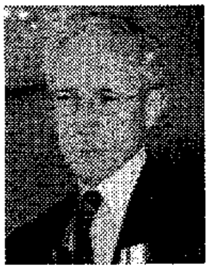

Stanley Fischer

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Presentation to the International Financial Institution Advisory Commission

Stanley Fischer
First Deputy Managing Director
International Monetary Fund
Washington, D.C., February 2, 2000

1. Introduction

Mr. Chairman, Ladies and Gentlemen:

I am grateful for this opportunity to meet with you today to discuss the reform of the international financial institutions. I would particularly like to thank you, Mr. Chairman, and your colleagues, for your courtesy in visiting the Fund to brief us on your tentative conclusions.

I will of course focus on the role of the IMF. I would like to make four main points:

- In joining the IMF, governments subscribe to a set of principles about the operation of the international economic system that are in their mutual interest. This confers legitimacy on the pursuit of these principles by the Fund and its members. The principles include policies to promote economic growth and reasonable price stability, the desirability of an open trading system and currency convertibility, and the need to avoid competitive devaluations. The application of these principles has helped create a period of unprecedented growth and prosperity in the world economy in the last half century.

- The IMF is much more than a crisis lender. Through surveillance and technical assistance, as well as through lending, it is a powerful force for good macroeconomic policies and the prevention of crises around the world.

- The IMF also plays a role, necessarily limited, as crisis lender to governments in temporary need of foreign exchange. Recent crises have made clear the need for some changes in the way this function is carried out.

- In the wake of these crises, the IMF is being reformed and modernized, the better to carry out its functions in a rapidly changing international financial system, dominated by large scale private capital flows. But the Fund is still regarded by almost all its 182 member governments as an essential component of the international financial system. So in reforming the institution, it will be important to ensure that it remains capable of carrying out the purposes for which it was established.

2. The Purposes of the IMF and its Articles of Agreement

Article I of the Articles of Agreement of the IMF (see Annex 1), the institution's constitution, sets out its purposes: to create a permanent institution for consultation on international monetary problems; to promote the growth of international trade, and thereby full employment and economic growth; to promote exchange stability and avoid competitive devaluations; to promote current account convertibility, and; to lend under adequate safeguards to member countries to enable them to adjust to balance of payments difficulties "without resorting to measures destructive of national or international prosperity".

The wording of this article has not changed since the founding of the Fund. Our purposes today are indeed the same as they were more than half a century ago. It is sometimes said that the Fund was set up to administer the Bretton Woods system of pegged exchange rates, and that it has been struggling to find a role for itself since that system collapsed in 1973. But the purposes of the Fund were always broader than that, and the institution has demonstrated its ability to adapt effectively to changes in the international economy. This has been true of the shift towards flexible exchange rates among the major countries after the collapse of Bretton Woods, as well as the massive increases in private international capital flows. In doing so, the Fund has remained faithful to the purposes originally laid down for it by its members.

The IMF, as originally designed, and as it has evolved, is effective because its governance structure combines legitimacy, accountability, and efficiency. The Fund's legitimacy is underpinned by its near-universal membership, with every member enjoying the same rights and accepting the same responsibilities. Its legitimacy is enhanced by the cooperative working relations that exist among the 24 members of its Executive Board, who represent the 182 member countries.

The Fund is accountable to its member governments through their representatives on the Executive Board, a discipline which is strengthened by the growing transparency of its activities and decisions to the general public. And it is efficient in part because the Executive Board has remained relatively small. This helps ensure that the Fund can act very rapidly when necessary. Weighted voting ensures that the countries which contribute most to the Fund have the greatest say in its operation.

Mr. Chairman, in considering the reform of the IMF, it is important to bear in mind its cooperative nature. It is an institution with nearly universal membership, dedicated to sound economic principles that the United States has long promoted and valued. All members have an interest in the future of the Fund. All members, including the United States, have benefited from the economic growth produced by the policies that the IMF promotes around the world.

