

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ISLAMIC STATE OF
AFGHANISTAN

Ashraf Ghani

Afghanistan has reached a fork in the road: either it will move towards becoming a polity, economy, and society that is democratic, dynamic and open, or it will descend into a narco-mafia state that perpetuates misery internally and threatens the well-being of our children globally. The choices and actions we take together in the next year will determine which road Afghanistan travels.

On October 9, the people of Afghanistan will become sovereign. Direct Presidential elections will conclude our political transition, and usher in a government with a popular mandate for a five-year term. These elections represent a critical milestone in a journey that begun three years ago with the UN-Brokered Bonn Agreement, but that journey is far from over. If we are to stay on the path to lasting peace and prosperity, we must focus on three things: public finance, credible institutions, and stability.

In each of these areas, much has already been accomplished. In public finance, the Karzai Administration issued a new currency in a fraction of the usual time; promulgated a simplified tariff regime, introduced strict accountability and reporting mechanisms, established a single treasury account, and developed mechanisms for centralizing and streamlining our revenue collection. Our main challenge, however, is still to transform the budget into the central instrument of policy, a challenge that cannot be overcome without the full commitment of the donor community.

Credible institutions flow from the rule of law. We have built a national army of 18,000, and trained a national police force. We have begun the process of disarming and reintegrating our militias into civilian life. We have focused on the security sector as a central pillar of our reform process. The Afghan people, however, differentiate between security and stability. While the army and the police are becoming instruments of security, they cannot deliver stability on their own. To be stable, Afghanistan must be prosperous. Our greatest challenge, therefore, remains poverty.

There is a gap between the expectations of our people and the resources at our disposal. In our Constitutional Convention, delegates from around Afghanistan presented their urgent needs for electricity, schools, health, roads, dams, communications and so on. The costs of

these requests amount to between \$80-120 billion dollars. This is not an unreasonable request. According to the World Bank, Afghanistan lost \$240 billion in destroyed infrastructure and lost opportunity between 1978 and 2001. The generous pledge of the international community in Berlin in 2004 was only \$8.2 billion. The gap between our aspirations and our means leads to three conclusions:

- First, the Public Investment Program should harness the aid system to results, both institutionally, and in terms of visible outcomes.
- Second, we must create an enabling environment for private sector investment.
- Third, we must fulfill Afghanistan's potential as a land bridge between South Asia, Central Asia and the Middle East. Reliable access to transit trade is key to our survival. We need our neighbors to join us in conceiving and implementing win-win strategies that will ensure rapid and inclusive growth of our economies.

Afghans want to partner with the international community to achieve a social and economic transformation. A lot has been achieved through a sustained multilateral engagement that recognized country leadership and insured that resources for the next three years were assured through the April 2004 Berlin Conference. In that regard, we would like to thank the World Bank and the Fund, in general, and Mr. Jim Wolfensohn, in particular, for their sustained engagement. As the aid community reviews its lessons from the sixty years of engagement, we would like to contribute some lessons we have learned ourselves.

We have seen what happens when aid is not harmonized. Flows of money outside the budget are undermining our efforts at creation of credible institutions, sound public finances, and stability. In this context, replenishment of IDA 14 and creation of financial instruments, such as the International Finance Facility, are critical for ensuring predictability and flows of resources..

We know that the contracting and consulting industry needs a major overhaul. While the advice of a select group of consultants remains indispensable, the irony of technical assistance on cost-plus contracts lecturing our government on performance-based budgeting should not be lost. The lack of a credible vetting system is also becoming a source of resentment against international engagement. Moreover, the policy of donors funding two civil services—the government bureaucracy at an average wage of \$50 per month; and a parallel bureaucracy of their own at \$500 per month—draws talented people out of government in the short

term and fundamentally undermines the creation of a sustainable state in the medium to long term.

Aid has too often been an inhibitor of private-sector-led growth rather than a catalyst. The entrepreneurial spirit of Afghans must be cultivated and not crippled by the rules of the aid system. While our partners agree with us that the private sector should be our engine of growth, practice has not always matched the international consensus.

Getting Afghanistan right is a challenge for all of us. Now is the time for a new economic coalition between the international financial institutions, bilateral donors, the private sector, the Afghan government, international and national civil society, and the Afghan people to overcome the challenge of poverty and instability.

Our aims are high. In the next seven years, we believe that with enough of the right kind of support, we can achieve the Millennium Development Goals. In one of the poorest countries of the world, this challenge will test our combined will to the core, but we must succeed.

The stakes have never been higher. Afghanistan can provide a much needed victory in the international wars on poverty and terror. Or it can once again fail the hopes of its people and threaten global security. Whatever path we take, we will take that path together. Today, we know that in Afghanistan, and that is why we want to participate in an open global economic system. We believe that our partners—the aid community and the global private sector—now see that too.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
KINGDOM OF BAHRAIN

Abdulla Hassan Saif

Mr. Chairman, Ladies and Gentlemen, it is a great pleasure for me to deliver, on this day and on behalf of the Group of Arab countries, the joint speech for this year's IMF and World Bank (WB) annual meetings. To begin with, please allow me, on behalf of all Arab governors, to congratulate Mr. Rodrigo de Rato y Figaredo on appointment for IMF Managing Director position. At the same time, I would like to express the support of the Arab region for him personally and aspiration for more constructive cooperation between IMF and the Arab region in the coming years.

It is comforting to see signs emanating from economies of the US, Japan and Europe, as well as economies of some other Asian countries, indicating imminent end of the weakness affecting global economy in the past few years. Such a development, along with efforts aimed at economic reform, has contributed to strengthening growth in many developing countries, our Arab countries included.

This recovery in the global economy has also led to noticeable increase in the demand for oil at a time marked with political tensions in some oil-producing areas. At the same time, price speculations got active and low stocks occurred in oil-consuming countries. This led to increased pressure on oil prices pushing them to unprecedented levels. Based on international responsibility and deep-rooted conviction that market stability is in the interest of all countries, oil-exporting countries, particularly in our Arab region, increased oil-production to keep prices within the limits set for them.

Mr. Chairman, Ladies and Gentlemen, of course, we look forward to more improvement in the global economy. At the same time, we are concerned about the repercussions of some risks mostly emanating from imbalances in the balances of payments of major countries. It is likely that interest rates will rise, thereby reducing debt sustainability of developing countries. This will increase volatility of capital flows and escalate political tensions in some regions of the world, as happened in the late 1990s.

These concerns motivate us to urge the international community not to belittle such risks and to urge major actors in the global economy to cooperate with IMF to strengthen its oversight role in the face of current account imbalances, particularly in major economies with large-scale impact.

Due to past difficulties experienced by the global economy as a consequence of such risks, the Arab group of countries attach special attention to the question of avoiding fiscal crises in member countries and tackling the same as they occur. We applaud efforts put forth by IMF in the past few years to introduce a number of new diagnostic tools which help in monitoring and detecting crises before they hit. We hope that IMF will continue pursuit of such efforts to stop such crises from occurring or spreading in the future. It may be useful in this respect for IMF, when designing reform programs, to take into account the need for producing quality designs and rationalizing respective conditionality. Whenever possible, circumstances of each country should be taken into account and more than one option should be provided to enable each country concerned to achieve the goals specified in respective programs.

Since technical assistance provided by IMF to member countries is an effective means of addressing weaknesses in the economies of such

countries, we propose allocation of more resources to meet growing demand for such assistance. In this regard, we welcome the establishment of the Middle East Technical Assistance Center (METAC) and call upon donor countries and institutions to participate in financing this Center.

With a view to enabling IMF to strengthen its activity towards this goal as emphasized in previous meetings, developing countries should have more voice and enhanced representation in ownership and management of both IMF and the World Bank. This will strengthen prudent management and good governance in both institutions and enhance their legitimacy, thereby increasing efficacy of their respective economic-policy recommendations, as only a little progress has been achieved in this respect so far.

Mr. Chairman, Ladies and Gentlemen, we fully agree with the drive to meet the Millennium Development Goals (MDGs) which set a timeframe for poverty reduction among a range of social development indicators. We particularly applaud the monitoring methodology implemented by the Ministerial Development Committee, of which I am honored to be a member, to monitor efforts of developed and developing countries as well as international financial institutions in this respect. Since most MDGs will not be met by many developing countries as scheduled, we urge the countries concerned to double their efforts in the area of reform. Moreover, we appeal to donor countries to increase support for such efforts. As revealed by findings of monitoring reports, developed-country contribution to strengthening of reform efforts, in both provision of financial resources and adaptation of their trade policies, has fallen well short of the level unanimously agreed in Monterey and the Doha Round.

In this regard, we applaud the principle framework reached in the recent World Trade Organization meeting. We hope that such framework will be implemented pretty soon and followed by more actions of trade liberalization. We look forward to positive results in the current proceedings for the 14th Replenishment of Resources of the International Development Association (IDA 14), as this will support efforts by developing countries to reduce poverty and meet the other Millennium Development Goals.

Mr. Chairman, Ladies and Gentlemen, please allow me now to turn to World Bank Group activities and role in our Arab region. As we all know, the main focus underpinning World Bank Group's policies and activities in our region has been poverty alleviation and the raising of living standards, particularly for low-income groups. This direction has met with satisfaction and support from all countries in our region, In view of severe problems faced whether by individual countries or commonly with other developing countries. Such problems often involve low income levels,

poor growth rates, sharp volatility in terms of trade as well as unfavorable regional circumstances. Countries of our region have always sought to strengthen cooperation with the World Bank Group and other international institutions to benefit from expertise and resources needed to address such problems and to strengthen undertaken reform programs.

From this podium, and on behalf of Arab country governors, I express gratitude to World Bank management, particularly to Mr. Wolfensohn, for attention to strengthened cooperation with countries of our region. I would like to particularly indicate periodical consultative meetings held between governors representing our countries and World Bank management. We look forward to more cooperation with World Bank management in areas of concern to all of us.

I would like to avail myself of this opportunity to emphasize, as agreed with Bank management, the need for flexibility in dealing with our countries due to different situations and needs. In this respect, we hope that the Bank will take into account, when designing financing and development programs, the various and different circumstances of each country in our region. We also hope that the World Bank Group will continue to direct increased attention to middle-income countries as many of our countries fall in this category.

The greatest challenge facing countries in our region is certainly the need to create enough job opportunities to absorb the growing numbers of young people entering the workforce. There is full agreement between our countries and the World Bank Group on the need to give this concern top priority. Consequently, Arab countries appreciate studies conducted by the Bank to analyze dimensions of this issue and envision necessary interventions which should include actions to facilitate transitions into economies more open and less dependent on natural resources and the public sector.

Undoubtedly, private sector strengthening and improvement of investment climate top the list of means to accelerate growth rates and job creation. Hence, our countries look forward to a more effective role played by the World Bank Group in these respects. Such a role will eliminate impediments to meeting financial and technical needs of our region, including streamlining of lending conditionality and reducing borrowing cost. Arab countries particularly look forward to a specific action plan by the World Bank Group to increase activities of the International Finance Corporation and the Multilateral Investment Guarantee Agency in our region, as their role is still below required level.

Despite volatility and record low levels of funding volumes from the World Bank Group to our region in some years during the past period, we would like to applaud the role played by the World Bank Group and IMF in supporting countries going through extremely difficult circumstances

due to local conflicts. We particularly indicate the sufferings of the Palestinian people due to escalating destruction caused by occupation forces. This situation warrants the doubling of support to the Palestinian Authority by the two Bretton Woods institutions, in close cooperation with donor countries and other financial institutions. We also emphasize the need for consolidated international community efforts to reach a final solution to this question.

At this juncture, we indicate the actions of Israeli occupation authorities such as the raiding of some branches of Jordanian banks operating in Palestinian territories and seizing large amounts of money deposited in such branches, in addition to tampering with files pertaining to clients of affected banks. Undoubtedly, such actions violate all international laws and agreements, including the IMF Articles of Agreement, and hamper efforts by our Arab countries to create the enabling banking environment and establish peace and stability aspired by all peoples in our region. We must also note that economic sanctions imposed on the Syrian Arab Republic contravene the objectives of our two institutions as enshrined in the need to ensure freedom of trade and payments. The same sanctions hamper Syria's efforts aimed at achieving economic development and reform.

Concerning Iraq, which is still suffering from war's destructive impact on its economy and society, we look forward to transition by the World Bank Group, IMF and other donor organizations from the stage of preparation and management and technical capacity building into active involvement in projects, particularly those contributing to: job creation, utilization of resources from our two institutions, elimination of debt burden, and provision of resources needed for reconstruction efforts.

We also welcome re-engagement with the Sudan and look forward to re-engagement with Somalia. We hope that the World Bank Group and IMF will effectively resume activities in both countries.

In conclusion, Mr. Chairman, there are positive signs calling for optimism in our region. Some countries have achieved progress in their economic indicators, particularly in respect of: growth rates, price levels, financial balances, current accounts and external debts. Nevertheless, we are still faced with many challenges that we need to overcome through effective partnership between our countries on the one hand and the World Bank and IMF on the other hand.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
BANGLADESH

M. Saifur Rahman

We meet today in a truncated Annual Meeting under the gloomy shadow of global terrorism which is a threat to security as well as prosperity throughout the world. We condemn terrorism in all its forms and manifestations. Military intervention may be necessary but not a sufficient condition for winning this war. The roots of terrorism lie deep in poverty, hunger, disease, joblessness, hopelessness and injustice in an environment of uneasy economic transition. The Bretton Woods Institutions must join the fight against terrorism by rekindling hope in the minds of the unemployed youth and providing opportunities for betterment of the deprived and disadvantaged.

Despite recent encouraging trends in poverty reduction, more than one billion people still live on less than a dollar a day. Given the magnitude of the problem, the world cannot afford the luxury of complacency or fatigue in the war against poverty. Millennium Development Goals are steps in the right direction. However, the resource gap for attaining these goals remains overwhelming. Globally the pledges of development assistance stand at no more than one third of what is needed for achieving the agreed targets. The poor must be given access to useful education, health, and adequate physical infrastructure – so that they can participate in the global market on equal terms. In addition to significant increase in conventional ODA, the feasibility of innovative financing such as proposed International Financing Facility and global taxation for aid should be actively explored. The International Financial Institutions (IFIs) should be strengthened by providing adequate capital and quotas, and by replenishing the facilities for concessional assistance including IDA. Steps should also be taken by IFIs to scale up investment and minimize inappropriate constraints on public investment in infrastructure.

Development is a process in which technology and know-how of the developed countries interact with local resources, entrepreneurship and creativity. This process would not be fruitful unless the impediments to development are removed and existing resources are efficiently utilized through reforms in all sectors. Reform is a continuous process. In a democratic political order, reforms can not be sustained without broad-based public support within the constitutional, parliamentary and judicial

framework. The direction, sequencing, and phasing of reforms must, therefore, be left to the countries themselves. Furthermore, the performance of a country cannot be properly measured without an appreciation of its historical, cultural and socio-political context.

We welcome the recent signs of global economic recovery based on robust growth in 2004. Despite this happy development, we are deeply concerned with the sharp rise of oil prices. The oil shock is likely to compound the effects of multilateral trade liberalization including the phasing out of the MFA. The relief provided by Trade Integration Mechanism may turn out to be too little in the face of historically high oil prices. The IFIs must remain ready to respond quickly to emerging shocks.

In Bangladesh, the Government is striving hard to attain the Millennium Development Goals. We have already graduated from low human development to medium human development category and has already reached some MDGs in the social sector. Since the assumption of office, the present government has pursued vigorously reforms in fiscal consolidation, and despite shortfall in disbursement of anticipated external assistance has restored foreign exchange reserves to a satisfactory level through efficient economic management and adjustment to a floating exchange rate. GDP growth in real terms accelerated to 5.5 per cent in the last fiscal year in the face of external shocks. We have met from our own resources the immediate relief requirements in the wake of three successive devastating floods in recent months which engulfed the entire country. The scale of damages is massive and immediate adequate assistance is required for the rehabilitation of agriculture, physical and social infrastructure. Despite an unfavorable international climate and devastations caused by recent floods, the Government is determined to continue with the implementation of comprehensive reform program as envisaged in our Poverty Reduction Strategy to accelerate growth in the immediate future. I would like to conclude by wishing the Bretton Woods Institutions happy sixtieth anniversary and their continued success in the future.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF
BELARUS

Andrei V. Kobyakov

Distinguished Mr. Chairman, Distinguished Governors, Ladies and Gentlemen, the year that has elapsed since the last Meetings was a year of difficult trials for the international community as a whole, and a rigorous test of the strength and stability of the current system of international economic relations. The processes of globalization and integration, which are unfolding in a highly complex manner, have intensified the unevenness of various nations' economic development.

The trends that have emerged have also had a substantial impact on our Republic's development, whose effectiveness has depended in large part on the precision with which worldwide political and economic processes are coordinated with national interests and capabilities.

What was this year like for our country? The Economic Development Strategy of the Republic of Belarus, its goals and tasks, its basic principles, priorities and phases, are based on an analysis of our nation's place and role in the international community and on an assessment of domestic and external preconditions and factors of economic growth and social development.

Despite a number of objective challenges, Belarus continues to be a dynamically developing nation with sustainable growth in GDP as well as industrial and agricultural production, a relatively stable banking system, insignificant external indebtedness and a well-developed export capacity.

Since 1996 we have consistently pursued a chosen course of phased economic reforms, seeking in every phase to combine the state's regulatory functions and the market mechanisms in a reasonable manner. This has enabled us over the past nine years to ensure sustainable economic growth and social stability and to make progress towards achieving the strategic goal of the country's socioeconomic development—to improve the living standards of the Belarussian people and bring them closer to the level of the developed European nations.

For example, from 1996 through 2003 Belarus increased its gross domestic product 1.5 times, or by an average of 6 percent a year (6.8 percent in 2003). This made it possible to increase real personal monetary income 2.6 times during the 1996-2003 period (including 7.5 percent in 2003).

Belarus has a developed industrial capacity, which can produce goods that are competitive in the world market both in price and quality. And this is confirmed by economic performance. Since 2000 we have steadily increased exports of goods and services. In 2003 it rose by 24.6 percent, and in the first six months of 2004, by 27.8 percent.

Reducing the inflation rate and ensuring stability in the foreign-exchange market have contributed to favorable macroeconomic conditions for production operations and investment activity.

The stable growth in GDP and personal monetary income, as well as the improvement in the financial performance of businesses in the real sector of the economy have resulted in increased budget revenues, and created a realistic opportunity to reduce the tax burden on the economy. It is no secret that the tax level in Belarus remains quite high. For example, in 2003, the overall level of the tax burden in the Republic, calculated as the ratio of imputed and paid taxes and levies to GDP, was 32.1 percent, and when deductions for social insurance are factored in, it was 42 percent. In 2004 it will drop by 1.8 percentage points, but will still be high.

