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## The IMF's Role in Today's Globalized World

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Address by Michel Camdessus  
Managing Director of the International Monetary Fund  
to the IMF–Bundesbank Symposium  
Frankfurt, Germany, July 2, 1998

Thank you, ladies and gentlemen. It is an honor to join you today as you reflect on the IMF's role in today's globalized world. How fitting that we meet here in Frankfurt. And how fitting that we meet at a time when you are celebrating the fiftieth anniversary of the deutsche mark—a currency that has come to symbolize stability and that has served as the anchor of your national prosperity. I fully expect that the DM will leave a legacy of sound policymaking, which will help ensure that the euro becomes for Europe what the DM has been for Germany.

In fact, stability is exactly what the IMF is being called upon to ensure for the global economic and financial system, and in today's turbulent world, it is indeed a particularly precious commodity. For globalization offers both promises and risks. There is the promise of a huge pool of resources for investment and growth, economic equity, and social advancement. But there is the risk of capital flows drying up or reversing, thereby precipitating a crisis, when investors—domestic or foreign—abruptly lose confidence; of course, this was most recently brought home to us with the financial crisis in Asia. And there is also the risk of marginalization for countries, such as those in Africa, that have been slow to integrate into the world marketplace.

What is the IMF doing to help countries navigate such a turbulent world? And what ideas do we have on the best way to ensure stability and more generally to discharge our mandate as we enter the twenty-first century? These are the questions I would like to address in my remarks today.

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What is the IMF? Contrary to what I thought when I joined the institution, this is not a question on which educated people and policymakers have an immediate and accurate response. In fact, according to popular opinion—and indeed, the makings of newspaper headlines—the Fund is simply a source of financing or a mechanism for crisis management. But this is wrong, as by far one of our most important functions is what we call "surveillance"—a mechanism that offers the prospect of addressing economic difficulties before they reach crisis proportions. Surveillance is the process through which the IMF continually exchanges views with national authorities and

thereby evaluates the policies, performance, and prospects of each member, and provides a candid assessment to the membership at large at least once a year. Of course, the crises that are thereby prevented generally go unnoticed, but the importance of this surveillance in promoting economic growth and financial stability cannot be overstated.

What kind of policy advice do we give? Throughout our history, we have urged countries to pursue sound economic policies—and by that I mean policies that promote growth through low inflation, sound money, prudent fiscal policies, and a sustainable current account position. Advice that should sound familiar to a German audience! Yet, as the economic landscape has changed, we have broadened the scope of our advice to include other elements—what we call second generation reforms—that are also vital for economic growth and financial stability. These include:

- reductions in unproductive government spending;
- higher spending on primary health care and education; and adequate social protection for the poor, the unemployed, and other vulnerable groups;
- the creation of a more level playing field for private sector activity, by increasing openness, stepping up privatization, dismantling monopolies, and setting up simpler, more transparent regulatory systems;
- stronger banking systems that protect depositors, especially small savers, and reduce risks for shareholders and creditors by enforcing strict prudential standards and information disclosure requirements;
- tax systems that are effective, efficient, equitable, and as simple as possible; and
- greater transparency and accountability in government and corporate affairs.

The challenge for us is to give these issues the proper attention—which can be critical for the sustainability of macroeconomic policies—while keeping strongly focused, as part of our permanent task of surveillance, on the paramount objective of stability in its internal and external aspects.

Beyond that, of course, there is our responsibility for helping member countries adapt to changing circumstances. And if this had not been our reading of our mandate, our membership would have been prompt—and has been prompt—in asking us to take on this responsibility: in the 1970s, for helping oil exporters recycle their surpluses and helping others finance their oil-related deficits; in the 1980s, for helping Latin America overcome its debt crisis; in 1989 and the early 1990s, for helping the transition countries of eastern Europe and the former Soviet Union overcome the legacy of central planning; and in late 1994 and early 1995, for helping Mexico, and with it probably Latin America, avert financial collapse.