3. Promoting Good Policies

The IMF is one of the most effective mechanisms through which the international community promotes good macroeconomic and financial sector policies among its members. We do this in several ways.

First, there is our regular **surveillance** of economic policies and prospects. At a national level, this is undertaken through our regular Article IV consultations with member authorities. These reports present a highly professional view of the economic situation and of policy options to the country's policymakers, a view that is also commented on by the Executive Board and thus by the Fund's member governments. Article IV reports are also valuable to other members of the Fund, providing basic information on developments in individual countries. And for many countries they are virtually the only professional appraisal of their economies and economic policies.

Until recently, these reports were not published. But, with the support of the management of the Fund, that is changing. A pilot study of the publication of these reports is now under way, and will be evaluated by the Executive Board as it considers whether to allow countries to publish their Article IV reports. Publication would contribute to the domestic policy debate, as well as providing information to actual and potential investors. The growing transparency of the IMF is not only desirable in its own right, it is an essential means to increasing the effectiveness of the Fund.

Surveillance also has a regional dimension, for example in dialogue with the institutions of the European or West African monetary unions. At the global level, we publish twice-annual assessments in our *World Economic Outlook* and brief the Board every few weeks. We also present appraisals of the world or regional economic situations to G-7 Finance Ministers meetings, and to regional economic meetings, such as APEC and the Western Hemisphere Finance Ministers Meeting. The Fund's *International Capital Markets Report* is published annually.

Surveillance can help prevent economic problems escalating into crises. This is a vital, but often thankless, task. As with banking supervision, the failures are obvious to everyone, while the successes usually pass without notice. But there are many cases in which the Fund has provided valuable policy advice to countries without necessarily lending to them. Let me give you a few examples:

- In the mid-1990s, we worked with the Swedish authorities under our "strengthened surveillance procedures", helping them resolve a deep fiscal crisis. The cooperation between the authorities and the Fund was particularly important in securing a strengthening of their budget process.

- The current Canadian government found the IMF's analysis of its budgetary options very useful when it embarked on an aggressive fiscal consolidation in the mid-1990s. Canada continues to value its Article IV consultations, in part because they bring a perspective more sensitive to global economic developments and better informed by cross-country experience than most other analyses.

- The Fund has helped the Palestinian Authority develop a fiscal administration and procedures from scratch. We have also provided guidance on banking policies and have been instrumental in encouraging transparency and budget accountability. The Fund is now helping the Authority develop a medium-term economic and financial strategy.

- The Fund's assistance is valued in places as far afield as the small economies of the Pacific. From time to time, in addition to regular Article IV consultations, the Fund has been asked by the authorities in this region to assess their macroeconomic frameworks, to assist them in repositioning economic policy and to establish financial stability as a precondition for aid flows. Without an ongoing supportive relationship with the Fund, it would also have been impossible for many of the small central banks in the region to adopt market-based methods of monetary management.

Second, in addition to surveillance, we provide **technical assistance** to governments and central banks, not all of them Fund borrowers. We help countries develop and maintain an effective policy-making capacity. The advanced industrialized countries take this type of infrastructure for granted, but its absence is a critical hindrance to good policy-making in many other IMF member countries.

Again, let me give you a few examples:

- We helped set up modern statistical systems in the transition economies, an essential foundation for economic monitoring and policy-making. Through technical assistance associated with the "Special Data Dissemination Standard" (SDDS), we have helped many industrialized and emerging market countries upgrade the quality and presentation of their data systems.

- The Fund is providing technical assistance in the areas of banking regulation, supervision and payments systems to the countries of the Southern African Development Community, led in this case by the South African Reserve Bank.

- The Fund recently provided a technical assistance mission in Chile to facilitate reform of public expenditure management. It identified directions for reform in several areas, such as transparency, accounting and reporting systems.