The tax system is being improved primarily by lowering taxes and levies, simplifying procedures for paying them and reducing tax rates.

In 2002, for example, we were able to reduce the corporate income tax rate from 30 to 24 percent, which yielded certain results in increasing investment activity.

In order to keep Belarussian goods competitive and lower the inflation rate, the standard value-added tax rate was lowered from 20 to 18 percent at the start of 2004. All the preconditions are now in place for a changeover on January 1, 2005, to the “country-of-destination basis” in the taxation of foreign trade with the Russian Federation, and all the necessary documents are being prepared to ensure this changeover.

The reform of a second area of fiscal policy—government expenditures is equally urgent. There is much truth in the folk saying, “Getting rich depends not on income but on spending.”

While preserving the social orientation of the budget, budgetary policy in the near term will be aimed at optimizing government expenditures and significantly improving the effectiveness of the use of budgetary funds.

Along these lines, in 2003 we began to take measures to reduce preferential benefits. State support is now being provided to business entities mostly in the progressive forms that are in worldwide use.

At a time when domestic financing sources and the budget are limited in their capacity for increasing investment and innovative activities, we welcome foreign investment. Many experts have concluded that Belarus has indisputable capabilities for attracting foreign capital to its economy

on a wide scale. They cite such obvious arguments as the fact that Belarus is the gate to the Russian market for the EU, retains political stability, has a pretty good regulatory and legal framework, fine social and living conditions, highly skilled and cheap labor and a small foreign debt.

A few words about cooperation with the World Bank. The implementation of the Bank's Country Assistance Strategy for the Republic of Belarus for 2002-2004 is being completed in 2004. Its results were discussed in detail with Bank vice-president Shigeo Katsu during his recent visit to the Republic. An understanding was reached that there is now a need for a fundamental review of the format of cooperation with this international financial institution.

The lessons of past years dictate the need for a more balanced and flexible approach to defining a program of cooperation with the World Bank, which takes account of its changing priorities and the trends in the Republic's macroeconomic situation. The rigid framework of the three-year Country Assistance Strategy program does not afford this kind of flexibility. It would be more acceptable, in our view, to consider a cooperation option that is based on a Country Partnership Strategy, which does not include a rigid operational program.

We have proposed to the Bank a broad spectrum of areas for cooperation in the near term. We hope this dialogue will be productive and will take account of the lessons of previous years of cooperation, which, as "The World Bank Country Assistance Strategy for the Republic of Belarus in 2002-2004" properly notes, show that "there is little to be gained by pushing the policy dialogue (and conditionality) envelope beyond what the government can consider part of its own program."

With respect to cooperation with the International Monetary Fund, several disagreements have persisted between the Government and the IMF for quite some time concerning the rate and areas of the Republic's economic development. I want to emphasize in this regard that the Belarussian authorities have never rejected the Fund's recommendations as a whole. We completely agree with the strategic approaches—the formation of an effective market economy. In early 2004 the Government and the National Bank adopted a joint decision not to attract the Fund's financial resources at this stage.

Considering that there are several other mechanisms of cooperation with the Fund that provide for the use of that international financial institution's financial resources solely in the event of unforeseen circumstances, we think it is possible to work with the Fund in this direction in the future.

The technical assistance provided by the World Bank and the International Monetary Fund has made it possible to accomplish a number of the Republic's pressing tasks. Work with the IMF in this area has

produced concrete results in improving the functioning of the National Bank and the system of collecting, tabulating and disseminating statistical information and in working out actions designed to combat the funding of terrorism and the legalization of illegally obtained income.

We would like to take note of the productive dialogue and cooperation with the World Bank within the framework of technical and advisory assistance on issues of environmental protection, social protection, pension system reform, poverty assessment, business climate improvement, and other areas.

We have an interest in expanding cooperation both with the Bank and the Fund, and are ready to do so.

The Republic of Belarus favors keeping the position of IMF representative in the country on a permanent basis.

In conclusion, I would like to urge the World Bank and the International Monetary Fund to develop their highly important activities with a view toward enhancing their effectiveness, client focus and transparency, and to wish everyone success.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BELGIUM

Didier Reynders

Let me at the outset warmly welcome Mr. de Rato as Managing Director of the IMF and ensure him of my full cooperation in his important mission.

Crisis Prevention and Surveillance

Transparency lies at the heart of crisis prevention. It is encouraging that the Fund and its membership are continuing their efforts in this field, most recently by the decision that the publication of all country staff reports will be presumed. At present 76 percent of these reports are published, but this proportion needs to increase. Therefore, we urge all members to agree to the publication of their reports.

Further improvements in transparency inevitably focus on the decision making process within the Fund. Increasingly, governments are responding to this call and are taking steps, in accordance with national

conditions, to engage with parliament, civil society and other relevant actors to address this issue.

Regular surveillance is an essential element of the Fund mandate. The recent biennial review of surveillance has proposed measures to increase its effectiveness and reorient its priorities. We welcome the tighter integration of regional and global surveillance in country analysis and the increased emphasis on financial sector vulnerabilities. A clear and candid review of the choice of exchange rate regime also remains central to Fund surveillance.

The present surveillance process often identifies vulnerabilities and country analysis reports regularly contain balanced and well-argued remedies. However, an adequate policy response can be lacking even after successive rounds of surveillance. Article IV consultations need to explicitly monitor the implementation of previous recommendations and the findings of such monitoring should be an integral part of any country analysis report. A lack of policy response over several rounds of surveillance should lead to escalated signaling to the authorities concerned.

Crisis Resolution

The widespread adoption of collective action clauses (CACs) in recent sovereign bond issues promises to make the crisis resolution process more orderly. Moreover, the inclusion of CACs has not had a perceptible impact on the risk premium that investors charge for these bonds. However, CACs in themselves are unlikely to guarantee an orderly resolution of financial crises. We, therefore, support existing initiatives on a code of good conduct between sovereign debtors and their private creditors.

A purely voluntary approach to the resolution of financial crises might not provide adequate guidance when a crisis is complex, involving many creditors and/or debt instruments. Under such conditions, communication between debtors and creditors could break down. The Fund should, therefore, continue working out a more rules-based approach to crisis resolution, e.g. in the short run, in the field of the aggregation of claims.

Fund Instruments

A reorientation of surveillance priorities needs to be matched by the use of appropriate instruments. Debt sustainability analysis (DSA) plays a

central role in identifying vulnerabilities and its use in Fund surveillance should be generalized. The conclusions of a DSA should form an integral part of all country analysis reports.

Belgium is currently participating in a financial sector assessment program (FSAP) and we strongly urge countries that have not yet done so to do likewise. The universal adoption of such programs is an important instrument minimizing risks to global financial stability. We fully support the widespread adoption of internationally recognized standards and codes. Implementation of existing standards and codes will be a key issue in the years to come.

Recently, the Executive Board discussed a proposed new instrument for intensive non-financial engagement by the Fund with member countries, tentatively called a Policy Monitoring Arrangement. This new instrument would have a pure signaling role, as no financing would be available. The Fund already provides frequent signals through its surveillance process and initiatives such as FSAP and reports on standards and codes. Members wanting a high frequency, non-financial engagement with the Fund can enter into a precautionary arrangement or a low-access arrangement where the financial assistance provided would be largely symbolic. The creation of an additional signaling instrument would certainly overlap with existing Fund instruments. Moreover, a recent paper by Fund staff has shown that numerous problems have plagued similar proposals previously made. However, the issue is an important one and we are willing to continue discussing it.

For the Fund to execute its lending operations smoothly, a liquid SDR market is essential. The Fund relies on arrangements with members in order to match demand and supply in this managed market. Belgium is in the process of reactivating its two-way SDR agreement, thereby deepening our continued engagement with the Fund.

The Role of the IMF in Low-Income Countries (LICs)

The IMF must continue to play a major role in helping the LICs to face the challenges of stabilization, growth and development. The Fund should concentrate on the creation of an environment of macro-economic stability, conducive to economic growth and poverty reduction. I invite the Fund to strengthen its capacity to deliver strong policy advice and technical assistance to these countries. At the same time, the Fund must also continue to be able to deliver financial assistance to LICs whenever appropriate, through the PRGF. Therefore, I support the creation of a so-called self sustained PRGF after 2005, augmented if needed.

I encourage the countries concerned to further develop their own poverty reduction strategies which should provide a clear and solid framework to tackle poverty through well-defined strategies and help channel external assistance efficiently.

Reaching and preserving debt sustainability is of crucial importance for developing countries. In order to allow all eligible countries to come forward for debt relief, I welcome the limited extension of the sunset clause of the HIPC initiative.

With respect to debt sustainability in LICs, I fully endorse the development of a framework allowing assessments that take into consideration the specific circumstances of the country concerned. International institutions, creditors and donors should take fully into account the results of these Debt Sustainability Analyses. However, the system should not be applied in a mechanical way, in order to avoid perverse effects on the availability of financing for development.

The joint work on the framework for debt sustainability analysis in LICs is a good example of the close cooperation needed between the IMF and the World Bank in order to arrive at an objective and undisputed assessment of the situation. More generally, I call on both institutions to constantly seek ways to improve their cooperation, with respect for each other's core responsibilities and competencies, to the benefit of the developing countries, in order especially to reconcile the twin objectives of short term stabilization and longer term developments.

Against this background, let me now turn to the World Bank and its development agenda.

Financing for Development

My country is committed to achieving the objective of allocating 0.7 percent of its gross national income to development assistance. Already in 2003, we had increased our total contribution to 0.61 percent. Belgium is following closely the efforts of the international community and the various proposals to mobilize additional resources for the financing of the Millennium Development Goals. Our national parliament has supported the introduction of a Tobin like tax on financial flows, while making its implementation conditional on broad international support. Against this background one has to recognize that the clock is ticking and that all of the specific proposals need time to muster sufficient support to reach the implementation stage. This is why Belgium remains convinced that the best solution so far remains that all the parties involved do their utmost to fulfill their commitments: the donor countries to provide the resources

they have pledged and the recipient countries to mobilize domestic resources and improve their absorptive and institutional capacity.

Trade

Trade can play a central role in fostering growth and development.

Much remains to be done for a successful conclusion of the Doha Development Round (DDR). The Bank should continue providing advice in order to help bring the process to an outcome that would benefit both the developing countries and the world as a whole.

Trade is still not fully integrated within PRSPs. Given their comparative advantage in agriculture, developing countries have much to gain in that field. It is, therefore, important that they get the needed support from our institutions, to seize the opportunities offered, to face the challenges of competition and undertake the needed internal adjustments.

Belgium welcomes the Bank's efforts to work increasingly through strong partnerships with local and regional institutions, to deepen country ownership and help build capacity in critical areas. However, good coordination between donors and a division of labor are necessary to avoid duplication and contradictions in advice, particularly with the regional development banks, which have regional integration and trade as a key priority.

World Bank Strategy on Investment Climate, Growth and Infrastructure

Belgium welcomes the work done on improving the investment climate. Its findings are most valuable and the initiative worth being pursued. We are particularly convinced that the investment climate can improve substantially, sometimes at a very low cost, through a series of micro-reforms in the relations between the administration and the private sector. Simultaneously, the Bank should increase its efforts to help member countries set up a global framework, and policies conducive to fostering clarity and confidence in close cooperation with other institutions also involved in this field. The reliability of the statistical system is of particular importance.

Belgium also welcomes the new pragmatic approach of the Bank to the financing of infrastructure in an effort to promote a balanced and holistic approach among the various policy actions and strategies required to foster development. We invite the Bank to exercise prudence in its innovative approaches since most of the ones that have been proposed

would need substantial improvement in institutions, regulations and transparency before they can be successfully implemented. Again, close cooperation with the other institutions involved is essential.

Decision Making

On the issue of voice, we welcome the progress that has been made so far to enable mainly Sub-Saharan African countries to be involved more efficiently in important decisions.

Of particular relevance are strengthened capacity of African ED offices, improvement in communication, the funding of independent advice and program for capacity building as well as strengthened political dialogue in preparation of Poverty Reduction Strategy Papers and Country Assistance Strategies.

Belgium has earmarked 100,000 euros to help finance the strengthening of African EDs' offices.

Moreover, we remain open to examining in a broad multilateral framework other suggestions that would have a meaningful impact on the situation of the poor countries, and rally the necessary degree of support.

Let me conclude by stressing the need to continue to rely on our unique institutions in order to foster macroeconomic stability, economic growth and development in a cooperative manner and in a true multilateral framework.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BULGARIA

Milen Velchev

Mr. Chairman, Ladies and Gentlemen, it is a great honour and a privilege for me to address this year's Annual Meetings of the Governors of the IMF and the World Bank at a time when they celebrate the 60th anniversary of the Bretton Woods conference.

There is little doubt that since their establishment, the two institutions have been playing a prominent role in world history. Over the years, there have been great achievements, there have been some failures and disappointments, too, but one thing is certain – the Fund and the Bank have never failed to provide financial support, policy advice, and

technical assistance whenever justifiably needed. I do believe that the staff of both institutions has spared no efforts to facilitate member countries in preventing crises and fighting poverty, while promoting financial stability and sustainable growth.

The merit and efficiency of these respectable institutions could be plausibly illustrated by the crucial role they have played in Bulgaria over the last decade. Comprehensive and deep economic reforms were launched in our country soon after the political changes took place in 1989. The initial conditions along the road to building market economy were extremely unfavorable - Bulgaria was greatly dependent on the COMECON and had a huge external debt burden that was impossible to serve.

After some initial hesitations, stemming from a stop-and-go policy (of a succession of governments with vague economic platforms), since mid-1997 Bulgaria committed to decisive economic reforms, within the framework of a Currency Board Arrangement. Since then, the country has achieved and maintained macroeconomic stability and enhanced economic growth. To a considerable extent, this success was due to the close cooperation between the Bulgarian authorities and the Bank/Fund expert teams and management.

At present, it is gratifying to point out the fact that since 1997 Bulgaria has achieved a cumulative real GDP growth of about 30%, cutting down inflation to low single-digit levels while maintaining a broadly balanced budget. The results achieved have even greater added value as they were accomplished in a period, when the global economy suffered several crises, including a recession in leading economies, and a growing uncertainty worldwide.

The Bulgarian authorities highly appreciate the recent ex-post assessment (EPA) of the Fund, which scrutinized past developments, but also put into perspective anticipated future policy challenges. The authorities were encouraged by the key message of the EPA report, namely, that most of the possible drawbacks, identified in the case of longer-term program engagement, do not apply to Bulgaria. Some two months ago Bulgaria signed another Stand-by program with the IMF, designed as a low-access, precautionary arrangement which would also serve as an explicit exit from Fund program engagement. The Bulgarian authorities consider such a precautionary program as an adequate exit vehicle, offering a framework that is familiar both internally and externally.

The policy framework under the last arrangements with the Fund has been complemented and further developed by reform programs supported by the World Bank. In 2001, the Bank began to focus its assistance on a series of Programmatic Adjustment Loans aimed at promoting sustainable

growth. The shared view that private sector initiatives and entrepreneurship are the major engines of growth provides the key to the successful implementation of current reforms. The strategy during the last several years has been targeted at the divestment of the state's non-infrastructure assets along with the enforcement of financial discipline on the remaining state-owned enterprises. The subsequent stages of the strategy have aimed at unleashing private initiative by establishing a favorable investment environment in order to increase the level of investments and improve the utilization of existing investments.

Building on the successful experience from the last few years, the Bulgarian authorities are fully aware of the challenges ahead, and remain strongly committed to continuing the ambitious reform agenda. However, as the transition to market economy is already completed, the reform agenda has changed as well. Bulgaria is now preparing for its accession to the EU and this year has witnessed remarkable progress along the road to European integration. On June 15, 2004 Bulgaria closed the last remaining negotiation chapters thus allowing the country to sign the treaty next spring and accede to the union in early 2007, as planned. The successful completion of the EU pre-accession negotiations has substantially increased foreign investors' interest in the country. As a result, FDI reached a record high level in 2003, and even more investments are expected as Bulgaria stands out as an attractive investment location not only for its macroeconomic indicators, but also for its highly skilled yet low-cost work force. These features have been recognized by the major rating agencies, some of which recently raised Bulgaria's sovereign rating to investment grade level.

In the medium term, the main challenge that Bulgaria will face is keeping up the momentum and integrating successfully into the EU. In the last month, the Bulgarian authorities adopted a strategy that clearly outlined the intentions of the country with regard to completion of the last stage of integration – the membership of the Economic and Monetary Union. Taking into account the current macroeconomic framework and the results achieved so far, Bulgaria intends to follow a strategy of acceding to the Economic and Monetary Union without undue delay.

In conclusion, I would like to thank the International Monetary Fund and the World Bank management and staff for the continuous support they have provided to my country over the years. I wish both institutions every success in their mission to achieve stability and prosperity in all their member countries.

STATEMENT BY THE GOVERNOR OF THE FUND FOR BURKINA FASO

Jean-Baptiste Compaoré

Introduction

I am greatly honored to address this important gathering on behalf of African Governors of the International Monetary Fund and the World Bank. Let me first take this opportunity to thank the American authorities for their hospitality. I would also like to congratulate the organization committee for the efficient preparation of this meeting including all the security measures provided

This year's annual meetings take place in the context of increasingly challenging social and economic outlook for the African continent. On the basis of actual trends, the Global monitoring report noted that, Sub-Saharan Africa would not be able to achieve most of the MDGs, particularly those related to health (maternal and child mortality) and those related to environment (access to clean water and sanitation) where almost all the countries are at risk.

In spite of these trends, our countries are committed to eradicate poverty and to put the continent on the path of sustainable growth and development. To take up this major challenge, our heads of States met recently in Ouagadougou, Burkina Faso to discuss employment issues, given that employment is at the heart of the fight against poverty. Our countries reiterated their commitment to accelerate reforms and to persevere in their efforts to improve the investment climate. To complement these efforts, our development partners made the commitment at Monterey to provide adequate financing. Nevertheless, there remains a huge financial gap that needs to be addressed. Beyond the issue of additional financing and to be selective, my speech focus on areas where actions of international financial institutions are needed to allow countries to move quickly toward the MDGs.

The Role of the IMF in Low-Income Countries

We welcome that the Fund is undertaking a comprehensive review of its support for low-income countries (LICs). Below are our proposals which we hope to contribute for this review.

We believe that the Fund should remain engaged in LICs for the long-term, providing policy advice, technical assistance, and financing where there is balance of payments need. The Fund should also consider extending the standard time horizon of its programs from three to five years to ensure greater continuity and predictability in the reform process and its financing.

