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Statement by the Hon. **VALERIY KHOROSHKOVSKIY**,
Governor of the Bank for **UKRAINE**,
at the Joint Annual Discussion

**Statement by the Hon. Valeriy Khoroshkovskiy,
Minister of the Economy and European integration for Ukraine,
at the Joint Annual Discussion**

Ukraine welcomes the opportunity of having this Annual Meetings in Dubai and appreciates the efforts of the authorities. It is of utmost importance to continue having the Annual Meetings in a normal format in order to secure maximum benefits from official discussions and from the exchange of information and assessments of best practices among delegations. Dialogue with the private sector is especially valuable. It is important to curb any factors which may in future interfere with the usual business of the meetings. One can also imagine an even more thought provoking program of seminars.

At the time of the previous meetings we emphasized the challenges of adjusting to the realities of the global economy. Though some progress in securing a better globalization has been achieved, new challenges are emerging all the time. Now the international community is facing the uneven prospects of further multilateral trade liberalization. It is indeed unfortunate given the ever more visible interdependence of successful development and increased trade with such indispensable public goods as peace and security, as well as with poverty alleviation. IFIs may in this new context consider even more research work and outreach efforts on the likely effects of trade liberalization. Offering some additional financial safeguards and perhaps guarantees for covering temporary balance of payments needs of countries which may need time to adjust to more open trade, may also help.

Improved prospects for global growth are accompanied by slowdowns in parts of Western Europe and by possible accumulation of new tensions in some segments of the financial markets. Transition economies and most emerging markets have been weathering recent slowdowns remarkably well. The new positive trend which has emerged: several countries facing the challenges of an ageing population have started reforming their pension and social security systems, or at least are debating such important reforms. Ukraine has just adopted the comprehensive pension reform legislation as well.

Even given the less certain prospects for global trade, it is important to keep track of whether the quality of economic and financial globalization is improving. High quality globalization should mean that every part of the international community can be reasonably expected to win from better global and regional economic and financial integration. To this end it is important to manage the risks of low quality globalization, in order to prevent the concentration of risks in new regions or market segments.

We do not think that a reserve accumulation by successful emerging markets is the major component of current global imbalances. The exchange rate policy and trade surpluses of

emerging markets are probably less important culprits than the volatility of G-3 currencies and stock markets, the fiscal expansion and accommodative monetary stance in several major economies, and the rapid changes in investor's sentiments. From the perspective of emerging markets with sustained trade surpluses, it is also important to have more balanced growth, which may be less dependent on only few external markets. Multilateral trade liberalization is one of the venues. Rebalancing of external and domestic growth factors should be in any scenario underpinned by structural reforms in banking and corporate sectors, so that the rebalancing is fully owned by the authorities. In this light we would welcome more attention to and research of all relevant issues, where the so called "fear of floating" will be only one of the dimensions.

International financial institutions have recently paid more attention to crises prevention and to some extent less -- to crises resolution, despite the moral hazard and perception of unequal treatment involved in extraordinary financing. It is indeed important to prevent accumulation of unsustainable debts and to better predict changes in market sentiments. We are glad to acknowledge that many emerging markets and transition economies have reduced their debt burdens due to better growth facilitated by important structural reforms. Ukraine as well has experienced such positive developments: a stronger external position allows us to consider gradual early repurchases of our debt to the IMF. Nevertheless, the need for further cooperation with International Financial Institutions remains.

IFIs should consider more assistance and advice to member countries in upgrading the institutional and regulatory capacity of the financial sectors, fiscal management, achieving greater transparency and accountability. As it seems to us, concentrating predominantly on private sector development may inadvertently push to the backseat the challenges of making government institutions more efficient. Implementing best practices in antimonopoly regulations, transparency and disclosure requirements, accounting standards, management of financial risks are of special importance to us.

Without quite valuable external expertise, Ukraine would not have been able to address in a timely manner the challenges of improving revenue collection, reducing quasi-fiscal deficits in the energy sector, implementing modern accounting and banking standards, improving efforts in fighting money laundering, or subscribing to SDDS. We cherish not only technical and other assistance, but also training possibilities, conferences and seminars, and civil society outreach efforts. Being committed to building a knowledge based economy in our country, we appreciate the enormous knowledge on best (and worst) practices accumulated by the Bank and Fund and would call on both institutions to improve their own knowledge management and knowledge dissemination efforts. Discussions on economic strategy and surveillance exercises may be more consistently used for discussing the experience of other countries in addressing similar challenges.

The improved treatment and reputation, better tailoring of precautionary arrangements of the Fund may in many ways help countries which do not have balance of payments

financing needs. Such arrangements should concentrate on longer term structural challenges, while currently they reflect more of the short-term anti-crisis logic of stand-by arrangements. Longer and structural precautionary arrangements will allow for better coordination with longer term national goals and with the World Bank strategic vision.

The discussion at the Development Committee emphasized that it is realistic to expect some additional progress in addressing poverty, fighting HIV/AIDS, and improvements in infrastructure. The road to success will indeed depend not only on strong domestically-owned policies, but also on timely and adequate financing. This financing for sustainable economic growth is not to be exclusively official, though the World Bank has an indispensable role. Improvements in the investment climate, better conditions for entrepreneurial activities, improved corporate governance and deeper financial markets should promote a surge in investment, both domestic and foreign.

Ukraine continues to demonstrate good economic performance: the economy is expected to grow by 21 percent in the course of 2001-2003, while inflation is subdued at 12-13 percent in three years. Since 2001 exports and imports increased by 38 and 41 percent respectively, while the level of foreign debt declined in relative and absolute terms. We managed to diversify our trade significantly, while the demand for our major exports has recently been good. Investment activity is picking up, households incomes are growing steadily, and we are aiming at a better balanced growth. To further support both domestic demand and supply response, we are implementing tax reform aimed at reducing rates and broadening the base; we have started the pension reform, are maintaining a healthy fiscal stance, and are conducting prudent monetary and banking policies. Privatization of especially large enterprises has accelerated recently as did our energy sector reform. We are considering ways and means of increasing the factors of growth stemming from innovations and knowledge.

We see some room for improvement in the streamlining of VAT legislation and improving its administration, in increasing the transparency, and in improving our communications with civil society. Completing the WTO accession negotiations remains among our priorities and we are currently trying to harmonize our legislation and regulations with WTO requirements and with EU best practices. We are also participating in efforts to remove trade barriers in the regional context.