advancement in the existing world economic order. We must, therefore, take care to act judiciously. In this area it is more important to be right than to be quick.

In the same spirit we support the emphasis that the World Bank Group is placing on the fundamental areas of private sector development and governance. The Group can help remove existing obstacles to the participation of the private sector in the development of key areas of the economies of emerging countries by providing guarantees, supplying risk capital, extending credit, and sponsoring good sector policies. It can also provide critical important assistance to extend physical infrastructures and develop human capital.

Governance in all countries is critical. The Bank Group and the Fund can play a useful, if limited, role in fostering effective governance, which by its nature begins at home.

This leads me to a final consideration. In public policy success begins at home. If we succeed there, international public action also becomes easier and more productive. To be fully effective, we must achieve mutually-reinforcing results in both these domains.

Thank you, Mr. Chairman