We urge the IMF to pay particular attention to program design and the need to adapt it to the special circumstances of our countries. We hope that work in the pipeline should address the following key issues: greater focus in the macroeconomic frameworks under PRGF on employment creating growth over the long-term, in order to reduce poverty; design of alternative policy options in the PRGF negotiation process to strengthen country ownership; realism in program assumptions, accelerating the PRSP-PRGF alignment and development of macro frameworks to support the MDGs, systematic poverty and social impact assessments of key reform; support for productive investment and economic diversification; more flexibility in accommodating higher aid flows and attention to political and social constraints.

As noted in the recent discussion on fiscal adjustment in Fund-supported programs, development needs of LICs have been unduly constrained by stringent fiscal targets, many of which are observed at the expense of key public investment. We urge the Fund to ensure that adequate resources are provided for essential government services, and particularly for the development of basic infrastructure that is necessary to promote private sector investment.

Many LICs are vulnerable to external shocks. To cushion the impact of these shocks, there is need to promote diversification of the productive and export base and to build contingency financing mechanisms into programs that could be activated in the event of exogenous shocks. We also call upon the Fund to explore modalities for assisting non-program LICs countries that are affected by external shocks.

There is need to provide for an appropriate bridge in the form of Emergency Post-Conflict Assistance (EPCA) with adequate concessional resources, without daunting conditionalities to allow countries emerging from conflicts to move to PRGF, HIPC and to meet the MDGs. We also encourage the Fund to strengthen collaboration with the World Bank and other institutions such as the African Development Bank, in areas that are beyond the core activities of the Fund but are essential to ensuring higher growth and sustained poverty reduction in low-income countries. These areas include, among others, trade, financial sector, investment climate, public enterprises, civil service reforms and institution building.

A major shortcoming of the Fund's work in LICs is that the Fund devices the policy framework, but the bulk part of the financing is

provided by others. Hence the access limits under PRGF remain low and have not changed from those under its predecessor, the ESAF. We urge the Fund to accelerate the mobilization of resources to enable the increase in access limits under the PRGF, and to enable the self-sustaining PRGF to lend at more than the projected SDR 660 million per annum.

Finally, the Fund should have in place a strategy to prepare countries for an orderly exit from the use of its resources. In addition to low access PRGF, precautionary PRGF and the PRSP should be used to trigger donor disbursements, especially for successful performers. The Fund should also facilitate these countries' access to capital markets.

Debt Sustainability in Low-Income Countries

We welcome the decision by the G-8 to extend the sunset clause. The main concern is for HIPC to deliver debt relief in line with the established framework by the completion point. There are four issues at the moment. First, the need to adequately fund the HIPC Initiative to ensure all eligible countries reach sustainable debt levels. Second, recent experience shows that there is an attempt to link the HIPC and debt sustainability frameworks, undermining the significance of topping up resources for those countries that have suffered unanticipated shocks before and after reaching completion point. We firmly believe that this attempt to link the two frameworks is counterproductive in our efforts to accelerate growth and poverty reduction. Third, there is need for more flexibility in the use of resources released under the HIPC Initiative to also finance infrastructure. Four, there is the issue of low income countries which are non-HIPC but still suffer heavy debt burden. We urge you to initiate works on those countries with a view to mitigating their debt burden

We agree with the main message of the proposed new debt sustainability framework that for low income countries, the scope for more debt is becoming increasingly limited; and more grant resources will be required to finance development. However, experience with the implementation of the MDGs and the Monterrey Consensus, more especially the Education for All Initiative, implies that a more robust financing framework will be required to substantially scale up IDA resources to provide the appropriate mix of financing.

We also know that donor assistance alone will not be sufficient to unleash the desired growth rates to significantly reduce poverty and achieve the MDGs. The new framework seems not to pay enough attention to the design of policies as the ultimate solution to debt sustainability. In this connection, there is need to improve policies aimed at new sources of growth and exports. There is also need to sharpen work

on alternative scenarios and stress tests to capture country's vulnerability to exogenous shocks and mechanisms to mitigate them. We also urge you to address the mounting domestic debt burden which is also a source of concern for debt sustainability.

To ensure high growth and sustainable debt, there is need to seriously address issues related to trade and market access. We commend the heads of the BWIs for promoting market access for developing countries. Following the failure of the Cancun round of negotiations, there is need to step up the effort. While AGOA, EBA and other initiatives have provided temporary relief, long-term growth can only be more assured with a multilateral free trading system. At their recent COMESA summit in Kampala, the African Heads of States called upon industrial countries to accelerate the removal of agricultural subsidies, to desist from tariff escalation on manufactured products from developing countries and for Africa to step up the export of manufactured products. We urge the BWIs to do more in exposing unfair trade policies practiced by industrial countries against developing countries.

Infrastructure and Regional Integration

NEPAD has put infrastructure as a central issue for our economic development. Indeed, our countries face an enormous infrastructure deficit. Less than half of Africa's population has access to safe water and only one in five has electricity. Total public infrastructure investment in Africa is now about \$6 billion per year, roughly half of which is financed by donors. Estimates suggest that \$18 billion is necessary annually to sustain levels of economic growth needed to reach the MDGs. This gap of \$12 billion is far greater than IDA's current annual infrastructure commitment of \$1.5 billion. Therefore, we welcome the Bank's commitment to leverage funds for infrastructure services using a blend of IBRD/IDA, IFC and MIGA instruments and products and urge it to scale up the financing of infrastructure in Africa.

The observance of very stringent fiscal targets in IMF programs by our governments leaves them with very little or no fiscal room to invest in infrastructure. In this regard, and as noted in the IMF's recent paper on public investment and fiscal policy, we urge the Fund and the Bank to reinforce the importance of public investment in the design of their programs, policy advices and technical assistance. In the same vein, we urge the BWI to address the issue of overoptimistic growth assumptions in their country analysis so as to avoid excessive fiscal policy tightening and unwarranted compression of public investment. The volatility of public investment is another source of concern to us. Therefore, we urge

the Fund to ensure that in its programs, the level of public investment is more predictable, given the clear links between infrastructure and poverty. We urge also the Fund to adopt adjusted fiscal targets in order to smooth out investment over “good times” and “bad times”.

We welcome the creation of a department for regional integration in the World Bank African Region and call for the establishment of a trust fund for capacity building in regional institutions in Africa and the design of sub-regional PRSP so as to invest in regional infrastructure projects. We call upon the Fund to step up its policy advice to promote regional integration in Africa.

Finally, we urge the Bank to include within IDA14 a regional resource allocation for regional projects, hence, departing from the current IDA practice of financing regional projects through country allocation.

Private Sector Development

We welcome the World Bank’s analytical work aimed at improving the investment climate and initiatives to support private sector development, including the recent joint IDA/IFC initiative to micro, small and medium size enterprises in Africa. For this initiative to succeed, there is an urgent need to resolve the tension between the financing policies of IDA and IFC. The experience so far shows that it is imperative to harmonize the policies on the use of IDA and IFC blend resources if indeed the Bank’s initiatives towards supporting private sector development in Africa are to succeed. Also, MIGA needs to be an integral part of these initiatives in order to leverage its impact in Africa.

We urge the Bank and the Fund to go beyond assisting countries with generic investment climate issues and to also focus on industry, sector or firm specific issues that still constrain competitiveness. In this respect, we would like the Bank to play a major role in encouraging linkages between SMEs and large corporations through production or supply chains in order to benefit from economies of scale, innovation, and access to markets. In this regard, we urge the Bank to deliberately support the establishment of growth clusters and firm linkages, including proactively promoting contracting (or sub-contracting) to private sector enterprises, especially to small ones, in public and or Bank procurement.

Other Issues

We welcome the Bank's decision to enhance its support to middle income countries (MICs). This is very timely in view of the steep decline of Bank's lending to MICs, which is not consistent with the need for scalping up support to achieve the MDGs. We support the Bank's proposals to streamline the Bank's internal processes which will aim to reduce the burden of fiduciary and safeguard requirements on borrowers and loan conditionalities. This will help (i) reduce the cost of doing business with the Bank; (ii) increase the flexibility in scaling-up the volume of lending for a well performing operation; (iii) the use of wider range of instruments such as programmatic analytic work and swaps. There is also a need for the Bank to rely on country's systems. We urge the Fund to complement the role of the Bank in MICs, especially in developing modalities for alleviating the external and domestic debt burden in many middle-income African countries.

The issue of voice and participation in the decision making processes of the BWIs remain a major concern to us and our political leadership. Most of the BWI work related to programs, projects, policy advice and technical assistance is in SSA yet we are deprived of reasonable voting power and participation within the BWI Boards. We urge the heads of the BWIs to canvas for international support around our proposals, namely to increase our representation in the Boards of the BWIs, to ensure that we are represented at the Deputy Managing Director level in the IMF, to stop the precipitous decline in SSA's quota in IMF Quota reviews, to increase basic votes for individual countries and to increase professional staff from our regions in the BWIs.

The UN will undertake a comprehensive review of progress towards the MDGs in 2005. It is clear that all our initiatives for the MDGs are being constrained by lack of adequate resources at appropriate terms. Since the Monterrey Consensus, it appears that attempts to mobilize financing on a large scale have so far not been successful. Instead, this effort has been substituted by bilateral windows that most of our countries find difficult to access. In this regard, we look for concrete actions towards achieving ODA level of 0.7 percent of GNI and welcome innovative approaches of additional resource mobilization, in particular the International Finance Facility (IFF).

In conclusion, we welcome the ongoing commitment of the Bretton Woods Institutions to helping African countries, including the LICs to achieve the MDGs. We urge them to provide additional financial and technical assistance and economic policy advice, and advocate on our behalf for greater market access and mobilization of international resources.

JOINT STATEMENT BY THE GOVERNORS OF THE FUND AND THE BANK FOR
CAMBODIA

Chea Chanto and Keat Chhon

It is an honor and pleasure for us, on behalf of the Royal Government of Cambodia (RGC), to participate in this the 2004 Annual Meetings of the International Monetary Fund and the World Bank here in Washington DC. We would like to take this opportunity to express our gratitude to the Funds and the Bank, as well as the Government of the United States for their efforts in arranging the meetings.

This statement will provide an overall assessment of the status of the economy of Cambodia, the Economic Policy Agenda, and provide information on the initiatives of the Royal Government of Cambodia to advance its reform agenda aimed at reducing people's poverty and promoting development.

Political Platform

The Royal Government of Cambodia enters into its third mandate of the second era of the Kingdom of Cambodia, humbled by the people's will and fully committed to the cause of peace, national reconciliation, political stability, social order, enhanced democracy, respect for human rights and dignity, national independence, integrity and credibility, sovereignty and sustainable development that will bring progress, prosperity, harmony and dignity to the nation and people at all walks of life.

The successful solving of the unusual political situation within a peaceful and stable environment and in a spirit of national reconciliation and democracy has provided us with a renewed and hopeful opportunity to embark on faster pace, more diversified and in-depth reforms in all the sectors where we have started in earlier terms.

At the forefront of the political and economic agenda of the Royal Government in its third term 2003-2008 are: (a) promotion of economic growth; (b) generation of employment for Cambodian workers; (c) implementation of its Governance Action Plan (GAP) and thereby

ensuring equity, social justice and enhanced efficiency and effectively of the RGC; and (d) implementation of broad reforms in all sectors to reduce poverty and accelerate sustainable development.

The Royal Government of Cambodia stands fully committed to the *Millennium Declaration* adopted on 8 September 2000 by the General Assembly of the United Nations. The Leaders of the UN member states have agreed on the strategic targets and timetables in their common cause to combat poverty, hunger, disease, illiteracy, inequity, gender bias and environmental destruction. The Royal Government shall, with full determination, exert its utmost efforts to bridge the gaps between universally-held goals and national progress, and between the national development and regional disparities.

The Economic Performance

Cambodia has displayed positive economic performance over the last few years, especially on the macroeconomic front. During the last five years, the Cambodian economy grew at an annual average rate of 6.7%, while the exchange rate was stable. On average, industrial production increased 19% per annum, services 5.3% and agriculture 1%. Inflation was kept very low and on average increased by 1.6% a year. The international reserves doubled to USD 670 million in 2003.

Despite the political uncertainty related to the elections and despite the pandemic and insecure international situation, Cambodian economy grew by 5.2% in real term 2003, led by continued growth in garment exports, a rebound in investments and strong increase in agriculture production. Overall, during the first half of 2004, the RGC has exerted serious efforts to ensure our country's take-off toward sustainable economic development.

Recognizing the positive developments, the Executive Board of the International Monetary Fund completed the sixth review of Cambodia's economic performance under the Poverty Reduction and Growth Facility program (PRGF) and the result was satisfied.

Fiscal Development

The country's fiscal position deteriorated in 2003, as revenue performance in 2003 experienced worse difficulties, due to the outbreak of SARS, problems with revenue collection and political uncertainty during the election year, while the overspending associated with the

elections and international obligation put significant pressures on the budget.

As a result, the 2003 fiscal deficit, including grants, widened to 7.4% of GDP. To reduce budget deficit, the RGC will ensure substantial expenditure compression, while increasing revenue to at least 11.9 % of GDP in 2004. This will require tax and non-tax collection measures equivalent to about 0.8 % of GDP.

Monetary Policy

Money supply increased by 15% during 2003 due mainly to increasing bank loans to the private sector. The bank credit to the private sector grew by 27%, while net claims on government fell by 7%, foreign assets rose by 11% and foreign currency deposit increased by 15%. The external balance is expected to slightly deteriorate in 2004. The international reserves were kept at the equivalent of 2,8 months of imports.

Cambodia's level of inflation remains relative low through the use of monetary and exchange rate policy, supported by a prudent managed fiscal position. At the end of 2003, the year-on-year inflation rate was just 0.5 %, while the national currency depreciated by some 1.4% against the US dollars as compared to the end of the previous year. Nevertheless, services and income partly offset the negative evolution of exports, so that the balance of current accounts shows a lessening deficit.

The National Bank of Cambodia (NBC) remains committed to the maintenance of price stability as the principle objectives of its monetary policy in order to control the liquidity and credit growth by utilizing more direct instruments, as indirect policy tools such as statutory reserve requirement and refinancing facilities for commercial banks remained largely ineffective due to dollarization. The tight domestic credit stance and official intervention in foreign exchange market have been so far successful to contribute to the stability of the domestic currency and the sustaining of low inflation.

Outlook of External Sector

The overall balance of payments slightly deteriorated. The current account deficit, excluding transfers, increased from 10.2 percent of GDP in 2003 to 10.8 percent of GDP in 2004, reflecting the impact of higher petroleum prices and service receipts. However, improved fiscal control

following the elections has been accompanied by a gradual increase in foreign currency deposits.

Together with the expected increase in foreign direct investment due to improved political stability, gross international reserves are expected to increase to US\$782 million, or about 3 months of imports, by the end of 2004.

Outlook for Growth

The government's program and policy measures are supportive of further economic stability, with stable prices and low inflation, a stable exchange rate with concurrent economic growth, higher output and export.

The growth in 2004 is expected to increase to around 4.3 percent as tourism recovers and garment exports continue to increase, but at a slower rate of 13 percent. Tourism is expected to rebound by at least 17 percent, boosting growth of services by over 6 percent. Manufacturing growth will thus slow to about 8.7 percent. Agriculture production is projected to grow at an unpleasant level of only 0.4 percent, with crops projected to grow on average by 3.2 percent.

The end of the garments quota system will adversely affect growth in 2005-06, with GDP slowing to around 2 to 4 percent. The slowdown is expected to dampen growth in services and construction, but the impact will be somewhat offset by continued strong growth in tourism. Improving performance of the agricultural sector will further offset any manufacturing decline. Logging is expected to resume, but given tight controls for sustainability, forest sector growth will not exceed 4 percent.

Sustainable future economic growth in Cambodia remains heavily dependent on the ability of the government to diversify the economy and broaden the base for growth. The Royal Government recognizes that strong efforts are needed for Cambodia to improve economic infrastructure, deliver basic services, and enhance governance. The impediments of high transaction costs, poor infrastructure and hidden costs need to be addressed.

The Reform Strategy for 2004-2008

The Royal Government has implemented structural reforms in all aspects, encountering enormous challenges, difficulties and obstacles. Soon after the July 2003 elections, the RGC drafted a comprehensive reform agenda, which selects from and prioritizes actions arising from the

NPRS and the *Socio-Economic Development Plan 2001-2005*, and has “good governance” as its backbone.

In the first of the Council of Ministers’ Meeting for the third mandate of the National Assembly on the 16th of July 2004, Samdech Prime Minister Hun Sen introduced the “*Rectangular Strategy*” for Growth, Employment, Equity and Efficiency in Cambodia. The core of the *Rectangular Strategy* is good governance focused at four reform areas: (1) anti-corruption, (2) legal and judicial reform, (3) public administration reform including decentralization and deconcentration, and (4) reform of the armed forces, especially demobilization.

Environment for the implementation of *Rectangular Strategy* consists of four elements: (1) peace, political stability and social order; (2) partnership in development with all stakeholders, including the private sector, donor community and civil society; (3) favorable macroeconomic and financial environment; and (4) the integration of Cambodia into the region and the world.

Four strategic “growth rectangles” are: (1) enhancement of agricultural sector; (2) private sector development and employment generation; (3) continued rehabilitation and construction of physical infrastructure; and (4) capacity building and human resource development.

In Public Finance, the government is embarking in a comprehensive reform so that Cambodia can afford a Public Finance System reaching the international standard by year 2015. The first platform aiming at building a credible budget to be achieved before the end of 2006. More than 200 actions are underway from now on. After the first platform, three more will follow.

Promoting Tourism Development

Tourism has indeed played a key role in the socio-economic development as it creates employment opportunities, enhances living standard of local people and generates national revenues. At the same time, tourism brings in foreign direct investment and hard currency, thereby contributing principally and actively to the core objective of poverty reduction. Furthermore, cultural tourism is a dynamic source of the influx of tourists, who admire and are aspired to explore cultural heritage. Therefore, the diversity of culture and heritage needs to be appropriately conserved, safeguarded and maintained for the benefit of next generations.

Culture has played an important role in promoting tourism in Cambodia. The creation of natural recreation areas and tourism sites

based on geographical criteria with the abundances of attractiveness from nature and rare culture and with the construction of road network to link all of these areas, such as an airport in Ratanakkiri province, are the priorities for the Royal Government in this sector. On the other hand, based on these advantages, the government set the development of tourism sector in Cambodia as the “Cultural and Natural Tourism”. These potentialities will play a role as an important energy for the economic growth in Cambodia. In this sense, the Royal Government has considered tourism sector as the most prioritized sector among the 6 prioritized sectors in the strategy to promote economic growth to reduce poverty.

Complementing the policies and programs in support of competitiveness is more intensive attention to the promotion of tourism opportunities. In this regard, the private sector constitutes the main thrust to develop tourist destinations. They are working to promote attractions that enable greater tourist traffic in underserved areas, as well as longer stays and increased spending by tourists.