## Helping countries to adjust

These days, we remain quite active in Russia and in many economies in transition, where we are trying to bolster reform efforts; in Africa, where we are helping to secure a renaissance after two lost decades; and in Asia, where we are trying to contain the current financial crisis. Let me take these areas of the world one at a time.

From the earliest days of the transition, the IMF has been helping to underpin reform efforts in the transition economies with policy advice, technical assistance, and financial support—and to mobilize financing from other sources. From 1990 to early 1998, IMF commitments to these economies totaled about \$41.3 billion. And the transition economies' share of IMF technical assistance rose from a little over a quarter in 1992 to nearly 40 percent in 1995, and is now still almost one third. Moreover, by the end of last month, the Joint Vienna Institute—which was set up in 1992 by the IMF and several other multilateral institutions—had provided training to over 9,300 participants from 33 transition countries.

How are these countries faring? Undoubtedly, 1997 brought good news: positive growth was recorded for the first time in eight years, and the overall expansion is expected to strengthen this year and next. But regrettably, a number of these countries have been feeling the aftershocks of the recent turmoil in East Asia: their export prices have weakened, conditions in international capital markets have become less favorable, Asian investors have scaled back investments, and their currencies have come under attack.

The challenge for us, therefore, is to assist the transition economies in safeguarding and extending their progress through sound macroeconomic policies and—with the support of EBRD and the World Bank—the second generation reforms that I have already mentioned. The IMF will naturally continue to support such programs. Indeed, these types of measures are vital throughout the world, especially for emerging countries wishing to access global capital markets. It is interesting to recall that at the beginning of the 1990s—a passionate debate developed: weren't we too tough pressing too much for low inflation and speedy reform? Now the response is clear: the fastest countries in adjusting and reforming are now the strongest in growing and in withstanding the crisis. A lesson worth remembering.

As for Africa, we are stepping up our efforts to help this continent avoid marginalization and accelerate growth in four key ways:

- First, we are taking steps to *put the ESAF*—our concessional lending window—*on a self-sustained footing* so that we can continue to support reform efforts in Africa, and indeed, in other low-income countries, over the long term. We are also exploring ways that the ESAF can *serve the developing world better*, drawing on findings of recent internal and external evaluations. Working closely with the World Bank, we shall be taking a fresh look at ways to accelerate public enterprise and financial sector reforms; improve the assessment of medium-term investment needs and capacity to absorb

external financing; and identify potential adverse social consequences of reforms, to be in a position to coordinate with national authorities the appropriate, rapid, effective responses. And we shall certainly be looking at approaches that can help governments take ownership of programs, and truly call them their own.

- Second, we have been moving swiftly to *implement our joint HIPC initiative with the World Bank for the heavily indebted poor countries*. Just in the 18 months since its launching, commitments of about \$6 billion have been made to six countries; and work with a number of other countries is in the pipeline.
- Third, over the years, the IMF has provided assistance to countries that have experienced political turmoil, civil unrest, or international armed conflict—and since 1995, we have had a special policy to *provide emergency post-conflict assistance*. Bosnia-Herzegovina was the first country to benefit from this new policy in late 1995, and Rwanda, Albania, and Tajikistan have also received such assistance. The Republic of Congo may be next in line.
- Fourth, the IMF stands ready to *continue to provide—and intensify—our training and technical assistance for capacity building and institutional reform* in Africa and low-income countries elsewhere. Perhaps one of the most encouraging signs is the recent Initiative of the African Governors of the Bank and the Fund to ensure that capacity building is henceforth an integral part of Africa's development agenda. In this context, the IMF Institute has been expanding its training activities for African officials and supporting regional training and research institutions. It is our intention to extend the reach of our training by the establishment of an IMF regional institute in Africa, jointly with training partners in the region, just as we have done for the transition economies by establishing the JVI and by putting in place the IMF–Singapore Regional Training Institute.

