CAMDESSUS ADDRESSES IMF BOARD OF GOVERNORS

The following is a summary of remarks by Michel Camdessus, Chairman of the Executive Board and Managing Director of the International Monetary Fund, to the Board of Governors of the Fund made in Washington, D.C., on October 6, 1998.

Governors, you have come this year in the midst of a crisis. A crisis that has already cost hundreds of billions of dollars, millions of jobs, and the unquantifiable tragedy of lost opportunities and lost hope for so many people, particularly among the poorest. This is a time then, for hard thinking, for recognizing errors, and for bold steps. So let us try together to find answers to four basic questions:

Where do we stand?
What has gone wrong?
What should be the basis of a new financial architecture? And,
How can we travel from today's crisis to a more secure, stronger international monetary system?

The Fund's most recent assessment is that, in the absence of any further major shocks, world output will expand by about 2 percent in 1998, just one half of what we projected a year ago. It would be perhaps too dramatic yet to talk of global recession, but the evidence of the risks calls for immediate action. But even North America and Europe are not immune, and effects of the crisis are beginning to be felt. It was therefore most appropriate that representatives of the industrial economies recently recognized the shift in the balance of risks from inflation to a slowdown in demand. Their pro-growth stance, together with prospects for a gradual turnaround of the Asian countries in crisis, if they continue strong policies, lead us to anticipate a modest upturn in world growth in 1999, from 2 percent to, say, 2.5 percent. If we expect any upturn next year, it will be because of the impressive steps by many countries, some of which were already implementing Fund-supported programs, to shield themselves against contagion. All of this means that we are not in 1928. Recession on a global scale can be avoided.

For these countries, for any country, to enter the new century with sounder long-term prospects than before, more is needed: a cooperative effort by the entire world community to repair the major shortcomings in the global system that this crisis has brought to light:

1. the weak culture of transparency throughout the world's public sector and private sector, at national and at international levels
2. the weakness of financial systems
3. a piecemeal opening of capital accounts
4. hesitation in defining modalities for involving private institutions in preventing and resolving crisis
5. lastly, while sophisticated global forms of financial intermediation were developing rapidly, we were slow in establishing practices and regulations at the level of world markets based on experience and on credible institutions to enforce them.

In short, to extend the enormous progress of the last 50 years into the next half century, we need a new architecture for the international monetary system.

This new architecture must rest on five underlying principles: transparency, soundness of financial systems, involvement of the private sector, orderly liberalization of capital flows, and modernization of international markets harnessed with standards of best practices and means for enforcing them. Will this be enough? Some may say that these proposals are not bold enough, that standards and codes of good practice rest too much on consensus, mutual trust, and an exceptionally high sense of responsibility of all actors. They may argue for the imposition of global rules or taxation, but I do not see a consensus materializing on such a basis. Instead I suggest that our five elements provide the basis for a broad agreement to be assembled in a spirit of subsidiarity; acting at world level is appropriate only when action at the national or regional level cannot suffice. This means, of course, in the light of recent developments, that national regulators must adopt all appropriate measures to reinforce their financial systems, not the least addressing decisively the serious problem created by the lack of transparency and poor monitoring of hedge funds and of transactions in many off-shore centers.

For the period immediately ahead, what could be the elements of a new consensus on how to progress from the present situation to a sounder world economy based on the new architecture? Everyone has a role.

First, for the more robust economies: at present, the industrial countries clearly have a role as engines of global growth. The recent commitment by the G-7 finance ministers and governors to preserving or creating conditions for sustainable domestic growth and financial stability was a welcome signal, but action and continued vigilance will be needed. Action is particularly urgent in Japan. Decisive moves by the authorities to promptly and resolutely repair the financial system, while pushing the agenda for deregulation, openness, and structural reform and, simultaneously, continuing fiscal stimulus until the recovery is self-sustaining, will deserve the highest international encouragement and praise. Second, the international community must provide effective support to the countries rebuilding themselves, provided they continue implementing the agreed programs with utmost determination. Third, countries fighting contagion, above all should resist the temptation to undertake unilateral debt action, to adopt protectionist measures, or to force economic expansion by inflationary financing. Instead, they need to develop their capacity to anticipate difficulties and to respond quickly. They should persevere with programs based on sound money, budget discipline, structural adjustment, strengthening of financial systems, transparency, and promotion of good corporate and public sector governance. Fourth, financing the IMF itself. The Fund needs adequate financing to perform its mandate fully. And fifth, in this search for a consensus on a path out of the crisis, our institutions must be adapted to this new world. This applies to the IMF itself. We shall explore means to strengthen our capacity to provide support more efficiently&including in a precautionary way to countries pursuing sound policies that face difficult global financial conditions. VIP