Streamlining Trade Facilitation

Cambodia’s accession to the WTO in September 2004 can be seen as an important step forward in attracting FDI. Cambodia will use this membership to implement a comprehensive policy reform agenda aimed at the achievement of sustainable development. In order to effectively integrate the country into the regional and world economy and market, Cambodia must deepen reforms in all sectors, especially in institutional capacity building and human resource development, a process which takes time and requires strong commitment and political will at all levels. Moreover, to reap the benefits presented by the WTO accession, the Cambodian administrative system needs further improvement to allow for an expansion of industrial base in light of small domestic market.

The RGC's policy on trade facilitation is aimed at (i) rationalizing all agencies that contribute to high costs and delays including those in the Customs and Excise Department, the Ministries of Interior, Commerce, Public Works and Transport, Industry, Health, Agriculture and Labor; (ii) decreasing the total import and export transaction costs to the private sector while at the same time increasing formal revenue flow to the RGC; (iii) decreasing unnecessary and redundant operational costs to the RGC to manage the trade process; (iv) decreasing the overall time it takes to import and export products; (v) increase the visibility and predictability of the process with respect to both time and cost, and (vi) consistent with WTO and WCO guidelines.

On 20 August 2004, during the Government-Private Sector Forum the Government decided to have a single document for export by September 1st 2005 and to set up one single window for import-export operations by December 31st 2005.

Private Sector Development

The Royal Government entrusts private sector as the engine of the economic growth. Therefore, strengthened partnership between the Government and Private Sector must be harmonious or consistent with the State's rational intervention in the economy, combined with thorough development and enforcement of laws and regulations, as well as the effective support and facilitation by the relevant Government agencies.

The Private Sector Growth and Employment Platform covers the following aspects: (1) strengthened private sector and attraction of investments; (2) promotion of SMEs; (3) creation of jobs and ensuring improved working conditions; and (4) establishment of social safety nets for civil servants, employees and workers.

The challenge for Cambodia in the next five years is to broaden the base of economic growth driven by private investment and trade. To this end, the RGC is taking actions to remove impediments to private sector development by taking serious strides to combat red tape and hidden cost in the business, while to train human resources and build up institutions. With the private sector it is formulating the policy and law and the implementing regulations for the private participation in infrastructure (PPI) notably the rule of law, rehabilitate physical infrastructure. The reform will focus on the improvement to the investment climate, including the legal, regulatory and administrative environment. The reform should also allow for improvements in access to key factor inputs, including skilled personnel and competitive access to finance.

To help strengthening the private sector, the Government continues to develop the financial sector by following 2001-2010 Road Map. The first phase of this Road Map 2001-2004 contributed to the successful restructuring of the banking sector. As regular, the Government is also strengthening and cleansing the insurance sector, while efforts has been voted to build legal infrastructure for the financial sector.

Continuing Partnership for Development

The Royal Government considers as top priority the strengthening of partnership with all stakeholders in national development. Strengthened partnership will help ensure effective coordination with donors, international financial institutions and civil society organizations. The parameters of partnership shall be based on the resolutions of the UN General Assembly, principles adopted by the Development Assistance Committee of the Organization for Economic Cooperation and Development (DAC OECD) the Rom Declaration on Harmonization. The roles of donors and multilateral institutions in Cambodia's development process shall be determined on the basis of capacity and comparative advantage of each partner. Such partnerships will require the nurturing of mutual trust, respect and flexibility in accordance with the exigencies of the cooperation process.

On September 2004, during the consultation with donor community and with their consent, the Royal Government announced the setting up of coordination umbrella mechanism to strengthen and rationalize different RGC-development partner working groups, i.e. Public Finance Reform, Administrative Reform, Management of Natural Resources, Social Development, Land Management, Partnership. Ownership by the Royal Government of the working group mechanism is crucial to the further promotion and progress of reforms. It is also crucial that all donors and multilateral institutions strive to be better organized and coordinated among themselves in order to streamline their partnership with Cambodia.

Toward Integration and Peace

Economic integration and international cooperation will help Cambodia to ensure its economic growth. Market access is critical for promoting growth and poverty reduction. Therefore, Cambodia's membership in ASEAN and the WTO, as well as cooperation within the framework of the Greater Mekong Sub-Region (GMS), and providing opportunity to push further reforms in investment and foreign trade regime. The Government is focusing on the liberalization and decentralization of decision making process, reducing the bureaucratic red tapes, removing impediments to investments. Implementing reform programs and initiating the modernization of the national economy will enhance Cambodia's competitiveness, while working to reach the regional and international standards.

The Royal Government is strongly committed to ensure full benefit from the reforms advanced by membership in the WTO. To gain the

benefits in full, Cambodia must strengthen its cooperation with its neighbors through mechanisms such as "*Four Countries, One Economy*," and the establishment of *Growth Triangles* and joint Export Processing Zones (EPZs).

One of the most important achievements of the Royal Government over the recent decade is the establishment of peace, security and safety for all, while ensuring sustainable macro-economic stability for the country. The Royal Government of Cambodia secured full peace by implementing its "win-win" strategy. Henceforth, the main task of the Royal Government is to strengthen the fabric of peace that has already hardly been won.

Cambodia is very pleased with the fact that it is not left alone with its own problems and efforts. We do hope that these Annual Meetings will provide stronger impetus for the Bank and Funds, and for the international community to contribute more effectively to the development process of the poor and poorest countries in the world, including Cambodia. And we also strongly hope that a new PRGF and new CAS can be arranged for Cambodia to ensure sustainability of economic reforms in this country.

In conclusion, we would like to assure this international gathering of the strong willingness and commitments of the Royal Government of the Kingdom of Cambodia to work actively in partnership with the international community towards achieving our common goal of reducing poverty, starting by committing itself to reforms and development in its national domain.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
CANADA

Ralph Goodale

Sixty years ago, Finance Ministers assembled in Bretton Woods and created the World Bank and the International Monetary Fund (IMF), endowing them with the noble mandate of raising economic growth and of increasing economic and financial stability, thereby reducing poverty. These remain relevant and worthy goals.

While many have witnessed unprecedented growth and prosperity over the last six decades, hundreds of millions remain marginalized. The Bretton Woods Institutions are needed now more than ever to support international efforts to promote peace and prosperity for all citizens of the world.

The global recovery has advanced in most regions and the prospects for strong growth are good in the short run. Nevertheless, there are vulnerabilities that need to be addressed to help ensure that global recovery can be sustained.

Canadian economic prospects

The Canadian economy has performed well, notwithstanding several unforeseen shocks in 2003. Healthy business and consumer confidence, solid job gains, strong fiscal fundamentals, and low inflation should continue to support robust Canadian growth for the remainder of this year and 2005. Private sector forecasters expect growth of 3.0 per cent in 2004 and a pick-up to 3.4 per cent in 2005.

IMF surveillance and crisis prevention

Sound economic policies and macroeconomic stability are essential prerequisites for sustainable growth and poverty reduction. Financial crises exact significant economic and social costs, especially on the poor. One of the Fund's primary goals is to reduce the frequency and severity of international financial crises. Surveillance is one of the most important instruments in the IMF's crisis prevention toolkit. The Fund has made considerable progress in strengthening its surveillance operations, especially by promoting enhanced transparency in member countries and improving its analytical tools for the early identification of a country's vulnerability to crisis.

The surveillance function needs to continue to evolve in light of changes in the world economy. In the spring, the International Monetary and Financial Committee (IMFC) called for further efforts to enhance the focus, quality, persuasiveness, impact, and overall effectiveness of surveillance. The Fund's recent biennial review of the implementation of surveillance efforts focused on how to make surveillance more effective across the whole membership. We endorse the key conclusions of the review: a sharper focus on the Fund's core areas of expertise, clearer and more candid treatment of exchange rate issues, enhanced financial sector coverage, and better regional assessments. As well, in our view, debt

sustainability assessments would be enhanced if they were conducted independently of regular country work. Finally, the new exceptional access framework should be strictly adhered to going forward, to help shape the expectations of members and markets alike, provide a benchmark for decisions regarding program design and access, safeguard the IMF's resources, and ensure uniform treatment of members.

Need for a stronger focus on the Millennium Development Goals

We are at a critical juncture. Given the long lead times between program and project approvals and their impact on reducing poverty, we need to increase our efforts now in order to ensure that we meet the Millennium Development Goals (MDGs) by 2015. Making headway in reducing poverty in Sub-Saharan Africa remains our greatest challenge. If we fail Africa, we fail the Millennium Challenge. Real increases in Official Development Assistance are essential for achieving development and progress towards the Millennium Development Goals in least developed countries in general, and Sub-Saharan African countries in particular. We must also ensure that resources are targeted wisely to achieve maximum results. We are fully convinced that a major effort is needed now and both developing and developed country partners must strengthen their collaborative efforts to fulfill the commitments we made in Monterrey.

Financing development

Mobilizing sufficient resources to support development programs remains a pressing challenge, but one worth tackling head-on as the more than one billion people living on less than one dollar a day depend on our collective efforts. Canada has delivered on its Monterrey commitment, increasing international assistance by 8 per cent per year. We are fully committed to working towards the timely conclusion of the fourteenth replenishment of the International Development Association and African Development Fund X replenishment exercises.

Strong foundations for growth and private sector development

Growth will depend on deepening of sound economic policies, improved governance and a more open global trading environment. We welcome the adoption of the Doha Round negotiating framework in July 2004. Although many difficult issues remain, this development gives hope for renewed momentum in meeting the Doha development agenda with its promise of raising millions out of poverty. The IMF and World Bank must continue their efforts to support this process through advocacy, analytical work, local capacity building programs, and assistance to countries in their transition process. We encourage the World Bank and IMF to continue their support to low-income countries in mainstreaming trade-related issues through the Poverty Reduction Strategy Paper (PRSP) process and in their operations.

Equally important, the UN Commission on the Private Sector and Development has stressed that “poverty alleviation requires a strong private sector. It is the source of growth, jobs and opportunities for the poor.” Clearly, private investment (both foreign and domestic) will only be attracted in sufficient volumes and produce results if there is an enabling environment, where the conditions in which businesses operate are transparent and predictable and where there is appropriate governance, sound macroeconomic policies, fair competition, good physical and social infrastructure, smart regulations and the rule of law. In this regard, we welcome the progress that many member countries have already made, often with the assistance of the World Bank Group, in strengthening business environments as well as in addressing investment climate issues and infrastructure bottlenecks.

We need to build on recent successes to promote more business-conducive policies and to provide access to affordable infrastructure services. One message came through strongly and clearly during my recent trip to Africa: improving infrastructure, especially in the transport and energy sectors, is key to promoting private sector development and poverty reduction. Africans across the political and business spectrum all underscored the vital importance of reducing the cost of doing business. The Bank and IMF are definitely well-positioned to offer the kind of support African countries need to improve access to affordable infrastructures and therefore provide an enabling environment for economic growth.

Critical attention to debt sustainability

As we invest more heavily in development, we must not repeat past mistakes. The Heavily Indebted Poor Countries (HIPC) Debt Initiative has taught us an invaluable lesson on the financial and social costs of debt overhang.

Twenty-seven countries are already benefiting from relief under the HIPC Initiative and are having their overall debt stock reduced by two-thirds. Their debt service as a percentage of exports has also been substantially reduced to an average of 10 percent.

The HIPC Initiative remains a valuable instrument to give other heavily indebted poor countries a fresh start, namely by freeing up fiscal space for productive investments. Eleven countries, most affected by conflict, have yet to be considered for HIPC assistance. We therefore support the proposed extension of the sunset clause, which will give them until 2006 to initiate the process.

The key to poverty reduction is broad-based and pro-poor growth. For most HIPC countries, deeper reforms are necessary to promote long-term growth. Over the short and medium term, while reforms will require funding, this may come in the form of loans that will add to the financial burden of the poorest countries. Development finance must be provided strategically and responsibly, either on highly concessional terms or on a grant basis, in order to protect the gains of the HIPC Initiative and to minimize the risk of debt distress. We recognize the progress made in fine-tuning the framework for debt sustainability analyses. Having the results of these analyses inform the lending decisions of the IDA and the Poverty Reduction and Growth Facility as well as those of other development partners is vital to ensure that unsustainable borrowing is avoided. We urge World Bank and IMF Executive Directors to fully consider the merits of the proposed debt sustainability analysis (DSA) operational framework and to refine it as appropriate with a view to having it guide lending decisions going forward.

The role of the IMF in low-income countries

Besides a strengthened focus on country ownership and the joint Bank/Fund work on debt sustainability, the IMF's approach to low-income countries in other areas must also change. Most users of Poverty Reduction and Growth Facility (PRGF) resources no longer have a balance of payments need. It is time to reconsider the nature of the relationship between poor countries and the IMF, including, in particular, the relationship between IMF concessional assistance and the surveillance

process. Simply put, the Fund and low-income countries alike need mechanisms other than lending to support strong surveillance relationships, and to help signal donors.

This is why, prior to the spring meetings in Washington, Canada advocated the creation of a country-led intensified surveillance mechanism. Unlike a formal IMF program, there would be no Fund financing or IMF developed conditionality attached. Instead, the country would present a medium-term economic and fiscal plan developed with the benefit of advice from the Fund staff, but clearly “country-owned” with widespread internal support among key groups in society. The Fund would be asked to provide more frequent monitoring than typical surveillance, and the Board would consider staff assessments of the extent to which the country is achieving its own economic and financial goals.

Since the spring, this proposal has made progress. Jamaica, a pioneer in developing the new approach, is now embarked on an intensified surveillance relationship. Several other countries have indicated their interest in this instrument. Moving forward, we should aim to support countries requesting intensified surveillance, to ensure that the surveillance resulting from this intensified relationship is of the highest possible quality, and to build capacity in countries to define and implement their own programs.

Looking forward

Little more than a decade remains until 2015. Scrutiny of our actions and policies will only increase as we come closer to the deadline for meeting the MDGs. It is encouraging that we know that, on a global scale, we will likely meet the goal of halving global poverty. However, the challenges of meeting this target at the country level, especially for most African countries, are daunting. In this global effort against poverty and despair, all development partners have critical roles to play. The Bretton Woods Institutions are needed now more than ever and they, more than ever, need to heed the voices of their smaller shareholders. Developing and developed countries, the public and private sectors, democratic institutions, and civil society must all work closely together and improve the focus of our efforts to guarantee a better future for the world’s poorest.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE PEOPLE'S
REPUBLIC OF CHINA

Zhou Xiaochuan

Mr. Chairman, Governors, Ladies and Gentlemen, We are very pleased to see increasing evidence of the global recovery, with growth rates in most regions exceeding original expectations. While this is apparent in the world's major economies—the United States, Europe, and Japan—economic growth rates in the developing countries and many regions have also been remarkable. Undoubtedly, countries can take advantage of these developments to resolve inconsistencies and imbalance problems in their economic operations by making structural adjustments, while at the same time creating sound conditions for the developed countries to carry out their obligations in promoting global sustainable development.

However, we cannot ignore the risks and challenges to sustained growth of the global economy. Complex geopolitical issues and terrorism pose threats to global peace and development. The economic structural problems of the major developed countries are having a potentially negative impact on global economic development, exchange rates, and even financial market stability. Affected by the geopolitical situation and the dynamics of supply and demand, the rise in international oil prices has triggered widespread concern, with a marked correlation between financial market volatility and changes in oil prices. The new round of interest rate increases not only will narrow the long- and short-term interest rate spread and squeeze the profitability of financial institutions, but will also increase the financing costs of developing countries. Emerging markets' resilience to external shocks is still weak, and the many low-income and developing countries have a formidable task in revitalizing their economies through structural reform. In addition, the unfair trade system and lack of external financial assistance are seriously hindering development in these countries.

Over the past year, China's economy has maintained the momentum of rapid growth. In the first half of 2004, GDP growth was 9.7 percent y-o-y, 0.9 percentage points higher than the growth rate last year. Foreign trade continued to grow, with total imports and exports for the first eight months of 2004 reaching US\$722.1 billion. Fiscal revenue increased

significantly to RMB1.4307 trillion yuan in the first half of 2004, up 30.6 percent y-o-y.

Since 2003, China has introduced a series of macroeconomic management measures in response to over-investment in certain sectors of the economy with the result that the unstable and unhealthy factors in the economy have been curbed. Based on updated statistics, the growth of money supply slowed in August, with all intermediate targets for monetary policy lower than expected at the beginning of the year. The consumer price index rose by 5.3 percent, due mainly to rising food prices compared with the same period last year. Inflation, which excludes food and oil prices, remains relatively low, demonstrating that China's macroeconomic management measures have played an important role in lowering credit and investment growth, leading to brighter prospects for a soft landing. The Chinese government is firmly resolved to curb over-investment in certain economic sectors and to promote economic and financial reform. We will pay close attention to macroeconomic developments and remain prepared to take the necessary steps to consolidate the gains in macroeconomic management.

In 2004, we have taken important steps to reform state-owned commercial banks and capital markets. Learning from international practice, we have begun to restructure two state-owned commercial banks as share holding companies, which are scheduled to be listed in 2005. Furthermore, reforms are also underway at banks and non-bank financial institutions— including the two other state-owned commercial banks, joint stock commercial banks, urban commercial banks, and rural credit cooperatives. We have also introduced the Qualified Foreign Institutional Investors scheme, allowing the investment of foreign capital in China's security markets. Through these reforms, we will build a strong financial system able to support the sustained, stable, and rapid growth of China's economy.

The recovery of the Hong Kong SAR economy continues. For the first half of 2004, real GDP registered robust growth of 9.5 percent. Growth was broadly based, supported by further implementation of the Closer Economic Partnership Arrangement between Hong Kong SAR and the Mainland and gradual expansion of travel deregulation to more mainland cities and provinces. Consumer confidence continued to recover, putting an end to almost six years of deflation.

Driven by service exports, real GDP in Macao SAR grew by 36.0 percent for the first half of 2004, and the unemployment rate dropped to 4.9 percent. The further strengthening of economic cooperation between the Mainland and Macao SAR contributed not only to the continued growth momentum in the tourism industry and

strengthening the role of its trade platform, but also to the development of the financial sector and new industries.

We believe that the global recovery combined with the stable growth of the Mainland—with the full support of the central government—will help the economies of Hong Kong SAR and Macao SAR maintain the momentum of strong growth.

We appreciate the Fund's efforts to promote global economic and financial stability by strengthening surveillance. Nevertheless, we believe that the Fund should place greater focus on surveillance of the major developed countries that have a significant impact on the global economy. These countries should be encouraged to better coordinate their economic policies, maintain exchange rate stability for the major currencies, increase financial aid to the developing countries, and open their markets to them.