### Helping countries in crisis

Turning to East Asia, the first question here is what went wrong? How could events unfold as they did after several decades of such outstanding performance, in terms of growth and poverty reduction? The answer is that there was another side to the so-called miracle. In a globalized economy, as I suggested when talking about the scope for surveillance, a few macroeconomic virtues are not enough. Constant vigilance by all countries must be maintained over all the socioeconomic parameters. The soundness of the banking system, in particular, must be monitored at all times. The unsustainable accumulation of short-term financing must be avoided. And great care must be taken to ensure that governments conduct their affairs in an irreproachable and transparent manner and that all forms of corruption, favoritism, nepotism, and, if I may use the expression, "cronyism" are shunned.

But let us not single out the Asian countries alone. These missing elements exist to a degree everywhere. And Asia's problems would not have reached such proportions if financial institutions operating

in the international markets had not taken excessive risks.

What is the IMF doing to contain the crisis? As soon as it was called upon, the IMF moved quickly to help Thailand, then Indonesia, and then Korea formulate reform programs aimed at tackling the roots of their problems and restoring investor confidence. In view of the nature of the crisis, these programs had to go far beyond addressing the major fiscal, monetary, or external balances. Their aim is to strengthen financial systems, improve governance and transparency, restore economic competitiveness, and modernize the legal and regulatory environment.

To provide the breathing space in which these efforts could go forward—as, of course, it takes time to turn around a situation where major structural transformations are called for—we had to marshal catalytic, but alas, sizable financial support, and convince public and private creditors to take their share in the burden of rebuilding the creditworthiness of these countries. I must also mention a much less spectacular, but equally important, effort, which is to help other countries that were being threatened with contagion to strengthen their macroeconomic fundamentals and their economic structures. This explains why, at the present time, 55 countries around the world are applying IMF programs and 28 more—for a total of 83 countries—are having more or less advanced negotiations with us: the effort at strengthening economic structures with IMF support is truly widespread in the world!

But in recent weeks, a new crisis—a crisis within the crisis—has emerged with the weakness of the yen. This new development reflects a serious lack of confidence, provoked in part by recessionary conditions in Japan, as well as the crisis facing its financial institutions. Clearly, the fall of the yen is not unrelated to the Asian crisis, but it could also seriously jeopardize the ongoing recovery of the economies that were hit first. And it adds to the market instability that is again affecting other countries within the region, as well as some countries, including Russia, outside it. Thus, Japan must now move aggressively and quickly to rehabilitate its banking sector, to adopt policies—including reforms that would provide significant tax relief—that ensure that fiscal stimulus is not withdrawn too quickly next year, and to open up and deregulate its economy. Here, too, I should add that the Fund is closely involved through its surveillance process.

Are we creating a moral hazard for borrowers and investors? As for borrowers, there is agreement, I believe, that no country would deliberately pursue reckless policies because it thought the IMF would bail it out in the event of a crisis. The political cost would simply be too great. As for investors, the debate is going on, and it is a healthy one. But even if I frequently play devil's advocate for myself and my colleagues in the Fund, I always end up concluding that these programs are hardly bailouts. Many private investors are taking heavy losses. With stock markets and exchange rates plunging, foreign equity investors have lost nearly three quarters—if not more—of the value of their equity holdings in some markets. Many firms

and financial institutions will go bankrupt, and their lenders will not be repaid. Moreover, earnings reports indicate that, overall, the Asian crisis has been very costly for many foreign commercial banks.

That being said, it is true that some short-term private creditors are being at least partly protected. Efforts should now be made to involve the private sector in resolving both sovereign and private debt problems, not just sovereign ones. But please remember that, in any case, surely the global interest lies in containing and overcoming this crisis as quickly as possible.