- In Bulgaria, following the collapse of the country's financial system, the Fund helped strengthen banking supervision, to restore health to the banking system as the currency board system was introduced. The Fund also helped in other areas, such as fiscal policy and the mechanics of monetary policy.

- In Brazil, we helped the authorities develop and implement a sound inflation targeting regime. Last spring, for example, we helped organize a seminar with the Central Bank of Brazil, gathering experts on inflation targeting from around the world. We played a similar role in Colombia and maintain close relationships with many central banks to exchange ideas on how this sort of regime can be made to work better.

IMF surveillance and technical assistance make a valuable contribution to the well-being of the world economy. They are generally greatly appreciated by our members, but rarely get sufficient recognition outside the policymaking community. The IMF devotes more than twice as many staff resources to surveillance and technical assistance, taken together, as it does to the operation of its lending programs. In my view, this is time and money well spent. The increasing trend towards publishing Article IV reports and other IMF surveillance reports should enhance not only the effectiveness of surveillance, but also public appreciation of its importance.

The IMF also promotes good policies through the conditions that we attach to our loans. I will turn shortly to our crisis lending. Before that I would like to discuss loans that we may make to countries that are not in financial crisis. It may be useful to distinguish three categories of these countries: the poorest, including those now receiving debt relief under the Heavily-Indebted Poor Countries (HIPC) initiative; the post-Communist transition economies; and other countries in difficulty but not in a financial crisis.

The IMF lends to the poorest countries on concessional terms, originally under the Enhanced Structural Adjustment Facility (ESAF), and now under the Poverty Reduction and Growth Facility (PRGF). The PRGF has recently been introduced in conjunction with the enhanced debt reduction scheme for heavily indebted poor countries. In these cases direct anti-poverty measures are to play a central role in programs supported by the World Bank, the IMF, and other lenders. In preparing these programs, member governments are expected to consult widely with relevant stakeholders, to help ensure widespread support, and hence country ownership, for them. Country ownership has proven to be a vital factor in determining the success of stabilization and reform efforts supported by the international organizations.

In the context of the enhanced HIPC initiative, PRGF programs provide a framework to ensure macroeconomic stability and medium-term viability. Such a framework is needed for at least two reasons. First, macroeconomic stability is necessary for sustained growth and the efficient use of resources - all the more essential in very poor countries where the very few resources available need to be used efficiently. Second, since the international community will be providing large amounts of assistance to these countries - in debt relief or other aid - the creditor countries need assurance that the resources they provide will be used in a stable macroeconomic environment. The IMF can help provide these assurances. The IMF will have to certify that a country's macroeconomic policies are satisfactory before debt relief can be granted or new concessional lending provided. Otherwise the country might not make a lasting exit from its debt problems into sustained growth and poverty reduction.

Close coordination and a clear delineation of responsibilities between the IMF and the World Bank is essential. The World Bank will take the lead in helping countries formulate their poverty reduction strategies and in lending for those purposes. For its part, the IMF has to take into account the fiscal implications of anti-poverty programs when designing the macroeconomic framework. Together with the World Bank, it needs to ensure that the impact of the necessary macroeconomic measures on the poor has been properly analyzed and the potential adverse effects minimized - the latter typically by means of World Bank supported programs.

Second, lending to the transition economies. The collapse of the Soviet Bloc created an unprecedented situation in which it was necessary to transform the economies of over twenty five countries, which had turned to the rest of the world for support. Within the official sector, the IMF and the World Bank were asked to take the lead in assisting the transition economies, both in designing programs and providing financial assistance. The European Bank for Reconstruction and Development was created to strengthen that effort and to encourage private sector investment.

The Bretton Woods institutions were given the primary role in these countries only in part because of their financial resources. More importantly, they had the right combination of institutional procedures - program preparation, missions, policy discussions and agreements with the country, then discussion and approval of programs by their boards, followed by periodic review. It would have been necessary to reinvent these procedures had the task been given to any other organisation.