While we support the efforts of the international multilateral institutions to develop standards and codes and introduce them to facilitate global economic and financial development on a voluntary basis, we suggest that the Fund and the World Bank should fully consider countries' different stages of development and their specific circumstances. In developing and introducing these standards and codes, the Fund and the World Bank should listen more to the voice of the developing countries while adhering to the voluntary principle and the gradual approach. As the number of international standards and codes increases, the Fund and the World Bank should be more selective, focusing on those that are closely related to their core areas of expertise, avoiding those areas that are not.

After many years of effort, the international community has made considerable progress in development matters; however, the developing countries still face serious bottleneck constraints. Many developing countries lack development funds and can hardly achieve sustained and effective structural reform. Therefore, we hope that the developed countries can implement the Monterrey Consensus as soon as possible, increase their development aid funds, and reach at an early time the ODA level of 0.7 percent to GNP, set by the United Nations. Promoting fair trade will not only help the developing countries, but will also benefit the developed countries. The developing countries have long faced an unfair trade environment. We are pleased that the Fund and the World Bank are promoting the Doha Round of trade negotiations and advocating an open and fair multilateral trade mechanism. At present, the Doha Round of trade negotiations has made some progress. We hope the international community will continue their efforts. We urge the developed countries to lower their trade barriers and reduce their subsidies on agricultural

products, so that the Doha Round of trade negotiations can achieve substantive progress.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR THE
DEMOCRATIC REPUBLIC OF THE CONGO

Andre-Philippe Futa

Governors, Dear Colleagues, Mr. Chairman, Mr. de Rato, Mr. Wolfensohn, Ladies and Gentlemen, it is a great honor for the region of Africa and for the Democratic Republic of the Congo to accept the chairmanship of the Boards of Governors for the year ahead. We thank His Excellency Lim Hng Kiang for the remarkable manner in which he conducted these meetings; we will certainly demonstrate that we are up to the task.

These meetings have provided us with an opportunity to conduct global financial and economic assessments from the perspective of our two institutions. The picture emerging is that the recovery and revival of the global economy have gotten off to a vigorous start. However, this trend does not guarantee us sustainable and lasting growth, as long as the path to globalization remains fraught with a multitude of great risks and uncertainty. Also, it should be acknowledged that the inequality of this growth among countries on the one hand, and regions on the other, is a source of concern that should prompt the international community to focus on a better allocation of resources in order to ensure a certain degree of equity among member countries.

In addition, social conflicts, wars, and the threat of terrorism still cast a shadow on the tenuous gains that have been made. We have a duty to act in a manner that demonstrates that our commitment to peace in the world is beyond reproach and guarantees success and social progress.

The challenges facing the international community in its efforts to mobilize additional resources to achieve the Millennium Development Goals still represent the backdrop for any strategy and action to be carefully crafted by the World Bank and IMF, in concert with all nations, so that by the year 2015, our pessimism will be lifted by the miraculous defeat of poverty the world over.

We have noted with satisfaction the genuine will of all development partners to pool their efforts to enhance aid effectiveness and significantly reduce the debt burden of highly indebted poor countries.

It behooves us therefore to be resolute in our encouragement and support of the International Monetary Fund and World Bank Group. The two institutions have as their mission to contribute to the maintenance of financial stability and to pursue sound economic policies geared toward creating a climate conducive to sustainable growth and poverty reduction. Under the enlightened leadership of Mr. de Rato and Mr. Wolfensohn, and with the support of their capable and dedicated staff, the institutions are our best hope for accomplishing the tasks with which they have been entrusted. We are grateful to them for their achievements in the past year and we know that they are deserving of our confidence.

In closing, we would like to express our appreciation to all those who have placed their confidence in us and we look forward to seeing you again at future Annual Meetings.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE REPUBLIC OF
CROATIA

Zeljko Rohatinski

Mr. Chairman, honorable delegates, ladies and gentlemen, it is a great pleasure and privilege to address the 2004 Annual Meetings of the Boards of Governors of the World Bank and the Fund here in Washington D.C., the place close to Bretton Woods where our sister institutions were founded 60 years ago. Over the past six decades the global economy has changed quite a bit, it has become far more integrated to say the least. Both the Bank and the Fund made an important contribution in there, as their role in promoting international economic cooperation was indispensable. Looking forward, this role of Bretton Woods institutions will continue to be a cornerstone of prosperous global economy, but at the same time, this role will also present the main challenge, since universal sense of the global economy working for all is not entirely there yet. Having said that, I would like to express my warm appreciation to Messrs. de Rato and Wolfensohn for their dedicated service to our institutions, and I wish them much success and wisdom in steering the

institutions in years to come. Also, my gratitude goes to former Managing Director of the Fund, Mr. Köhler.

In remainder of my statement, allow me first to cover major economic developments related to Croatia. Thereafter, I will say a few words about Croatia's relations with the Fund and the Bank. And finally, I intend to touch on a couple of policy issues relevant for the Bank/Fund business.

To start with the major Croatia's economic developments, I cannot resist mentioning first a big political event, obtaining a candidacy status for EU membership in June this year, the event everybody in Croatia had waited for. We expect accession negotiations to commence early next year. Without doubt, the accession process will anchor future reforms and economic policies, hence helping us to preserve macroeconomic stability and to deal effectively with some of the challenges our economic policy faces.

Having mentioned challenges, it should be noted that relatively high and increasing foreign debt represents a major challenge at present. Foreign debt almost doubled over the past few years (it accounts to approx. 80 percent of GDP at present), and roots for such a debt dynamics could be found both in lack of government's will to consolidate public finances more decisively, and in low interest rates, which in combination with relatively easy access to credit spurred private consumption too. On one hand, such a strong domestic demand helped Croatia to weather the global downturn after 2000/01. In fact, Croatia hardly felt global downturn, it achieved relatively high growth rates in both 2002 and 2003 (5.2 percent and 4.3 percent, respectively) at low single-digit inflation. However, on other hand, strong domestic demand came at the cost of strongly increasing foreign debt, high budget and current account deficits.

Against this background, the main objective of the current policy stance is to narrow the domestic savings-investment gap in order to stabilize foreign debt. Strong fiscal consolidation (together with a shift in budget deficit financing to domestic resources) is seen as a main vehicle to achieve the aim. Only this year budget deficit is projected to be cut by 1.8 percentage points of GDP. And in the following two years by additional 1.6 percentage points of GDP, notwithstanding the expenditure pressures related to EU accession. All this should bring down the budget deficit to 2.9 percent of GDP by 2007. At the same time, monetary policy will continue to be geared towards low inflation and exchange rate stability, which is entirely consistent with Croatia's EMU aspirations. Though such a monetary policy itself should not necessarily help curbing domestic demand, the central bank will continue to assist the efforts of fiscal policy to stabilize overall external debt. That said, it is noteworthy that the central bank implemented temporary measures to limit credit

growth already last year. And this year, it introduced a temporary measure to discourage commercial banks' borrowing abroad. From a somewhat longer-term perspective, the central bank has been continuously improving banking supervision, which paid-off, as recent credit boom has not been reflected in a deterioration of portfolio quality. On the contrary, commercial banks' portfolio quality continued to improve and profitability remained high. (NPLs account to some 5 percent of total loans at present).

This overall macroeconomic policy will be supported, no doubt, with a number of structural measures. Some of the major measures involve enhancing fiscal transparency, improving expenditure and debt management, and perhaps most importantly judicial and public administration reforms. These reforms should have a positive impact on business environment, hence helping to attract non-privatization related FDI and facilitating private sector activity in the medium term. After all, these reforms, together with before mentioned economic policies, should pave the way to EU accession.

In turning to my second point - Croatia's relations with the Fund and the Bank – I want to stress first that Croatia continues to have open and fruitful discussions with the Fund/Bank staff. That said, just outlined economic policies and structural reforms are supported by the Fund's precautionary Stand-by arrangement signed two months ago. They are also to be supported by the World Bank too. In fact, a World Bank Programmatic Adjustment Loan (PAL) is currently under preparation, and it is expected to come on-board early next year.

Besides program arrangements with the Bank/Fund, Croatia is participating in a number of initiatives aimed at strengthening architecture of the international financial system. To quote some of them, I may start with quoting a joint IMF/WB's initiative - Financial Sector Assessment Program (FSAP). Croatia is one of the 70 countries for which FSAP has been already completed. Based on the FSAP mission report, a couple of The Reports on the Observance of Standards and Codes (ROSC) were made, and some of them have already been updated. In addition to that, an assessment of the legal and institutional framework for anti-money laundering and combating the financing of terrorism was also undertaken. By making this step, Croatia tried to make its contribution to the worldwide efforts aimed at resolution and prevention of the most terrifying global threat we all witness these days. Separately, but still on strengthening the global financial system, Croatia has recently welcomed a comprehensive Financial Soundness Indicators (FSI) Coordinated Compilation Exercise project. As one of about 60 countries, we are participating in the project, hence actively supporting development of

efficient tools for assessing the strengths and vulnerabilities of financial system.

Before turning to my third and final point, let me note a few more “assessments” completed for Croatia. In particular, Safeguard Assessment was completed early last year, and the subsequent one is currently underway. Then, the World Bank has done recently a Country Financial Accountability Assessment study in which it helps us identify weaknesses of our public financial management system. A fiscal ROSC was also completed a few months ago. All in all, through all these assessments Croatia is actively supporting a number of the Bank/Fund’s initiatives, but at the very same time it is receiving an increasingly valuable advice for which we are very much grateful. To this end, I wish to thank both the Fund and the Bank for providing us with expertise technical assistance, which is very much appreciated.

Finally, I wish to touch on a couple of policy issues relevant for the Bank/Fund business. First, as Croatia is now the EU candidate country, and currently in the process of the Bank country assistance strategy preparation, I would like to highlight the importance of the Bank’s assistance not only for our country but also for all other countries in the similar status, to have an operational focus with clear strategic fields of intervention defined in the present context of need for EU alignment. Second, I support wider application of the sector wide approaches as they support country-led programs for a coherent sector in a comprehensive and coordinated manner. As they are characterized, among other things, by country-owned sector policies and strategies and by a common program and an expenditure framework based on agreed priorities and strategies, a setting up such sector programs through adjustment financing instruments should promote easier future inclusion of the EU pre-accession and later structural funds. Third, I very much support the idea that all decentralized Bank offices should be able to really represent the Bank at whole, meaning the IFC and the MIGA as well. Recipient country sees the Bank’s presence through a country or a regional office, and it is difficult to understand constant excuses that the IFC and the MIGA are represented through their separate office in other countries. Cooperation among all institutions of the Bank group, not only at the country assistance strategy level, but also in the field, is of utmost importance for an improved effectiveness of the Bank as a whole. Fourth, as Croatia is a middle-income country, and all of the above issues are closely correlated, let me kindly ask for future support to the Middle Income Countries Strategy as well as for a promotion of the country systems adoption, especially for EU candidate countries. Such approach will further decrease the cost of doing business whereas letting us stay involved with the Bank in order to perform crucial structural adjustment

within a joint effort. Finally, regarding the Fund business, I wish to underscore that Croatia attaches a great importance to the Fund's transparency policy, especially given its general role in supporting strengthened domestic economic discussions and market assessment. I am pleased to see the country staff reports' publication rate standing at 76 percent now and I welcome a recent step forward in this area – presumed publication of all staff reports. I would like to point out that Croatia has supported the initiative to publish country reports from its early days, when report publishing used to be very voluntary. Thus, it is indeed a pleasure to see the initiative progress, achieving its aim.

Mr. Chairman, dear guests, allow me in concluding to thank our hosts for their warm hospitality and outstanding organization of these meetings. I wish the Fund and the Bank well in their future undertakings and thank them for the help provided to my country.

STATEMENT BY GOVERNOR OF THE BANK FOR DENMARK

Bertel Haarder

In my remarks today, I would like to focus on the Millennium Development Goals (MDGs) and draw your attention to three issues that we – the Nordic countries – believe are very important in our strive to reach those goals. I will argue that:

- We must give special attention to Africa,
- We must become more engaged in conflict prevention, and
- We must attach higher priority to promoting human rights, democracy and good governance.

All countries can and should reach the MDGs. Is it realistic? Yes, but only if we strengthen and focus our efforts and apply all available instruments. An important determinant for achieving the MDGs is the developing countries' own policies. In many recipient countries, the administrative systems are still too weak to ensure efficiency and accountability. Governments must do more to strengthen governance and public institutions and the donor community must stand ready to support such reforms. Otherwise, efforts in other areas will not be effective.

It is widely acknowledged that we must mobilize substantially more aid to achieve the MDGs. Donors should move towards the UN objective of 0.7 percent. The Nordic countries will maintain our high level of development assistance. We, the donors, must keep our promises. Having said that, we do welcome the work on innovative financing mechanisms, as a supplement to our collective efforts.

Our partner countries are still using far too many human and economic resources navigating different donor priorities and procedures. To reach the MDGs, we need to continue our efforts to ensure development effectiveness – through alignment of the assistance to the Poverty Reduction Strategies (PRS), harmonisation, joint reviews and use of common monitoring systems.

PRS constitute a strong framework for implementing programs in an effective way. The Bank deserves much credit for taking the PRS-initiative this far. But there is room for improvement. National ownership, including the involvement of national parliaments, is one such area. The latest progress-report provides the Bank with a good basis for initiating a consultative process with all relevant partners to further improve the framework.

An important question in this connection is, whether the Bank is able to join and push the harmonisation agenda at country level. We believe that the Bank's interaction with partners in the field could be improved through decentralization and delegation of more responsibility to country offices. We encourage the Bank to move further in this direction.

I would now like to bring to your attention three issues, which we believe are important for reaching the MDGs worldwide.

We must give special attention to Africa

A stronger global effort to support Africa's fight against poverty and instability is urgently needed. Africa is a mosaic of steps forward and backwards, good results and unresolved problems. We are encouraged by the progress made in several African countries. But let us not forget that Africa is the region facing the greatest challenges and furthest away from reaching the MDGs.

HIV/AIDS is the biggest threat to development in a number of African countries and needs to be urgently dealt with. The latest review of the Bank's HIV/AIDS programmes in Sub-Saharan Africa showed the Bank's success in scaling up its support in fighting the disease. We would like to encourage the Bank to continue the good work, also by further mainstreaming HIV/AIDS prevention in other sector programmes and projects supported by the Bank.

Africa will remain the main recipient of development assistance from the Nordic countries – and we will take the initiative to strengthen our dialogue and co-operation with African countries. Amongst concrete initiatives, we are convening a ministerial conference on trade and development in the first quarter of 2005 in Tanzania. The conference is meant to identify areas where we can help the African countries to achieve a stronger position in the international trade system.

We must become more engaged in conflict prevention

Armed conflicts are a big threat to the fulfillment of the MDGs. Areas suffering from conflicts also risk becoming refuges for terrorist groups. Neighbouring countries are affected as well. Often the help has come too late – and the costs in terms of lives lost and infrastructure destroyed have become far too high. Ensuring peace and stability should, therefore, be one of our main priorities. But many such conflict-ridden countries have weak policies and institutions and widespread corruption. Traditional aid programmes have not worked well, and many donors have disengaged. Disengagement has, however, proven risky and contributed to increasing instability.

We highly value the steps taken by the Bank to strengthen its role in low-income countries under stress (LICUS) and encourage the Bank to stay engaged with well defined strategies in these countries. Needless to say, close co-operation with the UN-agencies remains essential. The ultimate goal is to make full use of different strengths of the various actors. We strongly urge the International Financial Institutions and the UN to work closely together to ensure an effective response to ongoing and emerging conflicts.

We must attach higher priority to promoting human rights, democracy and good governance

Human rights and democracy are decisive contributions to the creation of the political and economic framework that is necessary for a country to attract foreign investments and ensure growth and development. By the opposite token, human rights violations, political oppression, the lack of free exchange of opinion can breed political radicalisation and become a cause of violence and conflict.

During President Wolfensohn's tenure, we have been encouraged by the progress made by the World Bank Group to integrate human rights issues in its work. IFC's new safeguard policies are an important step

forward in this regard. Also, the Bank's legal considerations regarding human rights seem to be under evolution. The Bank has an important role in assisting its members to progressively realize their human rights commitments and should work to exert a positive influence. We look forward to further discussions about integrating human rights in the Bank's work.

Let me conclude by stressing that the Nordic countries see the fight against poverty as a fight for global security – a global common good. Partner countries and donors, including the World Bank, should strengthen their effort for the populations of the poor countries to live in freedom and dignity in open societies, under responsible governments and with growth and progress. In our view, this is the golden path to achieving the Millennium Development Goals.

STATEMENT BY THE GOVERNOR OF THE FUND FOR FIJI

Savenaca Narube

It is an honor and a privilege for my delegation to attend this year's annual meeting of the International Monetary Fund and the World Bank on behalf of the Government of the Fiji Islands. I congratulate you Mr. Chairman for your appointment to chair these joint annual discussions. I also warmly congratulate Mr. de Rato on his appointment as Managing Director of the Fund.

Mr. Chairman, we see and face the effects of the heightened global security measures in our meetings here in Washington. It brings home to us the seriousness and the huge cost of providing security for these meetings and indeed for many parts of the world. The developments since our Dubai meeting last year have again confirmed that we are all vulnerable to the world threat of terrorism. It can affect us all, even us in the South Pacific. We therefore join the call to harness every effort and resources to eradicate terrorism and combat money laundering.

In Fiji, we are doing our part to prevent terrorist financing and combat money laundering. An independent review last year by the Asia Pacific Group on Anti Money Laundering concluded that generally Fiji had in place adequate systems in this area. But, we are doing more. A Financial Reporting Transactions Bill will be introduced in the next sitting of Parliament. This will strengthen the exchange of information

and surveillance of suspicious transactions. At the same time, a Financial Intelligence Unit, which has been operating since last year, will be formalised through this Bill.

Mr. Chairman, Fiji has also agreed to undertake a Financial Sector Assessment Program (FSAP) in 2006. We believe that Fiji is perhaps the smallest island member country of the Fund that has volunteered to undertake this comprehensive review. It reflects the Government's ongoing commitment to comply with international standards and codes. This FSAP will complement our participation in the Fund's review of the Codes of Good Practices in Fiscal Transparency last year and the completion earlier this year of the Report on Observance of Standards and Codes of Transparency in Monetary and Financial Policies (ROSC). We are working at implementing the findings of these reviews. We believe that these measures will further strengthen good governance and enhance the resilience of our economy to the vulnerabilities and shocks that we face. Our compliance to these international codes will also help us combat terrorist financing and money laundering. However, with our limited resources and capacity, compliance to these codes is very expensive and we call for more support of our efforts in this area, particularly in institutional capacity building.

I am pleased to announce that Fiji has successfully concluded its Article IV consultation with the Fund. The Fund confirmed that Fiji was now enjoying four consecutive years of good growth, a performance that has been difficult to achieve in the past. We expect this year's growth to again be close to the 5 percent government target as was the case last year. Our economic fundamentals remain firm with low inflation, adequate foreign exchange reserves and moderate debt level.

