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The Role of the IMF in the Global Economy

Remarks by Horst Köhler
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at the High-Level Meeting of the
United Nations Economic and Social Council
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Ambassador Šimonoviã, Mr. Secretary-General, Ladies and Gentlemen:

Today's high-level meeting provides a welcome opportunity to take stock of where we stand in meeting the challenges facing the global economy. And there can be no question that the foremost challenge is poverty. The Financing for Development Conference in Monterrey produced an unprecedented common understanding about what it will take to overcome world poverty. First, the basis for everything is self-responsibility. Economic development requires good governance, respect for the rule of law, and policies and institutions which create a good investment climate and unlock the creative energies of the people. Second, on this basis, developing countries can rightly expect faster and more comprehensive support from the international community. What is crucial now is to transform the Monterrey Consensus into concrete action and measurable results. To establish proper accountability, we should identify more clearly the respective responsibilities of poor countries and their development partners-donor countries, international institutions, the private sector, and civil society. I am confident that it will be possible to achieve the Millennium Development Goals, if all cooperate to do their parts under this two pillar approach.

We can all be happy that the doomsday scenarios some predicted after the terrorist attacks of September 11 did not materialize. Thanks in particular to the decisive interest rate cuts and tax reductions in the United States and the supportive policy response in Europe, a recovery of the world economy now appears to be under way. And I think it was also important for confidence that the membership of the IMF came together last November in Ottawa to define a collaborative approach to strengthen the global economy.

To be sure, there are still questions about the strength and durability of the recovery. These relate especially to corporate earnings and investment in the United States, fragilities in financial markets, and regional political tensions. But on the whole, I am confident that the world economy will gain strength in the second half of this year. What is required now is vigilance and a shift from short-term considerations to tackling

decisively the underlying economic and financial imbalances in the global economy. This calls for strong leadership of the advanced industrial countries, by taking action to strengthen the prospects for sustained growth in their own economies and through leading by example in the effort to make globalization work for the benefit of all.

Strong US growth in the second half of the 1990s served the global economy well. But this has been accompanied by a widening current account deficit which raises concerns over the sustainability of capital inflows to the United States and the valuation of dollar assets. In this situation, it will be crucial for the US to ensure that the budget remains balanced over the medium term, as part of a strategy for increasing national savings. But the US current account deficit is not just an issue for the United States: what is also needed to strengthen the global economy is more robust, domestic demand-driven growth in other advanced economies. It is clear that it would be possible to raise potential growth rates in Europe to 3 percent a year or even more, if there would be more ambition for structural reform. Similarly, in Japan the return to a growth performance that corresponds to the country's size and potential demands accelerated action to dispose of nonperforming loans, deregulate key industries, and restructure Japan's banking and corporate sectors. The recent improvement in business activity should not reduce incentives for action on these reforms.

Emerging markets and other developing countries should stay the course of sound fiscal and monetary policies and structural reform, which is indispensable to weather the ongoing storm. In this context, there also must be confidence that the international environment will hold opportunities for countries committed to reform.

Trade is crucial for growth. There is no example of a developing country experiencing rapid growth without becoming strongly integrated into the world trading system. Trade liberalization is also an important element in crisis avoidance—the experience of Latin America, where trade links have lagged behind capital market links, illustrates that vividly. To me, withstanding pressures for protectionism is key to strengthening confidence about the future prospects for strong global growth and shared prosperity in the world. There would be very significant benefits to all if the Doha Round could duplicate the growth in trade that followed the Uruguay Round.

But we should be even more ambitious. During our lifetimes, integration into the global economy through trade, financial flows, and the spread of ideas and technology has produced unprecedented gains in economic growth and human welfare for most of the world—and it still holds huge potential for the future. Realizing this potential will require a concerted and collaborative effort of the entire international community to make globalization more inclusive, and to seek a better balancing of the risks and benefits.

The IMF is committed to being a part of that effort. And to do the best possible job, the IMF itself is in a process of change and reform. We have become more open and transparent. We are building on the lessons learned from the financial crises of the past decade to improve the IMF's capacities for crisis prevention and management. As part of our work on crisis resolution, IMF Management has proposed a new Sovereign Debt

Restructuring Mechanism. Our work on internationally recognized standards and codes is helping to establish new rules of the game for the global economy. We have embarked-together with the World Bank on a comprehensive program to assess financial sector strengths and weaknesses in our member countries. And we are further intensifying our cooperation with the World Bank and other international institutions to ensure a good division of labor.

I am convinced that the international financial system is more resilient today than before the Asian crisis. But recent experience should also make us even more humble: the fact that it was not possible to avoid the meltdown of the Argentine financial system, or to do a better job of limiting overshooting in equity and capital markets, suggests that we still have a lot to learn.

In particular, we must draw firmer conclusions about the indispensable role of sound institutions and good governance for sustained growth and financial stability. It is up to each country to ensure that such conditions exist. To resolve homegrown problems, no external advice, however sound, and no amount of outside money can substitute for self-responsibility and political cohesion in a society.