Although there was little precedent for an effort of this type, a professional consensus developed rapidly. The transition countries needed both macroeconomic stabilization and massive structural reform. This included the development of essential institutions, including an effective financial sector and an appropriate legal framework. It was recognized that the structural reform process was bound to take a long time.

Analysis of the first ten years of the transition process confirms these conclusions. The leading transition economies, such as the Czech Republic, Estonia, Hungary and Poland, followed this path and are well on their ways to becoming developed market economies and joining the European Union. All countries, except Slovenia, had programs with the IMF. As macroeconomic stabilization and structural reforms took hold, the need for IMF financial involvement declined. Even so, Estonia and Latvia have continued to have precautionary Fund arrangements. Though they do not intend to draw on Fund resources, they value the framework offered by a program supported by the IMF and the reassurance the markets find in knowing the countries have such a framework in place.

Progress in other transition countries varies greatly. In many countries, especially in the Commonwealth of Independent States, reform and growth has been held back. Progress has been impeded by the absence of an effective political consensus on the way ahead, as well as struggles over the control of national resources (which have often involved corruption). It is far more difficult to assist such countries effectively.

The international organizations, as well as individual member governments, have sought to support reformist policies. We have tried to help countries develop the necessary institutional frameworks, including measures to strengthen legal systems and to enhance transparency and thereby fight corruption. There has been some progress in almost all transition countries, including importantly Russia and Ukraine. But much remains to be done, and important questions remain about the most effective ways to support economic reform in these countries. The Bretton Woods institutions are likely to remain heavily involved in trying to help the lagging economies move more rapidly along the path of transition. But that will only be possible if the countries pursue reform programs and stick to their commitments.

Third, the IMF sometimes lends to countries not in a crisis, but experiencing significant economic difficulties. Why should the Fund lend to countries that, while in difficulty, are not in an immediate crisis? Either to prevent a potential crisis or to provide a framework - agreed with the country - in which policy will be conducted for some period ahead. In these cases the IMF provides an external constraint on policy that is useful to domestic policymakers in implementing necessary but often painful reforms. The Fund's involvement instills confidence in both domestic residents and foreign investors that the policy framework will be implemented. In more technical language, such programs serve as both commitment and signalling devices.

Why is this possible? Because an IMF program provides a mechanism which ensures that policy commitments will be monitored and reviewed, in the first instance by the staff, and then by the Board of the IMF, representing the international community. To return to the theme of transparency, this function is bound to be more effective if the details of the program are publicly known. This is one of the reasons why recent progress in securing the publication of country agreements with the IMF - their Letters of Intent - is so important.

This type of lending is exemplified by the programs that the IMF has recently agreed to support in Turkey and Colombia. In cases like these the Fund provides financial support to countries that have shown themselves prepared to implement sound policies. Sometimes countries find that an IMF-supported program provides the framework for a coherent attack on long-standing problems that had hitherto appeared intractable. This appears to be the case in the recent program with Turkey. Of course, the use of constraints on the policy process is not unusual, for instance balanced budget laws or the accession process for European Monetary Union.

Could one not rely on IMF certification to achieve this, without lending? The Fund does use the certification approach on occasion. Staff-monitored programs are sometimes used to establish a track record of performance before a loan agreement is negotiated. But governments and markets alike appear to place greater value on financial agreements with the Fund, possibly because the provision of resources is still seen to represent a greater commitment by the official sector. Precautionary arrangements - and a modified Contingent Credit Line facility - also offer the scope to provide effective international support for a policy framework, without necessarily lending.

It might be asked that if the Fund is lending in non-crisis situations, what prevents it lending to too many countries? The Fund is constrained by its Articles of Agreement only to lend to countries with a balance of payments need. In addition, countries generally seek to avoid getting into IMF arrangements, or to get out of them as soon as possible, because they typically dislike operating under the constraints of policy conditionality. Nonetheless, a few countries have become repeated borrowers. The issue of repeated borrowing needs to be dealt with. Countries need to be encouraged to move towards dependence on the markets rather than the official sector.