The Fund also commended the Fiji Government for its economic management that had successfully and rapidly rebuilt the economy since the 2000 crisis. The accommodative monetary and the expansionary fiscal policy have worked well to raise domestic demand which has driven growth in the last four years. This has resulted in rising incomes and employment for our people.

However, we fully agree with the Fund that, with economic growth well on its way, there is a need to re-orient our economic strategy towards sustaining this performance into the future. In fact, we have started addressing this concern by tightening monetary policy in May this year. We also fully understand the critical role of fiscal consolidation in protecting macroeconomic stability. Our 2004 budget deficit has been suppressed to 3.5 percent of GDP from 5 percent last year. Further fiscal consolidation is planned in the medium term. While the Fiji Government realises the challenge of fiscal consolidation, it nevertheless remains committed to the reforms of the public service, public enterprises and

financial management. Last year, greater transparency and accountability of the responsibilities of senior government positions were introduced. Furthermore, a new Financial Management Bill will be tabled in the next Parliament session, which will pave the way for the implementation of financial reforms to improve the management, reporting and control of government spending. This will be supported by the introduction of a new financial management information system and improvements in budgeting where corporate planning will drive the process. At the same time, the government has just completed a comprehensive review of all aspects of our fiscal policy, which will help us continue to improve our revenue collections and taxation schemes.

Mr. Chairman, in our reform effort we will obviously need technical assistance to properly manage and coordinate these interrelated programmes. I also wish to report that the Fiji Government is addressing other strategic issues which, inter alia, include the management of government assets; reforms in the sugar industry; reassessment of the tertiary and vocational system to ensure that we continue to meet the changing needs of the country; and development of a regulatory framework that will enhance competition in the telecommunication industry.

Fiji, as a small island nation with a population of less than a million, faces many vulnerabilities. These vulnerabilities Mr. Chairman, may threaten our entire economy. We are doing all we can to minimise these vulnerabilities including setting a firm macroeconomic foundation. But it is clear from global experiences that we cannot do this on our own. We need the support of the international community, in particular the two Bretton Woods institutions. Our needs are concentrated in capacity building in its many forms and we call for assistance in the areas of training, technical assistance, policy advice and institutional strengthening.

Mr. Chairman, so far, the achievements of the Millennium Development Goals (MDGs) are uneven and slow, particularly in the area of poverty reduction. In my opinion, this reflects the enormous burden on developing countries to progress towards these goals while dealing with country specific challenges and the increasing volatility in global developments. The resources and the capacity that are needed to achieve these challenging goals are enormous. I therefore join the call on the International Finance Institutions and donors to accelerate assistance to help developing countries progress to the MDG. In particular, I request the Fund and the Bank to actively play their part in assisting member countries reach these goals.

Mr. Chairman, the global focus on the governance and decision making of the Bretton Woods institutions is sharper than ever before. I

believe that it is an opportune time for the Fund and the Bank to strengthen the voice and representation of developing member countries in the two institutions and address the structural misalignments that currently exist. In this regard, Fiji continues to support the 13th review of the IMF quotas to help address the erosion of the voting powers of small members of the Fund. In the Bank, I believe that the strengthening of capacities in the Executive Directors Offices will be a useful first step. I therefore urge the Fund and the Bank to agree on the way forward and develop a clear implementation road map to complete the work on this issue as soon as possible.

Mr. Chairman, remittances have become an important balance of payments support and a source of development finance for developing countries including many Pacific Island countries. In Fiji, these remittances have rapidly grown in the last two years to become our second highest net foreign exchange earner. We therefore welcome the recognition of the G8 in their Sea Island Summit of this growing source of external development financing. We would support any work by the Bank to study these flows and in particular how to reduce the transaction costs.

Mr. Chairman, we welcome the resumption of the Doha Round of multilateral trade negotiations. In this respect, it will be crucial for the Fund and the Bank to develop clear strategies to ensure that trade liberalization benefits are shared by all, including the developing countries and small island states.

We are grateful to the Fund for their continuing technical assistance to Fiji in the areas of financial supervision, payment systems and monetary policy. The Pacific Financial Technical Assistance Center, in our view, is an excellent model for delivering assistance to the scattered countries in the Pacific region and we thank the IMF and other donors for their support of the Center. I am glad to report that an independent review of the Center has been completed and it fully endorsed the work and the structure of the Center. We also thank the Bank's Representative Office in Sydney for their support. We wish the Fund and the Bank all success in their future endeavours.

STATEMENT BY THE GOVERNOR OF THE FUND FOR FINLAND

Erkki Liikanen

I am honoured to address this distinguished audience on behalf of the Nordic-Baltic constituency consisting of Denmark, Estonia, Iceland, Latvia, Lithuania, Norway, Sweden, and Finland. We are gathered here in Washington at a time when the IMF has just passed the 60 year mark. This milestone gives us an excellent opportunity to reflect on the main challenges of this institution.

I start with a comment on the economic outlook. The overall picture is quite comforting, even though higher oil prices have added to the downside risks. The main challenge now is to establish a firm foundation for sustainable growth.

The opportunity offered by the present situation should be used to address global imbalances, to move towards more sustainable fiscal positions and to press ahead with structural reform. The recent agreement to continue the Doha trade round was a welcome step forward in our efforts to bringing the fruits of sustainable growth to all. Industrial countries must shoulder their responsibilities for the progress made in trade liberalization, and low-income countries need to take action to ensure the reduction of trade barriers between them.

I want to focus first on surveillance and the Fund's internal governance, second on our way of dealing with crises, and third on the Fund's involvement in low-income countries.

The Fund needs to become more candid in its surveillance

First, is the question of surveillance. In Fund terminology, surveillance has a positive ring; it is about shared economic security. In recent years, increased transparency has made the Fund's surveillance more accessible. The move to presumed publication of the Fund's reports is the latest achievement in this field, and it is important that we continue to encourage all member countries to follow this new policy.

The recent biennial review provided us with valuable information about the state of surveillance and guidance on the way forward. It is important to deepen the coverage of regional and global spill-overs and to improve the integration of bilateral, regional and multilateral surveillance. The Fund's surveillance over euro area policies is a good example in this

respect. We might sometimes disagree on policy conclusions, but I appreciate the comprehensive and candid view given on the policies of our region. The Nordic-Baltic constituency includes countries either inside or closely linked to the European Union, and for that very reason we have a wider interest on the issue. Having been personally involved in European cooperation for a long time, I appreciate the "outsider view" that the Fund can bring to the European discussion.

Of course, becoming better at multilateral and regional surveillance is dependent on the quality and efficiency of bilateral surveillance. The Fund staff's own report, together with the Independent Evaluation Office's (IEO) report on the Fund's Role in Argentina, served as an eye-opener for many of us. The evaluation report makes a convincing case concerning the shortcomings of surveillance in this instance. I quote, "Little substantive discussion took place with the authorities on whether or not the exchange rate peg was appropriate for Argentina over the medium term, and the issue received scant analysis within the IMF" unquote.

The Fund gave the authorities the benefit of the doubt for too long and did not acknowledge that temporary positive developments were not supported by structural changes. None of us want to see a repetition of this, and therefore we need to emphasize reform and insist on having structural issues of macroeconomic importance adequately addressed in Fund surveillance and programs.

While further improving internal governance

The evaluation report also shows that there is a need for further discussion on how to enhance internal decision-making and ensure that our representatives in the Executive Board are fully informed about all issues relevant to the decision-making process. Critical decisions are, however, sometimes made outside the Board. This undermines the ability of the Board to exercise the powers that we as Governors have given them. It also calls into question the accountability of this institution. On top of this, it may weaken the credibility the Fund vitally needs.

In this respect the clarity that the exceptional access criteria bring to decision-making is most welcome. The use of this promising vehicle has been limited to date. The exceptional access criteria focus on the early involvement of the Executive Board. A well-informed and alert Board is the best guarantee that the staff and management do not prejudge the Board's decisions. It is up to all parties concerned to make sure that the agreed rules are followed.

Enhancing the voice and participation of developing countries in the Fund's decision-making process is another important area. The Nordic-Baltic constituency is in favour of improving developing countries' participation in international fora and is ready to consider realistic measures to achieve this. One way to do this is to increase basic votes.

There is a need to change our way of dealing with crises

Secondly, is the question of the way we prevent and handle crises. The Fund's success in preventing and handling crises is not measured by the amount of finance it disburses. Precautionary arrangements have become more and more common in recent years. I have noted the latest suggestion to create a so-called policy monitoring arrangement. However, it is an open question whether there would be demand for such an arrangement or whether the existing tools can serve the same purpose that a policy monitoring arrangement is supposed to do.

Another interesting discussion has centred on the exceptional access framework and on considerations of its proper functioning. In general, I feel that the existing framework with early Board involvement should be left unchanged for the time being. We should make sure that we apply the exceptional access criteria, as they are defined, in order to have a predictable and equitable framework in place.

The call for a strong exceptional access framework is reinforced by the fact that there has been limited progress on other aspects of the crisis resolution framework. Issues related to private sector involvement have been put on the back burner for too long, making the current system still tilted towards bailing out the private sector. It is a welcome development that the use of collective action clauses has become so widespread, but we should also develop other tools to involve the private sector. The Fund's lending into arrears policy provides guidance on how to react in such a situation, but I believe that the policy would benefit from more operational criteria that would make the policy easier to apply. Well-defined rules on debt restructuring do not have to lead to easier defaults but rather to a more predictable and orderly process.

Stepping up our efforts to reduce poverty in low-income countries

Thirdly, is the question of the international community's efforts to reduce poverty in low-income countries and on the role the Fund can play in this, without compromising its core function. The attainment of the Millennium Development Goals depends on sound policies, good

governance, and adequate financing. Trade liberalization especially in agricultural products would give a boost to low-income countries. Ensuring better and equal access to basic services such as education and health care, reducing poverty and underpinning a more equal income distribution, would help to enhance and sustain growth.

An operational framework for debt sustainability would enable both the countries themselves and the donors to better tailor policies to be consistent with the countries' long-term debt sustainability. Further work on a debt sustainability framework would also facilitate our discussion about what is needed beyond the present HIPC Initiative. The decision to extend the initiative for two more years was a welcome move in order to ensure equal treatment of eligible countries. However, there is a need to consider new ways of addressing long-term growth and sustainability issues in both HIPC as well as in other low-income countries.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR FRANCE

Christian Noyer

Dear Colleagues:

Firstly, the strengthening economic recovery must be sustained through the steadfast curbing of global imbalances. In recent months, the world economic recovery has strengthened, but risks remain. The trend in oil prices is a first concern and its repercussions can be damaging to industrial countries and even more detrimental to emerging and developing non-oil producing countries.

Finding the appropriate fiscal and monetary policy mix is also a significant challenge. The adoption of accommodating fiscal and monetary policies helped support economic activity and promote recovery at a time of global economic slowdown. However, the sustainability of such policies is of concern, as they can magnify global imbalances. Fiscal consolidation must therefore be a priority.

Secondly, the work of the international community to improve crisis prevention and resolution must be stepped up.

Enhanced surveillance must be consolidated.

Renewed attention to exchange rate issues, as well as the new framework for analysis of debt sustainability in low-income countries, which has to be a joint product of the World Bank and the IMF, are key steps.

Additions are needed to the IMF's toolkit for crisis prevention and resolution.

For the poorest countries frequently exposed to exogenous shocks, precautionary arrangements with concessional financing are a response to an actual need. In parallel, the IMF should remain at the heart of discussions on crisis resolution.

The large spreading of collective action clauses is one side of the response. I hope that the proposal for a Code of Conduct, which is being considered by several emerging countries together with the private sector, will rapidly lead to useful results.

We welcome the progress which has been achieved and encourage the international community to incorporate all of this work in actual crisis management and resolution.

Progress toward greater financial transparency is warranted.

The focus on greater transparency also helps prevent the use of the international financial system for criminal or terrorist purposes. I welcome the Executive Boards' decision in March of this year to fully integrate anti-money laundering and combating the financing of terrorism into the assessments of member countries' financial systems and to adopt a common methodology with the FATF for conducting these assessments. France, which this year is chairing the FATF, would like to see this cooperation between the Bretton Woods institutions and the FATF continue.

Thirdly, efforts of the international community in favor of development should be strengthened in two directions.

Ensuring debt sustainability for developing countries in the context of a financing policy tailored to each country. First, France welcomes the fact that the sunset clause for the HIPC Initiative has been extended for two more years, as this will provide a window of opportunity for the

eligible countries to benefit from the Initiative. The next step is to ensure the debt sustainability of developing countries beyond the implementation of the HIPC Initiative. It is necessary, in particular, to ensure as soon as possible the perpetuation of the FRPC financing so as to maintain the continued momentum of its activities beyond 2006. We are pleased to see that a consensus among Fund members supports this development.

But beyond debt, our second priority should be to mobilize additional resources for development. We know that to achieve our objectives, financial needs are estimated to amount to 50 billion dollars per year for the next ten years. The international community should therefore allocate additional resources to this goal.

However, we need to be realistic. Increasing fiscal efforts can offer only a progressive response; and financial needs to achieve the millennium goals are pressing. That is the reason why we need to keep an open mind in considering innovative mechanisms of financing, including the IFF and global taxes. France welcomes yesterday's International Monetary and Financial Committee and the Development Committee's decisions on this issue.

We should take the opportunity of the current recovery to implement reforms necessary to strengthen a non-inflationary and thus sustainable growth and to deepen our commitment to fight against poverty. The IMF and the World Bank are the key instruments in this endeavour and we want to reaffirm our support to these institutions which embody the spirit of the international cooperation which we advocate, and in which all voices should be listened to.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
GEORGIA

Zurab Nogaideli

The new Georgian authorities embarked on a very ambitious reform program in December of 2003. The main elements of the government reform agenda in the short-term were to fix the decrepit fiscal sector, to strengthen the governance, to combat corruption and smuggling, to foster economic growth and reduce poverty, and restore the general public

confidence. In February 2004 the government negotiated a new IMF program which again envisaged very bold targets for the coming years. For instance, according to the program scenario the tax revenue to GDP ratio was planned to increase by 2 percentage points to reach 16.3 percent by the end of 2004. Such a dramatic increase was unprecedented in Georgia since its independence. However, the government not only delivered on its results but in many areas and aspects even substantially outperformed the program targets. In fact, the tax revenues almost doubled relative to the last year and for the first time since its independence the budget expenditure allocations were revised upward. According to the established tendency in revenue collections, the tax revenue to GDP ratio may reach 18 percent that would be almost 4 percentage point increase compared to the previous year.

Enhanced revenue mobilization allowed the government to timely meet its spending obligations and especially in the social area. Moreover, the government started to clear the domestic expenditure arrears accumulated in the previous years. Again, the government outperformed the program indicators in this respect and by the end of 2004 arrears in the amount 2.4 percent of GDP will be cleared instead of initially programmed 1 percent of GDP.

All of the achievements above have been possible owing to the political will and intensified efforts of the new administration. Structural reforms implemented in the fiscal sector have been particularly effective in delivering on the results. Specifically, the reforms were implemented at multiple fronts simultaneously and targeted the anti-corruption, anti-smuggling and governance enhancing objectives. Within the context of these reforms the tax and customs departments have been significantly downsized and their functions have been consolidated. Furthermore, a new excise tax inspectorate was established to enable the tax administration to concentrate its efforts primarily on the excisable goods. The last but not least the Adjara tax administration was effectively integrated into the national tax authority and the Adjara customs was abolished and its functions taken over by the regional customs.

Financial police was set up shortly after abolishing the parallel structures within ministry of interior, ministry of state security, ministry of finance, customs and tax departments. The financial police today is the sole investigatory state agency responsible for the economic crimes, including tax evasion and smuggling. Rather than having these functions scattered along different state bodies today they are concentrated into one single state agency with its staffing being at only 20 percent of what it has been previously.

Significant reforms have been implemented in the treasury department of the Ministry of Finance in the current year. Three major

developments are worth mentioning in particular: (1) Full commitments control system was introduced to ensure that the spending units did not incur expenditures in excess of their respective appropriations and to prevent accumulation of arrears; (2) Single revenue account was introduced that enabled to close down about 10 thousand transit accounts and substantially simplify the revenue reporting and accountability; (3) Effective tax refund mechanism was introduced.

Along with the major structural changes the government developed new fiscal policy agenda. The proposed tax reform has been developed to create investor- and business-friendly environment, reduce underground activity and tax evasion and promote voluntary compliance with the ultimate goals of fostering economic growth and development. The new draft tax code of Georgia envisages the elimination of 13 out of 21 different taxes, simplification of administrative procedures and the rate reduction on some of the major taxes. Specifically, the VAT will be reduced from 20% to 18%, the personal income tax will be lowered from 20% to a flat 12% and the social tax will be down from 33% to 20%. However, in order to make the tax reform revenue-neutral the counter revenue-losing measures have been proposed, like broadening the tax base by eliminating many existing tax exemptions and increasing excise tax rates and strengthening tax administration efforts.

These positive developments in the country have substantially boosted the confidence in the government from the international community. On June 4, 2004 the IMF board approved a new PRGF program for Georgia and shortly afterwards the World Bank board approved credits for three new operations including the budgetary support reform support credit. On June 15, 2004 at the donor conference in Brussels the government received substantial pledges of donor assistance over the next coming years in the amount of over US\$ 1 billion. Finally, on July 21st 2004 the Paris Club creditors agreed to restructure the bilateral debts of Georgia on the so called Houston terms that helped to relieve the debt burden of Georgia in the medium-term.

Despite the fact that substantial progress was recorded in all reform components of the government major challenges are still ahead. The intention of the government is to intensify the reforms even further and concentrate on the key priority areas. In the fiscal sector the main challenges will be to effectively implement the proposed tax reform and make the transition from existing system to the new one as smooth as possible. Moreover, the government plans to introduce the multi-year budgeting and link more closely the policies and the national priorities with the annual budgetary allocations. The government also plans in the medium-term to target the socially most vulnerable and eliminate extreme poverty in the country in the medium-term.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR GERMANY

Hans Eichel

Mr. Chairman, Governors, Mr. Wolfensohn, Mr. de Rato, Ladies and Gentlemen, first of all, let me congratulate Rodrigo de Rato for his election as Managing Director of the IMF. I know Rodrigo since quite some time and I am sure that he will do an excellent job in his new capacity. I wish him all the best. At the same time, I would like to thank Horst Köhler for his outstanding job as Managing Director.

The outlook for the global economy remains positive. However, the volatility of oil markets represents a risk. Together, we must alleviate this risk by making markets more transparent and by implementing adequate measures on the supply and demand side.

