

- The influence of developing countries in the world economy is growing, yet, a large portion of the world's population still lives in extraordinary poverty.
- The imperative of continued transition in the countries of Central and Eastern Europe, the former Soviet Union, and elsewhere remains clear.

These changes leave the international community with a variety of continuing challenges: promoting economic policies that ensure sustained non-inflationary growth and correct imbalances that engender financial and exchange market instability; adapting institutional mechanisms to a world of large and highly mobile private capital; and promoting more effective sustainable development and poverty reduction.

### **3. Constraints and Other Considerations**

In exploring potential institutional responses to these challenges, several general considerations need to be kept in mind. Although donor countries face fiscal constraints, which not only limit their ability to finance new institutions or new pools of resources, but have increasingly put pressure on the financing of existing obligations, efficient and effective international institutions will continue to merit our financial support. This strongly argues that the primary focus should be support for existing international financial institutions and the need to mobilize their resources more effectively. It also means that the needs which are identified must be consistent with the magnitude and the specific nature of the resources available to address them.

The existing complement of international institutions has grown to a point where the international community would benefit from a concerted effort to eliminate unnecessary overlap, consolidate functions in the institutions that are most effective, and focus their activities more clearly on private sector development, while continuing to play a vital role in those areas where the private sector cannot or will not play a role. In the future it will be beneficial to encourage the emerging economies to assume a degree of global responsibility which is broadly in line with their contribution to the world economy.

### **4. Economic Policy and Exchange Market Cooperation**

Close consultation and effective cooperation on macroeconomic policies among the G-7 are important elements in promoting sustained non-inflationary growth, avoiding the emergence of large external and internal imbalances, and promoting greater exchange market stability. We have adopted a number of changes to the structure of our consultations over time in order to strengthen policy cooperation. Specifically, the process of consultation with the IMF has been enhanced and the focus of discussions extended. These changes are designed to improve our capacity to identify, and better respond to, potential risks.