Do IMF-supported programs work? Attempts to assess their impact definitively have long been hampered by the problem of the counterfactual - our inability to know how a program country would have performed had it not come to the Fund. Recent studies try to address this issue by estimating policy-reaction functions for program and non-program countries.

These analyses indicate that IMF programs have been more successful than earlier empirical studies suggested. The consensus view now seems to be that in a typical program, economic activity will be depressed in the short term as macroeconomic policies are tightened, but that growth subsequently revives as structural reforms take root. Meanwhile the balance of payments improves, removing the need for further Fund financing. The impact on inflation is usually favorable (although in general not large enough to be statistically significant).

4. Crisis Lending

Let me now turn to the question of the IMF's role in crisis situations.

I believe the world *does* need an official sector lender to countries facing an external payments crisis. This is necessary because international capital flows have proven extremely volatile and contagious. In many cases capital outflows from particular emerging markets have been an understandable response to the sudden revelation or gradual development of poor economic fundamentals. But the scale and sometimes indiscriminate character of these outflows are also classic signs of financial panic.

One option would be to impose extensive controls on capital flows. But while the Fund has supported the use of some Chilean-style market-based controls on capital inflows for countries whose financial systems are not yet sufficiently robust, the imposition of extensive controls would sacrifice most of the potential benefits of international capital mobility. Despite the recent crises, almost all emerging market countries have rejected the comprehensive capital control approach.

This enhances the need for an institution that can lend foreign exchange to countries experiencing an external payments crisis. The Fund already plays this role. But the experience of the recent crises has revealed the need to strengthen the Fund's approach in this area - particularly in reforming its lending facilities, and in seeking appropriate private sector involvement in the resolution of crises.

The Supplemental Reserve Facility was introduced in 1997 and the

Contingent Credit Line facility last year. The SRF is intended for countries experiencing exceptional balance of payments problems created by a large short-term financing need, arising from a sudden loss of market confidence. The SRF is likely to be used when a country's outflows are large enough to create a risk of contagion that could threaten the international monetary system. To minimize moral hazard, a member using the SRF is encouraged to maintain the participation of both official and private creditors.

Countries drawing under the SRF are expected to repay within 12-18 months, although the Board can extend this repayment period by up to one year. For the first year, members are subject to a surcharge of 300 basis points above the regular rate of charge on IMF loans. This surcharge is increased by 50 basis points at the end of that period and every six months thereafter until it reaches 500 basis points.

The CCL is intended as a preventative measure for countries concerned about their vulnerability to contagion, but not facing an imminent crisis. The cost and repayment terms of drawing on the CCL are the same as for loans under the SRF. The facility, like the SRF, is not subject to normal access access limits, although the amount available will normally be between three and five times the country's quota.

These facilities move in the direction of Bagehot's classic prescriptions for the lender of last resort, lending large amounts on relatively short term at penalty rates.The SRF was used in lending to Korea, Russia and Brazil. No country has yet applied for a CCL.

The question frequently arises of whether the IMF operates as an international lender of last resort. In acting as a crisis lender, and crisis manager, the IMF does fulfill critical lender of last resort functions. But unlike a domestic central bank that operates as lender of last resort in its own currency, the Fund's resources available for lending are strictly limited. For this reason, and to reduce moral hazard to the extent possible, it will be necessary in some circumstances to ensure that the private sector contributes to crisis resolution.

Private sector involvement in the prevention and resolution of financial crises remains one of the most difficult issues in the reform of the international system. On prevention, it has been suggested that in future international bond and other financial contracts should be designed to make it easier to restructure external obligations in the event of a crisis. The British government has recently included a collective action clause in one of its foreign currency bond issues, and it is to be hoped that this example encourages others to follow.