At the same time, high growth must be supported by appropriate monetary policy, fiscal consolidation, and structural reforms. For Europe it is important to strengthen consumer confidence, to create more jobs, and to implement structural reforms. Higher domestic growth is needed so that Europe can contribute to global economic growth. Germany has initiated important structural reforms that will increase growth and employment permanently.

60 years after their foundation, the mandates of World Bank and IMF are still valid. However, these institutions have to adapt to a changing global environment while being credible and transparent. Their work must lead to sustainable results. For Germany the key issues are: well-defined priorities, a clear division of labor and an effective measurement of results.

For the IMF, improved crisis prevention is key. This includes a strengthening of surveillance and advice in order to detect risks so that early corrective action can be taken.

Core objectives of surveillance must include: Stable domestic financial markets and effective financial market supervision, reasonable exchange rate regimes, prudence with regard to external debt, and stable fiscal policies.

If a crisis did occur, the IMF should continue to provide the necessary and, in cases of severe capital account crises, extensive credit packages. However, these loans must strictly comply with the agreed access criteria.

The most important challenge in the years to come will be to overcome extreme poverty in low-income countries. IMF and World Bank have a key role to play in this regard.

The World Bank should focus even more systematically on institution building. The IMF should continue to promote macroeconomic stability and well-targeted technical assistance as well as to provide financial support as appropriate. Germany stands ready to contribute substantially to a continuation of the IMF's PRGF and to the World Bank's assistance to low-income countries.

One important step is the extension of the HIPC Initiative until 2006. New lend-and-forgive cycles must be avoided. Therefore, I welcome the work on a new debt sustainability framework. Furthermore, I am personally convinced that open markets are the most effective support industrial countries can provide to developing countries. Thus, Germany remains committed to a successful completion of the Doha Round.

Let me also assure that Germany remains fully committed to the Millennium Development Goals and will provide its share to meet these goals.

STATEMENT BY THE GOVERNOR OF THE BANK FOR GHANA

Yaw Osafo-Maafa

Mr. Chairman, President of the World Bank, Managing Director of the IMF, Fellow Governors, Distinguished Ladies and Gentlemen, may I also take this opportunity to welcome Mr. Rodrigo Rato, the Managing Director of the IMF to his new job. The enthusiasm and interest with which he has already taken to his work is impressive. We also want to thank the former Managing Director of the IMF, Mr. Kohler, now President of the Federal Republic of Germany for his efforts and his special attention to Africa during his tenure as Managing Director.

I am glad to note that the World Economic Outlook indicates that the prospects for the global economy, including African economies, are improving. While this is good news, the downside risks for non-oil producing African countries, that are inherent in crude oil price

developments cannot be underestimated and are worrisome and could put their reform programs at risk. In an already resource-constrained environment, the rising oil import cost will call for additional resources in the short term to underpin the macro stabilization and other reforms that have begun to deliver increasingly rapid growth.

As to the development agenda, we are all agreed that on current trends many of our countries in Africa will not meet the Millennium Development Goals (MDGs). The development agenda, which is essentially a growth agenda, should therefore be given urgent attention. We need growth to achieve poverty reduction. We need growth to resolve the serious unemployment problems facing most developing countries. But how do we generate growth without adequate resources?

Mr. Chairman, the simple fact is that we need additional resources. Timely availability of resources in adequate and predictable amounts is essential if we are not to lose more time in pursuing the MDGs. It is in this context that the recent initiatives by the U.K. Government to write-off the U.K. portions of debts owed by low-income countries to the multilateral institutions is a welcome addition to the International Financing Facility proposal that has been made by Chancellor Gordon Brown. The Millennium Challenge Account facility designed by the United States is also very welcome in this regard. We would like to urge our development partners to accept the challenge and commit significant additional resources that will allow countries undertake the sort of investments and policies that would promote the attainment of the MDGs. I am sure we are prepared to do our part of the Monterrey Compact.

Mr. Chairman, many African countries are undertaking reforms in the area of political and economic governance. In Ghana, for example, the Government, after assuming office in 2001 set about the task of establishing macroeconomic stability, establishing transparency and accountability in public resource management and introducing new standards for governance.

A new anti-corruption strategy was put in place, including Codes of Conduct for state officials, reform of the procurement system, and strengthening of anti-corruption agencies. Press freedom was encouraged by for example repealing the criminal libel law which sought to muzzle the press. Today, the Press is alive, alert, robust and vociferous.

We see the reforms of economic and political governance as fundamental in creating the environment for the generation of resources from the private sector. A private sector friendly environment is indispensable for tapping the synergies of public and private sector partnerships to improve absorptive capacity and transfer technology required to bolster productivity and output for the achievement of the MDGs.

Mr. Chairman, Peace and Security are pre-requisites for development and Africans are pursuing a proactive foreign policy focussed on regional peace and security and good neighbourly relations. We see the work of NEPAD, ECOWAS and the African Union as very important in this regard and their efforts need to be supported.

While aid is important, free and fair trade is even more so as a key and sustainable source of growth for all countries. This is why it is necessary that developing countries have access to markets of the developed countries and subsidies, especially on agriculture, reduced if not eliminated. It is our hope that the Doha Round of Multilateral negotiations will be concluded promptly and result in improved market access for developing country exports. Political will is needed to resolve this problem of access to the markets of developed countries. We hope and pray that this crucial decision can be made very soon.

Mr. Chairman, I am pleased that it has been possible for me to voice my views in this forum. We do take the issue of Voice and representation in the Bretton Woods institutions very seriously and urge all parties to work toward a speedy compromise to achieve appropriate balance between the interests of the developing and developed countries.

STATEMENT BY THE GOVERNOR OF THE BANK FOR GREECE

George Alogoskoufis

The global recovery that started in 2002 is still unfolding, though at a slower pace than expected earlier in the year. Rising oil prices raise the risk of a slowdown in global growth. The pace of activity remains uneven across regions and the recovery appears fragile. Global growth is driven by the U.S. and Asian countries, while in the Euro area growth remains heavily dependent on external demand. In many developing countries, adjustment efforts and structural reforms are bearing fruit. The key to strong economic performance has proven to be fiscal consolidation, reinforcement of market forces, and the removal of obstacles to the efficient allocation of resources.

Greece's growth performance remained robust last year as strong domestic demand compensated for weak exports. Investment spending, underpinned by low interest rates and strong construction activity associated with the Olympic Games, was the major contributing factor.

Consumer spending also remained on a rising trend. Labour market conditions improved slightly during the course of 2003, while inflation decelerated; however, the differential vis-à-vis the euro-area average remains at relatively high levels. Economic activity is expected to remain robust in 2004 and 2005. Growth is expected to remain well above the euro-area average, mainly on the back of easy monetary conditions, the recovery of tourism following the successful Olympic games, the faster implementation of the Third Community Support Framework and the revival of world trade.

Fiscal consolidation in the near future remains a key concern of the Greek government. The far-reaching auditing of fiscal accounts launched in March resulted in an upward revision of the general government deficit and debt for the period 2000-04. These revisions, which have been long overdue, have led to an increase in transparency that provides a more solid basis for the assessment of the fiscal policy stance.

We are committed to correcting the current situation as rapidly as possible, aiming at a deficit for next year of 2.8% from a projected 5.3% in 2004. This effort will be based on moderate wage growth for the public sector, the reduction of operating expenditure for Ministries and measures to contain costs and borrowing by public organizations and enterprises. A tax amnesty has also been announced, while significant savings will be achieved through cuts in the military budget and, most notably, through the drastic reduction in Olympics-related expenditure.

Our economic strategy aims at strengthening potential growth, employment and social cohesion. It is a strategy that will promote real convergence between Greece and the more developed economies of the European Union. In parallel with fiscal consolidation, we have launched efforts to improve the competitiveness of the Greek economy by promoting competition, reducing administrative barriers, and cutting corporate taxes while improving tax administration.

The goal we are all pursuing is sustainable, noninflationary growth. The pursuit of this goal is greatly facilitated through international policy coordination and the smooth functioning of international and regional institutions that provide a stable and predictable framework for world trade and financial flows. We must commit ourselves to taking the actions needed to improve the prospects for global growth and prosperity, reduce vulnerabilities, and strengthen our financial systems. At the national level, we need growth-enhancing economic reforms; at the international level, we need to improve the financial architecture; and in our aid commitments, we need to reduce poverty around the world. The coordinated actions of all of us are critical for the achievement of our common goals.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR INDIA

P. Chidambaram

Mr. Chairman, since we met the last time, the global economic outlook and policy prospects appear to have strengthened considerably. World output growth is expected to touch its highest level in the last thirty years. The recovery is also broad based across the membership, with US and Emerging Asia continuing to show stronger growth. Diversified expansion, and different regions mutually supporting and reinforcing growth-enhancing prospects, can trigger a virtuous cycle. We must strengthen this process, and that will require international cooperation in achieving stability, crafting better policies and building robust institutions.

No doubt, risks to the expansion, too, have increased in recent months. A shadow has been cast by volatility in the oil market and geopolitical uncertainties. While supply constraints have surfaced in addition to demand pressure, speculative forces also seem to have contributed to added volatility. An enduring solution to these problems will call for strengthening cooperation between oil producing and consuming countries in stabilizing the oil market. Equally, multilateral institutions must be ready to support countries exposed to any potential threat of oil or commodity price shocks.

Inflationary pressures across regions are primarily supply driven by oil and commodity prices. Compared to earlier periods of oil price shocks, many countries have strengthened their macroeconomic and prudential policies and have become more resilient. Central banks in these countries have developed more effective tools and more transparent communication policies to achieve price stability without disrupting growth. We, therefore, believe that the reversal of interest rates by central banks should be, and will be undertaken cautiously. Growth and price stability cannot be viewed as two irreconcilable goals. However, the combination of risks of oil prices and reversals in monetary policy regimes make the management of macro-policies in oil importing emerging economies a particularly complex task.

In terms of policy response, the problem of the twin deficits in the US and structural reforms in the Euro area remain a challenge. In emerging market economies, the current upturn should provide the necessary

leeway for fiscal and debt consolidation, and for pushing ahead with institutional reforms for sustaining growth and reducing poverty.

Financial market conditions remain sanguine with gradual strengthening of balance sheets and capital build up across institutions. The demographic transition in several countries, particularly in developed countries, points to the need for pursuing pension fund and social security reforms.

In some Emerging Market Economies (EMEs), policy-makers have—in my view, wisely—built up foreign exchange reserves as self-insurance against the possible effects of reversal of capital flows. Rather than fault them, we should reflect on the inadequacy of the existing international financial architecture in providing a viable collective insurance to well-managed economies.

Steps to scale up assistance to developing countries should remain high on the agenda for achieving the millennium development goals (MDGs). Two years after Monterrey, the implementation of the Compact appears uncertain. The promised additionality of resources has failed to materialize. Without additional resources, the MDGs will remain a distant dream. Even the best performers among developing countries may not realize the dream. I should also point out, with some regret, that when concessional resources are allocated, that appears to be done on considerations other than the twin criteria of ‘need’ and ‘performance’. When a country is prepared to commit its own resources towards MDGs, and has a proven record of performance, the developed countries must keep their part of the compact.

Aid continues to be delivered in a piecemeal, uncertain and inequitable manner rather than through multilaterals with transparent allocation criteria. We are pleased to note that the Bank and the Fund have put donor coordination and harmonization high on their agenda and we hope they will sustain and further enhance their efforts to make the promised levels of additionality in overseas development assistance (ODA) a reality. The negotiations for IDA’s fourteenth replenishment are well underway. The time for the donor countries to deliver on their Monterrey commitment for a substantial scale up in ODA is now.

The international financial institutions (IFIs) have had a very positive influence in creating an appropriate international environment for multilateral trade negotiations. Enhanced trade has the potential to yield over \$325 billion in additional resources by the year 2015. The global trade agenda calls for renewed vigor on the part of the Bank and the Fund to strengthen their advocacy role to phase out protectionist policies in developed countries.

Negative net flows from the Bank in recent years continue to be a matter of deep concern. Against this backdrop, the recent initiatives to

modernize and simplify procedures and reduce (non-financial) costs of doing business are welcome. More needs to be done, especially more initiatives to check the rising trend in administrative costs, reduce borrowing charges and rationalize the safeguard compliance framework.

I wish to make a special mention of the need to step up – in a big way – lending to infrastructure. Middle income countries have the human and physical resources to raise their people from poverty. They have been the Bank's best customers so far. What they lack is infrastructure that can make them efficient and competitive. Your best customers ask the Bank to lend a helping hand to create this world-class infrastructure.

Many of the world's lowest income countries are faced with acute debt-distress. This makes allocation of resources difficult. Therefore, recently, the Bank and the Fund have been rightly preoccupied with devising an ex-ante framework to assess sustainability of the debt situation in low income countries, and helping borrowers, lenders and the IFIs take informed decisions. Assisting such countries without adding further to their debt burden, and at the same time, avoiding the moral hazard implicit in lending and forgiving, are extremely delicate exercises. We wish the IFIs and the IDA well in carrying out these crucial tasks.

Lack of effective voice in the functioning of the IFIs remains a matter of deep concern for the developing and transition countries. At Monterrey, we heard positive assertions by world leaders but, so far, we have not found sufficient political resolve to address the structural inconsistency that lies at the root of this lack of voice. The allocation of quotas at the Fund and the pattern of shareholding at the Bank have ceased to reflect the economic realities of the day. The search for a greater voice for developing countries must begin with a review of the quota allocation formula. Without the necessary resolve to move in this direction, the voice issue will continue to remain a mere distraction from the core business of the IFIs.

Mr. Chairman, 80 percent of the people who inhabit the earth enjoy a mere 20 per cent of the global income. That is the cause of poverty, discrimination and injustice. We must ensure that all parts of the global compact agreed at Monterrey are in place by the time we meet next year. And if we do that, it will still leave us just about a decade to realize our dream of Millennium Development Goals.

STATEMENT BY THE GOVERNOR OF THE BANK FOR INDONESIA

Boediono

Mr. Chairman, allow me to use my time today on three topics. First our view on the evolving international economic situation, some comments on the situation in Indonesia and finally on policy direction at the IMF and World Bank.

We are pleased that global recovery in 2004 remains solid and is becoming increasingly broad based. So far, Indonesia has benefited from this growth and we would like to build on strengthening world economic foundations. However, we fear the balance of risks may be tipping toward external shocks. The world recovery and our own face increased risks from geopolitical events, high oil prices, and persistent global imbalances. We urge the international community to address these common risks.

For Indonesia 2004 has been an eventful year. Last week brought to a peaceful conclusion a series of three nationwide elections that began in April, marking a significant step for the country toward a full-fledged democracy. We now have our first directly elected President and there is a tangible air of excitement as new and stronger executive and legislative branches take office.

On the economic front, we have had a strong performance as we exit from the IMF program. You might recall that among countries in the region, Indonesia was hit by the last crisis hardest and longest. That was the worst financial crisis the present generation can remember. The situation was much aggravated by the occurrence of the most severe drought in many decades and a massive social and political upheaval. Perseverance and consistency in macroeconomic policy and financial sector reform in the past few years have eventually led to the return of economic stability and economic recovery. The balance sheets for corporations, financial institutions and households have improved considerably since the crisis and have underpinned the recovery. Economic growth has edged up steadily from -13% during the crisis year of 1998 to around 5% this year and around 5.5% next year.

The financial sector, which had been shattered by the crisis, has undergone a fundamental restructuring and the process will continue. The last of the banks taken over during the crisis is now being sold. Bank lending is increasing robustly and more loans are going to industry and there is more regional dispersion in lending. A new Deposit Insurance

Law has been passed and the institution is now being established. Finally, bond and stock markets have rebounded spectacularly, providing an increased source of government and corporate financing.

The transition from the present government to the new government this month is widely expected to be smooth. The Parliament has just passed the budget for 2005 that sets the stage for the continuation of the prudent macroeconomic policy. Next year the budget deficit is projected to be less than 1 % of GDP and the debt to GDP ratio to fall below 50%. Only 3 years ago our debt stood at almost 100% of our GDP. The 2005 budget also projects an acceleration in growth, moderation in inflation and stable domestic interest rates.

The government has delivered on a broad set of reform measures promised in the “White Paper” as part of our exit strategy from the IMF program. In the finance area I would note with special satisfaction the passage of 3 basic laws: the State Finance, Treasury and Audit laws. These laws along with a major reorganization at the Ministry of Finance should improve significantly the quality of our fiscal policy operations and raise the overall standard of governance in public finances. We have also just passed an amendment on the Bankruptcy law that requires Ministry of Finance approval to bring insurance and other non-bank finance companies to court for bankruptcy. There have also been revisions to the laws governing regional autonomy to reinforce fiscal equalization and require prudent borrowing. The next government seems equally committed to continuing, even accelerating, the reform agenda.

Let me switch to my final topic that is the policy direction at the World Bank and IMF. But first let me wish the Breton Woods institutions a happy 60th birthday. This is an important moment for all of us to reaffirm our commitment to building better and more prosperous global communities.

Faced with the dynamic risks and opportunities of globalization, the Fund has rightly concentrated on strengthening crisis prevention and resolution.

At the World Bank, the shift in emphasis from Adjustment to Development Policy Lending is also positive. Lending addressed to structural and institutional change matches Indonesian government priorities. Increased flexibility, greater program ownership and stronger links to the budget cycle are also attractive features. However, more is needed if we are going to reach our MDGs. Thus we welcome the innovative thinking behind the International Financing Facility and global taxation.

Let me close with a few words about the recent bombing in Jakarta. First, the government, police and security agencies are resolved to track down, apprehend and prosecute all those involved. There is already some

early progress in the investigation. Terrorism cannot be allowed to succeed. Indonesia stands ready to actively participate in the international effort to combat terrorism. Second, the economic and political resilience after the bombing reflected well on Indonesia's improved fundamentals.

All in all 2004 has seen further progress in our recovery. A positive election outcome should accelerate the recovery and allow us to push ahead with renewed vigor on our reform agenda.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE ISLAMIC
REPUBLIC OF IRAN

Seyd Safdar Hosseini

In the Name of God the Compassioned the Merciful.

At the outset, I would like to welcome and congratulate Mr. de Rato for accepting to lead the International Monetary Fund in this sensitive juncture in the world international financial and economic system. I also wish to express my gratitude and deepest appreciation to this august Board for giving me the opportunity to deliver my approaches on some of the basic and fundamental economic issues and concerns which will have a continuous effect on the world development.