This is, Mr. Chairman, what keeps us busy at this very moment. But that is not all. There is another feature of the half century long life of the Fund, which today keeps us even busier: namely, the fact that we are never allowed to wait for the end of a crisis to start thinking about how to reinforce the system to avoid the next. This is what we now call, rather pompously, strengthening the architecture.

### **Strengthening the architecture**

In view of the enormous human and economic cost of the Asia crisis, no wonder we hear many radical suggestions as to how to avoid such losses in the future. There are calls for the international financial system to do a better job of predicting and preventing crises, addressing their social impact more effectively, stopping speculators and properly regulating this "casino economy," seeing to it that investors bear the full costs of their mistakes, stabilizing the international monetary system, providing for more political accountability of our institution, etc., etc.

We cannot deny the basic justification of these—at times vociferous—calls for change. No doubt there are at least some elements of validity in each of them. Taken together, they tell us that world public opinion expects its leaders not necessarily to redesign everything from scratch, as if we were back to Bretton Woods; but neither should we limit ourselves to some plumbing and interior decorating of the old mansion.

As responsible architects, what can we come up with? I would like to suggest five areas where we should concentrate our efforts. And in our discussions today, I look forward to hearing the views of participants on these and any other areas they consider important.

- First, we must continue our efforts to ***make Fund surveillance more effective***, as Fund surveillance will continue to play a crucial role in future crisis prevention. We must intensify our monitoring of financial sector and capital account developments, including the risks posed by a sudden reversal of capital flows, the rapid accumulation of short-term external debt, and unhedged exposure to currency fluctuations. We must also monitor more closely market views and perspectives, and give greater attention to policy interdependence and risks of contagion.

Would more effective regional surveillance help? Certainly, Europe has shown us that regional surveillance and peer pressure can

produce an impressive degree of macroeconomic convergence. And while the instruments of regional cooperation are not as well developed in other regions, as in Europe, their combined experiences suggest that there is considerable scope for improving policies when neighboring countries get together on a regular basis to encourage one another—and, at times, to exert some peer pressure on one another—to pursue sound policies. For that reason, it is very encouraging to see such initiatives under way in Asia, and the Fund stands ready to contribute its technical expertise to these efforts, as it already does in the G-7 and other fora.

We also need to *develop a "tiered response,"* whereby countries that are believed to be seriously off course in their policies would be given increasingly strong warnings. Here, we want to draw on the lessons from the Asian crisis, and the experience that confidential warnings from the Fund are not always heeded. Addressing an audience in this country, where football is a favorite pastime, I do not need to emphasize how important it is to know exactly when the referee has shown a yellow card and how many yellow cards are permitted! We also have in our Articles of Agreement the red card of going public with our assessments, but using this card could precipitate the crisis we seek to avoid. So as good referees, we would try to keep the red card for truly unacceptable persistence in wrongdoing.

- Second, in order for our surveillance to be effective, we must *improve the availability and transparency of information.* In recent years, the IMF has taken numerous steps to enhance transparency and openness, including the establishment of standards to guide countries in publishing a regular and timely flow of comprehensive economic and financial data. Already, 47 countries have subscribed to the Special Data Dissemination Standard, which provides guidance to countries participating in international markets, or aspiring to do so. We are now in the process of developing proposals for strengthening the standard, especially in the areas of international reserves, by including reserve-related liabilities and central bank derivative transactions, and private external debt, particularly short-term debt. We have also recently adopted a code of good practices on fiscal transparency, and looking ahead, we plan to develop a similar code with respect to financial and monetary policies.

Let me add that the Fund tries to practice the transparency it preaches: our Website on the Internet tries to answer just about any questions one may have on the Fund. It allows access, for example, to the conclusion of the Article IV consultations by the Executive Board in the form of Press Information Notices, and the letters of intent of a growing number of countries. And we will continue to post a wealth of data and other information. But to all those with an "unbearable lightness" who continue to complain about the so-called culture of secrecy of the Fund, I would like to ask: how could we do our job without preserving a sufficient confidentiality so as not to jeopardize the candor and comprehensiveness of policy discussions or to contribute to market scares?