Measures to involve the private sector together with the official sector in the financing of the balance of payments were included in the responses to the Korean, Thai and Brazilian crises. Further experience has been gained in the very different cases of Ecuador, Pakistan, Romania, and Ukraine. In the next few months, the IMF staff will seek to draw the lessons of these experiences for the consideration of the Executive Board on how best to deal with this difficult but critical issue.

The Bagehot rules of course also require loans to be made on the basis of good collateral. The Articles of Agreement permit the Fund to ask for collateral, but it has rarely done so. In an important sense, the Fund gets collateral through its preferred creditor status. It gains added reassurance from the adjustment programs to which countries commit themselves when borrowing from the Fund, which should improve the balance of payments and enable the country to repay.

Professors Calomiris and Meltzer address the question of collateral in their paper, *Reforming the IMF*. Their suggestions would require countries to hold larger amounts of short-term foreign assets, which is typically very expensive, and could possibly be substituted for by contingent credit lines, private or public. Nonetheless they are certainly right to suggest that some countries would be better off holding larger usable reserves, a conclusion that Korea for example has clearly drawn from its recent experiences.

They also raise the related question of whether countries should be required to pre-qualify for the IMF's financial support in crisis situations. This important idea is incorporated in the design of the CCL. Countries wishing to secure credit lines through this mechanism have to meet a variety of conditions in advance. These include a favorable review from its latest Article IV consultation, progress in adhering to international standards, good relations with creditors and sound management of its external debt and reserves. To draw on the credit line, the country will also have to demonstrate its willingness to adjust its policies as necessary.

While prequalification provides important incentives for the adoption of good policies, is it realistic to make all other countries ineligible for any type of lender of last resort financing? It is doubtful that the international community would be indifferent to the fate of countries that do not meet the prequalification requirements, or to the instability that might be generated when they get into trouble and are denied help. In practice, in such circumstances the large industrial countries would probably find another, less transparent, way to help a country in crisis. An alternative approach to prequalification would be to differentiate the terms on which assistance is provided, for instance by charging a premium to countries that fail to meet certain standards or requirements.

5. Reforming the IMF

The international community has learned many lessons from the turbulent events that have taken place in emerging markets over the last three years. With the support and encouragement of our members, the IMF has already been taking important steps to reform itself in the light of those lessons. Let me briefly mention some of the reforms under way in four areas: efforts to strengthen macroeconomic policies and financial sectors; strengthening surveillance and increasing transparency - both central to increasing the effectiveness of the Fund; restructuring IMF lending facilities; and sharpening the focus of IMF activities.

On macroeconomic policies, the recent crises have thrown a sharp light on the key role of the exchange rate system. It is a fact that all the countries that had major international crises had relied on a pegged or fixed exchange rate system before the crisis; and it is also true that some countries that appeared vulnerable but that had flexible exchange rates avoided such crises. Countries with very hard pegs have been able to sustain them. Accordingly, we are likely to see emerging market countries moving towards the two extremes, of either a flexible rate or a very hard peg - and in the long run, the trend is most likely to be towards fewer currencies.

The central importance of the strength of the financial sector is another lesson of the crisis. That is one reason why the economic cost of Brazil's crisis was smaller than that of the Asian crisis countries. Together with the World Bank, generally with the assistance of experts from central banks and financial regulatory agencies in other countries, the IMF has begun to undertake assessments of the strength of financial systems in member countries. These include an evaluation of the extent to which the relevant international standards, including the Basel core principles, are being observed. The assessments are presented to the country as a guide to the measures needed to strengthen the financial system. The conclusions are also incorporated in Article IV reports. So far 12 such assessments have been completed or are under way, for countries ranging from Canada to Cameroon.

