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Statement by the Hon. **LUC FRIEDEN**,
Governor of the Bank for **LUXEMBOURG**,
at the Joint Annual Discussion

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Chairmen, Governors, Ladies and Gentlemen,

As we gather for these meetings and contemplate the world, we realize that our most important task as political leaders is to ensure that nations can live together in peace and prosperity. Despite substantial progress, children continue to starve in many parts of the world; men and women are killed in wars. Meetings such as these must help us to find solutions to our differences to build a world based on justice, fundamental human rights and peace.

This requires a determined and cooperative policy. One year ago thousands of innocent people died in terrorist attacks in New York, Washington and Pennsylvania. These infamous assaults remind us that the values of democracy, freedom and peace are not to be taken for granted. This is no time for complacency but for decisive actions to make this world a safer place, free of poverty and exclusion.

The World Bank and the IMF play a crucial role in the fight against hunger, corruption and poverty. These institutions need our full support to restore the hope of deprived nations.

Personally, I have no doubt that my country can lead by example in promoting good governance, in fighting against the financing of terrorism and against money laundering, and in actively promoting development policies.

I would like to stress the importance of focusing in each country on establishing or keeping stable institutions that are subject to democratic control. The respect of the rule of law by independent judicial authorities must be ensured in all countries if we want to achieve our objective of peace and prosperity for all.

Luxembourg will continue to strongly advocate multilateral trade liberalization given that it is an essential and effective development tool. To the extent that developing nations are highly dependent on trade as their main source of continued growth and prosperity we are fully committed to expand the foundation of an open and non-discriminatory trading system. Against this background we will continue to work with our European partners to reduce subsidies and import restrictions.

With regard to official development aid, there is no excuse for many countries for not having reached the long-standing UN target for official development assistance of 0.7 per cent of gross national product. Millions of people starve to death every year; many babies are born into poverty and hunger and will die in infancy. Let us join our forces to achieve the international community's commitment to halve hunger and extreme poverty by 2015. The need for global action is indeed compelling. My country will spend next year 0.84% of GNP as ODA. For us, this is not only an act of solidarity; it is also an indispensable element in fighting some of the causes of terrorism and illegal immigration.

But trade liberalization and increased ODA will not suffice to free the developing world from the straightjacket of excessive and completely unsustainable debt. It is a well-known secret that the debt burdens of low-income countries are a major impediment to development, growth and poverty reduction. Debt relief under the enhanced HIPC initiative is progressing well and I continue to strongly adhere to the idea of linking debt relief and comprehensive poverty strategies to deliver manageable levels of debt. Unfortunately not all HIPC countries achieve this goal, be it that underlying growth assumptions have not been met, that some creditors fail to purge their claims or that sound policies are lacking. Against this background it is crucial that the IMF and the World Bank ensure realistic debt sustainability analyses, that all countries fulfil their financial pledges and last but not least that HIPC countries implement sound macroeconomic and structural policies.

There is no doubt that good governance and accountability pave the way for successful structural reforms and effective implementation of macroeconomic policies. Best practices in the areas of fiscal, monetary and social policies need to be fully adhered to.

In the light of recent financial crises, I firmly believe that sound and well regulated banking and financial systems are an essential tool to ensure financial and macroeconomic stability. To the extent that Financial Sector Assessment Programs (FSAP) play a crucial role in promoting sound financial systems it seems to be worthwhile considering whether FSAPs should not form part of the IMF's article IV consultations. At any rate, industrial countries should show the way and sign up for an evaluation under the FSAP. By doing so they could lead by example and support this essential tool of surveillance and crisis prevention. To underline our full commitment to the FSAP exercise, Luxembourg decided to volunteer for an FSAP in 2001. The FSAP concluded that Luxembourg is a solid, efficient and well-supervised financial centre. We will implement the recommendations for improvements made by the IMF team.

The FSAP was also an opportunity for us to further test our anti-money laundering and terrorism-financing framework. Luxembourg has always been at the forefront of combating abuses of the international financial system. During the FSAP exercise we agreed to run the Fund and the World Bank's draft methodology for assessing legal, institutional and supervisory aspects of anti-money laundering and combating the Financing of Terrorism (AML/CFT Methodology). I sincerely hope that this pilot experiment will help the Bretton-Woods Institutions and the FATF to complete a comprehensive AML/CTF methodology. Let me also reiterate that Luxembourg has already agreed to participate in an early assessment of its AML/CFT framework using this new methodology as soon as it becomes available.

In fighting crime and terrorism, prevention, cooperation and the sharing of information are the key elements of a successful strategy. In a global world, poverty or crime in one place is not without effect on other countries. I strongly believe that dedicated nations, together with the Bretton Woods institutions, can change the world to become a safe and humane place.

Thank you for your attention.