- Third, we must ***strengthen financial and banking systems, as well as their supervision***. For some time now, the Fund has been working to help disseminate the set of "best practices" in the banking supervision area—as developed by the Basle Committee—so that standards and practices that have worked well in some countries can be adapted and applied in others. In accord now with the wishes of the Fund's Interim Committee, these efforts will be stepped up and broadened to cover other important areas, such as accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance—domains, of course, where the definition of standards will have to be the responsibility of other relevant international agencies.
- Fourth, we need to ***establish more effective procedures to involve the private sector in preventing and resolving debt crises***. Clearly, better ways must be found to involve private creditors at an early stage, in order to achieve equitable burden sharing vis-à-vis the official sector and to limit moral hazard. This is a difficult issue, but one that must now be tackled.
- Fifth, as countries open their economies to foreign capital, we must encourage them to ***liberalize capital account flows in a prudent and properly sequenced way*** that will maximize the benefits and minimize the risks of freer capital movements. To this end, work is under way on an amendment to the IMF's charter that would make the orderly liberalization of capital movements one of the purposes of the Fund and extend its jurisdiction to capital movements.

As I wouldn't like to conclude on an exceedingly parochial note, I will only mention in passing the need to ***enhance the effectiveness of multilateral institutions***, which includes ensuring that they have sufficient resources to do their jobs. On this score, I welcome the positive example Germany has set by consenting already to its share of the IMF quota increase being proposed by the international community. With our usable resources now at a precariously low level, I hope Germany's example will inspire the other members to quickly follow suit.

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Before concluding, I would like to suggest how the membership, and particularly our leading members, could best help us at this difficult juncture. Of course, for me, this is a familiar task, as not that long ago, when I served as a central bank governor, I was on the other side of the table sending instructions to my representative at the board of the IMF. So let me see if I can find seven pillars of wisdom.

First, as Mr. Jeske suggested, Europe must show more of a presence in the IMF and take head on its responsibility as the IMF's biggest group of shareholders, resisting the temptation to abandon itself to a benign neglect of our institution.

Second, again, recalling my former role, in recommending toughness to the IMF; Europe must stick also with this message even when protégés are on the spot, and act with the even-handedness that you recommend to us.



Third, be helpful and avoid holding back at financing consortia, or creditor groups. And indeed, avoid telling us that we are late in calling creditors' groups when you are not that interested in joining them.

Fourth, avoid undercutting us, even if it's done with the best possible intentions, by designing new schemes or new institutions—the last avatar of that being, for instance, the so-called Asian Fund, which had to be gentler and kinder than the IMF. This kind of idea too often gives countries in difficulty the feeling that they can escape the hard, but indispensable, discipline that the IMF is there to promote.

Fifth, the main shareholders of the IMF should help us as much as they can in our key task of surveillance: in helping us, in warning us when they see things we possibly don't perceive sufficiently, in emphasizing our message to the rest of the world, and in not doing the opposite—namely saying yes, yes, the IMF says that, but don't worry, we will help you find a solution.

Sixth, and by far the most important, you must compete for excellence in your economic policymaking, not just for the sake of your people but also for the sake of the world. We need this example!

And seventh—as you are so frequently giving the IMF the impossible task of squaring circles—please give us also generously, as the President of the Bundesbank did this morning, the benefit of the doubt and the benefit of your friendly support, in spite of our well-known flaws and lack of infallibility.

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Well, together, these seven pillars and the IMF's five points (plus one!) sum up to a rather ambitious agenda. But it is an agenda that needs pursuing in these turbulent times. For without a more stable economic and financial system, we will be left adrift, unable to take on the challenges of the twenty-first century. But, Mr. Chairman, if this were to materialize, I am sure we could count on you to call a new seminar, this time for reinventing the true IMF, which Germany has so faithfully supported for so many years.

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