Second, surveillance and transparency, which are keys to enhancing Fund effectiveness, both because they will encourage better informed policy debates and therefore better policy, and because in improving information to investors, they will help make capital markets more efficient.

As I noted earlier, the fruits of IMF surveillance are disseminated much more widely than they used to be. Public Information Notices summarizing the outcome of Article IV consultations with member countries are now published in around 80 per cent of cases. More than 50 countries have also agreed to participate in a pilot project to publish the staff reports which are prepared as background for Article IV consultations in the Fund board.

More information is also being published on the policy programs which IMF lending supports. Letters of Intent are now being published for around 80 per cent of requests for or reviews of the use of Fund resources. We are also publishing more staff papers on policy issues - for example, the use of capital controls - as well as regular data on the Fund's liquidity and available resources.

On the substance of surveillance, the Fund is placing greater emphasis on a number of policy areas shown to be especially important by the emerging market crisis. These include capital account and financial sector issues, the sustainability of exchange rate regimes, debt and reserve management practices, and vulnerability analyses. We are also focussing more on the regional dimension of surveillance and exploiting more effectively the Fund's comparative advantage in cross-country comparisons.

The Fund is more effectively integrating international standards and codes of conduct into its surveillance. These standards cover areas such as statistical dissemination, banking supervision and the transparency of monetary and fiscal policies. Several countries have already taken part in an experiment to collate information on compliance in these areas into Reports on the Observance of Standards and Codes (ROSCs), formerly known as transparency reports.

Third, the reform of IMF lending facilities. As I noted earlier, since the outbreak of the Asian crisis, the Fund has adopted two facilities that incorporate elements of lender of last resort lending: the Supplemental Reserve Facility (SRF) and the Contingent Credit Line (CCL) facility.

Although the SRF has been used, the CCL has not, and it is clear that it will need to be redesigned when it is reviewed during the spring. There are two key areas for reform. First, since the interest rates are the same for the CCL as for the SRF, there is no financial incentive to prequalify for the CCL rather than await the potential use of the SRF if a crisis were to break out. Second, there may be a need to make access to the line of credit more automatic when a crisis breaks out.

In addition to creating new facilities appropriate to a world of large and volatile capital flows, the Fund needs to reduce the number of its facilities and reconsider the design of the remainder. The executive board agreed last month to eliminate the Buffer Stock Financing Facility. There was also a broad consensus in favour of eliminating the contingency element of the Compensatory and Contingency Financing Facility. The appropriateness of all the Fund's lending mechanisms will be scrutinized in a review getting under way in the run-up to our spring meetings.

Fourth, sharpening the focus of IMF activities. The IMF's focus must be on macroeconomic policies and the accompanying structural areas - on monetary, fiscal, and exchange rate policies, and on the banking and financial sectors. In the financial sector, there is considerable overlap with the activities of the World Bank, and we have in the last few years cooperated extremely effectively with the Bank in this area.

Those must remain the areas of our lending activities, and the prime focus of our surveillance. But the recent crises have also driven home the lesson that the IMF must take into account the social consequences of the macroeconomic policies it recommends, and the fiscal and other macroeconomic consequences of the social policies its members need to implement. Lending and the design of programs in these areas remains the responsibility of the World Bank and other agencies.

6. Conclusion

Mr. Chairman: I will conclude, as you would expect, by arguing that the IMF has and will continue to have a vital role in the international financial system. The purposes for which the Fund was established remain valid, and we have proved to be a valuable instrument through which the international community has improved macroeconomic policies, encouraged the growth of international trade, and assisted countries in difficulties.

The recent crises have posed difficult new challenges, to which we responded swiftly; we are now seeing the benefits of most of the policies we recommended. But the crises also revealed the need for reform of the Fund and its activities. The process of reform is now well under way, but far from complete.

As this process continues, we look forward to hearing the recommendations of your report.

ANNEX 1

Articles of Agreement of the International Monetary Fund

A R T I C L E I

Purposes

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.