Rio de Janeiro
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Draft Speech for the Prime Minister

This meeting is well timed. Most of the economies of Latin America have calmer waters in sight, after the macroeconomic turbulence of the recent past. The countries of South America were the last to be submerged by the waves which started spreading in the world economy a couple of years ago. But my understanding is that prospects are improving and I look forward to having this confirmed by colleagues (round this table) (in this room). I have little doubt that countries in Latin America and the Caribbean have great growth potential and hope that they will attain it soon.

Our host country, Brazil, is still expected to experience an economic contraction in 1999. But the contraction is very much less than was expected just a few months ago. This is good news, soon to be followed, I hope, by even better news. Greece joined the other countries of the EU in a bilateral loan facility when Brazil's international accounts needed shoring up a few months ago. Brazil's macroeconomic progress is illustrated by the fact it did not need to draw on the full amount of the facility and actually repaid, a few days ago, a part of what it had drawn. Joining the support facility for Brazil was a first for Greece, which was made possible thanks to the progress that we have made for strengthening our fiscal and economic system.

For the world as a whole, growth prospects in 1999 have also improved, albeit slightly and remaining below potential. Japan has pleasantly surprised us with a vigorous performance in the fist quarter of 1999, but with a number of false dawns in the past, we must interpret this cautiously, while hoping for the best. Much will hinge on the US economy. Its remarkable performance has benefited in recent years from fast growth in household consumption, to the point that household savings are now zero, if not negative. How much longer can this continue, especially if the American stock market slows down, as sooner or later it must? Add to this a possible policy tightening in response to inflation concerns and the downside risks in the US would seem to predominate – to use the language of economic forecasters. By the end of our discussions I hope to have a better feel on this important question.

The role that Europe needs to play in the world economy is enhanced by the risks associate with the US economy in the present phase of the cycle. The European Union's growth rate in 1998 was sluggish, and while better in 1999, it is unevenly distributed and we must try to do better still, both for our own sakes and for the sake of the world. With inflation tamed, the policy stance can now be more growth oriented. The Eurozone countries, which Greece expects to join soon, will have some learning to do to optimize their policy mix under a common currency. But the efficiency gains arising from a common currency will ultimately lift the European economy to a higher level of performance and, as a result, you and we, from the two sides of the Atlantic, can look froward to enhanced trading and investment relations.

The reconstruction in the Balkans following the Kosovo conflict will involve a heavy cost for Europe. The stability and the reconstitution of peace in this area depends largely on the support of the European Union as well as of those nations which have interests in the Balkan area.

Aid budgets will inevitably come under strain, so I especially welcome (as an important step in the right direction) the declaration of the Cologne G7 Summit last week on debt relief for poor countries. The original terms of the HIPC Initiative have turned out to be too demanding and the relief rather limited. But I congratulate Bolivia for being one of the first two countries to satisfy those demanding terms. And it is nice to know that under the proposed new terms, Honduras at least among the hurricane-devastated countries of Central America and the Caribbean, will be added to the eligible list for the HIPC Initiative.

The trauma of the economic crisis, which started two years ago has yet to be healed fully, has generated ideas and proposals for reform that are encapsulated in the concept of a new International Financial Architecture. There are several elements in this new architecture, known to everybody: transparency; regulation; supervision; exchange rate regime; contingency credit; and bailing-in of the private sector. They are designed to prevent destabilizing problems from arising, to identify them earlier, to cushion their impact if they do arise, to prevent their contagious spread, and to ensure that the private sector bears its share of the cost in the resolution of a crisis. The last point has been highlighted at the recent

G7 Summit. Though one or two of the proposed measures have given rise to questioning, they are good so far as they go. They are a response to real or perceived contributing factors to the last crisis. But it would not be a surprise if the next crisis were different, bringing new problems.

In the context of the debates on the International Financial Architecture, two South American countries - Argentina and Chile – are often mentioned and I would like to acknowledge this. Argentina's fixed exchange rate regime, backed by a currency board, has contributed to the debate as one possible model for avoiding destabilizing capital movements. Chile's controls on short-term capital inflows, though in abeyance for the time being, have shown that capital controls can be both feasible and market-compatible. Though this is still a matter of controversy, there is no doubt that in the area of capital movements a range of problems need to be addressed. Some of the elements of the new Architecture to which I referred earlier are indeed attempting to address it.

Europe's very special contribution to the new Architecture is the Euro. The ramifications of this are going to be wide (as described by president Chirac) (I would like to associate myself with what president Chirac has said on this topic). Greece is not yet a member of the Eurozone but expects to join on the first day of 2001, which is the beginning of the third millennium when properly counted. Our firm commitment to this goal has already served us well, largely sheltering us from destabilizing capital movements.

I started by saying that our meeting is well timed because the worst of the recent macroeconomic turbulence is over for most South American countries, our host country included. There are now, for all of us, challenges ahead to be faced and opportunities to be exploited. And also, no doubt, difficulties to be ironed out. I hope that together, in fruitful cooperation, we shall do all that effectively and successfully.