The Enron collapse and, even more, the WorldCom scandal have made it clearer than ever that there is a need to give as much attention to risks and vulnerabilities arising in the advanced countries, as we do to problems in emerging markets and developing countries. I therefore welcome the broad discussion and legislative activities that are underway in the United States, in the aftermath of these revelations. But I also think that the international community as a whole should review issues related to accounting, disclosure, and corporate governance.

In Monterrey, I made it clear that the IMF will play an active part in the effort to achieve the Millennium Development Goals. In my talks with leaders, business persons, and civil society in low-income countries, I have been struck by the willingness to take responsibility for tackling the home-grown causes of poverty. It is particularly encouraging that African leaders have made good governance, sound policies, and increased trade and investment the cornerstones of the New Partnership for Africa's Development (NEPAD). Our global outreach and review has shown that the Poverty Reduction Strategy Paper (PRSP) process is broadly accepted as a practical way to put this approach into action. Most importantly, the PRSP process is country led, and designed to take on board the views of all parts of society. PRSPs recognize both social realities and the need for hard economic choices. And perhaps equally important, they provide a natural basis for coordination of activities by external donors and other development partners. I therefore trust that donors and civil society will continue to support this process and help to realize its full potential.

Leaders in low-income countries have underscored the severe demands that donor coordination and the design of poverty reduction strategies are placing on their limited administrative capacities. We have to recognize that slow progress in the reforms needed to fight poverty often reflects a lack of institutional capacity, rather than a lack of

political will. As part of our support for NEPAD, we plan to establish five African Regional Technical Assistance Centers (AFRITACs), and I already signed agreements to establish the first such centers in Tanzania and Cote d'Ivoire later this year.

I am encouraged by the efforts of many countries to create the conditions for the mobilization of private domestic and foreign capital and for job creating growth. NEPAD rightly relies on the private sector as a major engine of growth, recognizing that development requires both a well-functioning state and a dynamic private sector. In that context, Jim Wolfensohn and I have been helping African countries beginning with Ghana to establish Investment Advisory Councils, to identify practical ways to improve the investment climate and create new economic opportunities.

Debt relief is an essential element in a comprehensive strategy for fighting world poverty. The IMF and World Bank are working hard to make the enhanced Heavily Indebted Poor Countries Initiative (HIPC) a success. Today 26 countries are receiving debt relief under this initiative, with a total value of over \$40 billion, and we are working hard to help other eligible countries qualify for HIPC assistance. The resulting reduction in debt service payments is already permitting recipient countries to raise poverty related expenditure, on average, from about 6 percent to 9 percent of GDP. The bulk of this spending will go to much needed health care (particularly HIV-AIDS treatment and prevention), education, and basic infrastructure such as rural roads.

Full participation in the HIPC initiative by all external creditors and strong policy implementation are crucial for reaping the full benefits, including debt sustainability. In addition, however, it is clear that the IFI's need be very careful to ensure that the assumptions underlying debt sustainability analyses are realistic. Some countries' prospects for debt sustainability have been adversely affected by declining commodity prices and global growth trends, following their decision points. We will continue to take advantage of the possibility of topping up HIPC relief in cases-like Burkina Faso-where exogenous factors have caused fundamental changes in a country's underlying economic circumstances.

To support countries that are trying to help themselves, I also believe that official development assistance must be increased. It is good that the United States and Europe have undertaken to do more on this score, and I welcome the indications from the G8 Summit about the plans for putting those commitments into action. But the target of 0.7 percent of GDP for official development assistance remains an important benchmark in the fight against world poverty. Discussions about so-called innovative sources of financing for development should not obscure the importance of official development assistance as a clear, transparent, and accountable measurement of solidarity between the rich and poor of this world. The IMF is working with the World Bank and other institutions to help countries use increased aid effectively. And I am convinced that citizens in the advanced countries will be willing to back increased aid, if they are aware of what is at stake and are shown evidence that recipient countries are putting external assistance to good use.

While it is crucial not to neglect any element of comprehensive support for poverty reduction, trade is clearly the best form of help for self-help-not only because it paves the way for greater self-sufficiency, but also because it is a win-win proposition for developed and developing countries alike. The measures taken recently under the European Union's "Everything But Arms" initiative and the African Growth and Opportunity Act (AGOA) in the United States are welcome, but much more is needed - notably, the phasing out of the billions of dollars spent on agricultural subsidies in advanced economies. Real progress in cutting these subsidies and reducing tariffs for processed goods should be a benchmark for a successful conclusion of the Doha Round. But I would also stress that the evident case for market opening in the industrial countries would become even more credible if developing nations demonstrate their ambition to reduce the barriers to trade among themselves, which are often even higher than those with industrial countries.

Mr. President, with a concerted effort, I am optimistic that we can achieve the goals we have set. The global economy is recovering, and the international financial system has demonstrated its resiliency. Now we need ensure that the defined concepts to facilitate sustained growth and reduce world poverty are implemented. The IMF is committed to playing an active role in making globalization work for the benefit of all. And you can count on us to provide the strongest possible support, within our mandate and means, for the implementation of the Monterrey Consensus.