The IMF has estimated the world economic growth at around 4.9 percent for 2004. This considerable growth in the World Gross Domestic Product—which is the highest in the past three decades—is with no doubt an evidence to economic improvement in most of the developing countries. In spite of the high average GDP growth rate in the world and the regulatory performance and reforms in most of the developing countries, the poor nations that desperately need new enterprises and job opportunities, are falling even further behind the developed countries who are simplifying regulations and making their investment climate more attractive and friendly. The heavy business regulation in most of the developing countries, especially in the African region, conspire to exclude the poor from joining the formal economy. Therefore, the World Bank Group—as a leading organization in assisting the poverty alleviation in the developing countries—should put more emphasis on helping these countries to enact macroeconomic, structural and social policies and program, as well as providing them with associated external financing needs, in order to promote growth and reduce poverty. Fortunately, the

World Bank has introduced the new Development Policy Lending, which pays a special attention to governments' ownership of reforms, in order to develop programs that are in compliance with their needs and thus abandoning the prescriptive character of the Bank's old policy.

Reducing poverty through sustainable development is a crucial global strategic priority for today's world. This is actually emphasizing on and in compliance with the comprehensive nature of development in the developing countries, and could be achieved through project implementation in collaboration with the public and private sectors. In other words, participation promotion, strengthening the institutions and NGOs, and concentrating on the poor, in general, and the rural poor, in particular, are necessities to sustained and effective economic growth in developing countries. The World Bank Institute is expected to play an important role in this regard, along focus on good governance and anti-corruption policy as key criteria in the mission of poverty alleviation. The institution could also assist member countries in improving governance and controlling corruption as well as taking benefit from its funded projects as a pilot plant to practice anti-corruption activities that could be utilized and applied by the member countries in a larger scale.

No doubt that some external variables have deviated the development equations in developing countries. Recent military expeditions, specially in the Middle East, have negative impact on the free flow of capital in the region. The consequences of these expeditions, such as civil war, insecurity and disorder, as well as some psychosis and instability, have caused a lot of infrastructure damage and have resulted in extra costs in the international capital flow to the region.

Another important factor, which serves and accelerates the economic growth in developing countries, is promoting and developing the private sector. Developments in this sector provides opportunities for the poor through a friendly competitive market, enterprise-led growth, and better and cheaper services through efficient delivery systems and smart and targeted subsidies. In this regard, the role of the World Bank, in general, and of IFC and MIGA, in particular, is distinguished. As we are all aware of the difference between unique corporate characteristic of developing countries and the structure and corporate governance standards of the developed countries, there is no need to mention that this task cannot be fulfilled unless the public sector institutions are restructured in a way that could turn them into more efficient and accountable public sector entities.

We have continuously expressed our concerns and have urged the serious presence of these two important entities of the World Bank Group, however, it seems that there are still some hesitation and unexpected delay in their approaches toward contribution in some countries, including mine. Therefore, once again, I reiterate the

importance of the IFC and MIGA active interaction with the Iranian entrepreneurs and in developing eligible private sector entities.

Knowledge-based economy (KBE) is now recognized as the driver of productivity and economic growth. As a result, there is an increasing focus on the role of information, technology, and learning in economic performance and activities. In this transitional phase, the most important concern of the developing countries should be understanding the dynamics of the KBE and its relationship to traditional economics.

Applying a new range of skills and continuously adapting it is key to learning economy and effects employment, and is a reminder to all governments of developing countries of their outstanding duty to develop and maintain the knowledge base and learning in their economies.

The Islamic Republic of Iran has pursued the economic reform strategies in the framework of the country's Development Plans. In this regard, a package of economic reform policies concentrating on economic liberalization in financial and commercial sectors, was designed and enacted through the Third Development Plan. Restructuring and strengthening the banking system, promoting the capital market, and reducing the qualitative and quantitative supervision and monitoring policies have been considered and implemented in the same line.

Greater transparency in the macroeconomic regime and required regulatory frameworks, budget reforms, tax reforms, unification of foreign exchange rate, downsizing the government's role in economic activities through privatization of SOEs, dismantling of monopolies and promoting competitive structures, reducing of non-tariff trade barriers, adopting smart targeted subsidies, developing an effective social security system, attracting foreign investments and protecting private sector investments, establishing private commercial banks as the facilitator for privatization of the state-owned banks are indicators serious commitment of the Islamic Republic of Iran in fulfilling and implementing the structural economic reforms.

In light of these employed programs and reforms, along with the efficient management contributed to these strategies, an average economic growth of 5.5 percent in the first four years of the Third Development Plan was achieved, and a 7.4 percent growth was experienced in the year before. At the same time, Iran witnessed almost 100 percent growth in the country's non-oil exports and a total amount of US\$7 billion foreign investment for manufacturing activities and infrastructure projects. It should also be noted that the total value of transactions in the capital market indicates a 73 percent growth during the same period, which, altogether, have resulted in satisfactory growth in the country's economy throughout the Third Development Plan.

In conclusion, it is highly expected that the world economy, in general, and developing countries, in particular, will benefit from the achievements of this fruitful meeting.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR IRELAND

John Hurley

When these institutions were founded sixty years ago, most of Europe was in ruins. Industry and infrastructure were shattered after a long and intense conflict.

Many were cold, or were hungry, and they feared for the future.

The newsreels of that bleak time seem to show a wholly different world from the Europe of today, yet it is only a generation ago.

It seems hard to credit this now, as we look out at the success story of economic and political reconstruction that is the Europe of today.

Twenty-five states, including some that were once bitter enemies, are now united in the European Union, since May of this year.

It was a particular pleasure for Ireland to hold the EU presidency on that day that we became a Union of twenty-five. Experience has shown that the added impetus of the accession of the new states will help give a new momentum to the economy of Europe, which will be to the benefit of all.

In contrast to that divided and damaged continent, we now see a Europe of wealth, a Europe of strong democratic values and with active social and aid programmes aimed at countering the problem of poverty. While not paradise and with many problems remaining, we see a Europe that has moved very far on from being a recipient of aid under the terms of the Marshall Plan, that generous and farsseeing gesture by the United States to aid post war recovery and reconstruction. Europe is itself now the largest donor of overseas aid in the world and it has a strong commitment to the expansion of overseas development aid that was agreed as necessary by all at Monterrey.

It is generally accepted that a doubling of official development assistance (ODA) flows from their 2001 levels is the minimum required to achieve the Millennium Development Goals (MDGs) by 2015. It is also recognised that meeting these goals will merely deal with some of the symptoms of underdevelopment in poorer states. Additional financing

will be required to allow for debt sustainability and create the stable conditions needed for growth. It is good to see that the issue of debt sustainability, which we constantly raise in this and other fora, is continuing to get attention.

In Europe we have passed from aid recipient to aid donor. An EU aid target of 0.39% of GNI in 2006 was agreed at Barcelona. Ireland's own strong ODA commitment already exceeds that level and, on current trends, the 25 EU Member States could collectively easily exceed the agreed 0.39%, giving a very significant pool of new aid money to bear on the problems we need to address.

It is not yet enough finance to meet the Millennium Development Goals but it is a lot more than was on offer before. European countries have more to do in relation to development aid, as do some of the larger industrialised nations. We must continually review our performance in assisting less developed countries, in the light of the enormous challenges facing many countries and peoples.

It is indispensable that, in the future discussions on the IDA 14th replenishment, account is taken of the overall needs of the poorest countries, as we agreed to do in setting the MDGs. Neither can we agree to accelerate the outflows from IDA, as some would have us do, without asking all countries to put in their fair share of the IDA replenishment burden.

Water is one of the most basic human requirements for life. We know that almost 4,000 children die each day and many millions are infested with round worms or whip worms because of poor hygiene. A clean water supply, and the associated sanitation, are some of the most basic requirements for any society to be healthy and thrive. The provision of even very basic facilities would have a significant impact on disease resulting from poor hygiene.

Sub-Saharan Africa is far behind the rest of the developing world in access to clean water. A large proportion of the population still relies on unsafe sources of drinking water, such as ponds and rivers. In nearly half the households of rural Africa, women and girls devote a significant part of each day to fetching water. While progress has been made over the past decade, governments need to redouble their efforts in striving to meet the UN goal of providing 75% of the population with safe drinking water by 2015.

As we mark this annual meeting, in our birthday year, can we take from Europe messages that can be replicated in places where hunger, fear, cold and grinding poverty are worse than those that citizens of Europe faced in 1946?

While Europe has essentially reconstructed itself, with good governance and sound economic policies as the central planks of

economic and social reconstruction, we need not be shy to give thanks for the favourable trade conditions and support from others that helped to rebuild our Continent. We did not do it alone or without help. Neither can others.

The governance and economic policy issues they will have to address mainly on their own, but with some support from us. Initiatives to build capacity in developing countries deserve our full support. As Gerrit Zalm said, on behalf of the EU, sound fiscal policies have a central role to play in all major zones and in all countries.

The trade and aid issues are ones we must address.

All countries, including the EU, must now maintain the commitment and flexibility they have shown so far in advancing the Doha Development Agenda Framework Agreement. An agreement is almost within our grasp and we must not let it slip away.

While we all wish to focus the Bank and the Fund resources at the cutting edge, in the poorest places and on the most necessary tasks, there is a very high level of concentration of IMF credit currently extended to certain borrowers, some of whom are repeat customers, if not necessarily satisfied ones. To mitigate this exposure, it is critical that greater priority should be given to the implementation of already-agreed Fund policies, most notably to the exceptional access framework.

We must also accept that the Bretton Woods institutions have an image problem. Criticism often comes from people who actually have an insufficient understanding of the work of the IMF and World Bank. In that context the move to greater transparency within the BWIs and a further emphasis on media relations is needed. We commend the efforts of the senior management of the Bank and the Fund to engage with civil society in programme countries in particular.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ISRAEL

Benjamin Netanyahu

Reform Is the Only Choice

It is said that we live in a world full of choices. Whether we are walking into a supermarket, clicking our television remotes, or surfing the internet, the range of options available to consumers seems almost infinite. For investors, the choices are no less abundant. With the press of a button, billions of dollars in capital can be moved across the globe, and with the ability to ship goods at a pace scarcely imaginable a few decades ago, plants and even whole industries can be transferred to the country that offers the most business-friendly environment.

Yet because consumers and investors have more choices, governments have fewer. More choices means more competition, and more competition means that governments, regardless of their political and ideological composition, must enact policies that will enable their national economies to compete in an increasingly uncompromising and unforgiving global marketplace. Economies that do not provide a good investment climate will lose investors to economies that do. And economies that fail to unleash the creative potential of their workforce will see their best and brightest flock to economies that can.

The formula for economic success in the global marketplace is clear: Lower taxes, reduce government spending, streamline bureaucracy, invest in infrastructure and de-monopolize industry. Enacting these reforms demands political courage. Leaders can try to delay reform in the hope of avoiding unpopular decisions. But what may be politically prudent for the individual leader proves disastrous for his or her nation. When the reforms that enable a country to share in the enormous prosperity generated by globalization are delayed, that country falls further and further behind, becoming even less fit to compete. Eventually, the costs of procrastination are painfully felt, as thwarting the slide into relative poverty necessitates even more drastic measures. Indeed, the question is not whether a given economy will reform, but when and at what price.

Israel's government has decided not to wait. We have already drastically cut government spending. Just two years ago, that spending accounted for nearly 56% of our GNP. Today, it accounts for less than 52%. These cuts were designed to streamline the bureaucracy, decrease the dependency on welfare and provided incentives to enter the workforce – and they have worked. While unemployment remains high, more

Israelis are entering the workforce than ever before as tens of thousands of jobs are created in the private sector. Our government considers this an enormous achievement because, as has been well documented, the best way to fight poverty is to provide jobs to poor parents.

No less important, for the first time in Israel's history, tax burdens are being reduced. Income taxes on the middle class have been cut, a regressive value added tax (VAT) has been rolled back and sky-high taxes on imported consumer durables have been slashed. Just as tax cutting has proven an effective engine for economic growth in countries across the world, it has proven the same in Israel. In little more than a year, the current Israeli government has taken a shrinking economy and placed it on a path that is expected to yield 4% growth this year and even more in the years ahead.

In addition to our reverse tax and spend policies, we have embarked on an ambitious program of privatization that includes our national airline, banks, ports, refineries, the state's sole electricity provider and others. We are also pouring money into infrastructure, creating a high-speed rail line that will link every city with a population of over 50,000 people and which along with a new highway that runs down the spine of the country will revolutionize Israel's transportation system.

Most important of all has been the reform of our state-funded pension system. Within a few years, at best a couple of decades, most industrialized countries will face the prospect of not being able to provide pensions for their rapidly aging populations. Rather than place its head in the sand as so many other governments have done, Israel's government has taken the politically unpopular steps that are necessary to address this problem: We have gradually raised the retirement age of both men and women and increased workers' contributions to the funds.

The benefits Israel has gained by embracing reform are already evident. Growth has returned, the stock market is skyrocketing and the rise in unemployment has been checked. Israel's success is easily replicable in countries that courageously embrace reform.

The more rigorously that international donor institutions and countries link aid to reform the better. The greater the incentive for reform, the sooner indebted nations will be able to repay their loans and lift themselves out of poverty. Israel, which has never defaulted on a loan, knows that reform can be a difficult road. But it is the only road that leads to a prosperous future.

In the last half-century, the economic efforts of national governments were largely directed at providing various forms of state benefits to citizens. The primary economic challenge facing governments during the next half-century will be directed at reducing the scale of those benefits

so that their economies can compete in the 21st century marketplace. Israel is proving that it is up to the challenge.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ITALY

Domenico Siniscalco

The Global Outlook

The Annual Meetings of the IMF and the World Bank are taking place this year in a context of unprecedented global economic growth. The world is not only growing at a rapid pace but the recovery is broadly based.

Some areas and countries, like China and India, which have successfully joined the process of trade globalisation are continuing to expand at considerable rates. Sub-Saharan Africa, the poorest region in the world, is expected to grow by 4.7 percentage points in 2004, and by 5.6 over the next year.

In the industrialised world, Europe is the only region experiencing difficulties in taking full advantage of the international recovery. Persistent structural rigidities and delays in implementing the Lisbon reform agenda are hindering potential growth.

The growth momentum would benefit from progress in the WTO negotiations that have recently been given a fresh impetus.

Despite the favourable outlook, global imbalances are showing little sign of adjustment as markets continue to finance such imbalances. Oil prices remain high and extremely volatile due to persistent oil market exposure to shocks. In addition to these global risks, several emerging market economies remain vulnerable to further interest rate increases given the still very high level of debt and the persistence of currency and maturity mismatches.

Crisis Prevention and Surveillance

Even in a favourable environment, the Fund continues to play an essential role in identifying and monitoring vulnerabilities. Surveillance is a crucial element in the Fund's work on crisis prevention. Significant

progress has been achieved over recent years, but more still needs to be done.

We urge the full implementation of the framework for assessing debt sustainability. Debt Sustainability Analysis (DSA) must become a common feature of all Article IV consultations. The Fund should undertake DSA independently of lending decisions. This may require organizational changes in the Fund's departments.

Analyzing exchange rate regimes remains a central task for Fund surveillance. A better identification of the linkages between the exchange rate and the country's policy requirements would strengthen the Fund's advice on exchange rate issues.

We welcome the growing emphasis on the regional aspects of surveillance, in order to take into account the global impact of the economic conditions and policies of the systemically important Fund members.

The Fund should continue to work to improve the framework for crisis management and resolution. The procedures for exceptional access should be fully implemented. These procedures will help prevent debtor countries and market participants from placing excessive reliance on the financial support provided by the IMF.

For countries benefiting from IMF financial assistance, the definition of sound exit strategies from IMF programs is essential to avoid the prolonged use of the Fund's resources. This includes better program design, macroeconomic and structural conditions to achieve debt sustainability, more effective conditionality and a careful consideration of the timing to regain market access.

The Role of the Fund in Low-Income Countries

The Fund has a key role in helping Low Income Countries achieve the Millennium Development Goals, by providing policy advice, technical assistance and temporary balance of payments concessional support.

Surveillance needs to be tailored more effectively to the specifics of low-income countries, by looking into how a country's policies relate in the broader context of the MDGs and which corrective actions—if any—should be taken in that setting.

The new framework for debt sustainability in low income countries, which takes into account the degree of institutional strength, should provide additional information on the capabilities of countries to carry on additional debt while ensuring that additional resources are not allowed to endanger medium term sustainability. It should therefore guide a

country's authorities in defining policies, and inform the decisions of multilateral and bilateral donors.

Bank-Fund collaboration in this area is necessary. Debt sustainability assessment for Low-Income countries should be the result of a collaborative effort between the two Bretton Woods Institutions. Without this, there is a risk of sending out confusing signals to the international community on the macroeconomic viability of a member country.

In the next few months important decisions should be taken concerning the future of the Poverty Reduction and Growth Facility (PRGF). After 2005, the resources available for the PRGF might prove inadequate to satisfy the expected demand without bilateral additional financing. The Fund should explore the option of an additional bilateral contribution from member countries in order to preserve its concessional lending capacity while allowing for more selectivity in PRGF loans.

At the same time, we must work together to help countries that are moving from concessional financial assistance to a surveillance-based relationship with the Fund; low access PRGF and precautionary PRGF may serve this purpose. However, more work is needed to design a precautionary PRGF and to assess the potential demand for this new instrument.

We support Policy Monitoring Arrangements (PMA) as a means of addressing the demand of countries which are pursuing sound policies and can benefit from stronger IMF signals to markets or donors, while not requiring Fund financing. PMA should have the same standards as a borrowing program and entail the same level of conditionality and involvement of the IMF Board.

The Fund needs to be engaged in a constant dialogue with other development partners. In this respect, it could leverage upon its catalytic function and help mobilize additional aid flows for low-income countries.

We welcome progress with the HIPC Initiative. Since last September six more countries have reached completion point, bringing the total to 14 countries. So far, the Initiative has been able to provide substantial debt relief to countries that have reached the decision or completion points. While debt servicing continues to decline, social expenditure is growing and now accounts for almost one half of government revenues. Thanks to the recent extension of the sunset clause, the remaining countries will also be able to join the Initiative.

However, the recent deteriorating trend in the debt dynamics of many post-completion point countries is worrying. Vulnerabilities in these countries' debt structure should be closely monitored, also by using the new framework for debt sustainability in low-income countries.

Debt relief should be granted on the basis of a country-specific debt sustainability analysis. Any deviation from this principle is likely to

signify a failure of the HIPC Initiative itself. Indeed, any proposal to cancel 100 per cent debt of all the HIPCs, would imply a relaxation of the HIPC criteria which, as we all know, are intended to prevent avoid the risks of creating disincentives and morally hazardous behavior.

We call on all the remaining creditors that have still not done so to join the Initiative and provide debt relief under the agreed terms. More can be done to ensure that all creditors are on board. The IMF and the World Bank can play a more active role in persuading all creditors to participate in this Initiative.

More resources are needed to achieve the MDGs. Since the Monterrey Conference some progress has been made. The EU countries are on the right track to fully deliver on their commitment to achieve 0.39 percent of GNI by 2006. We remain committed to defining national mechanisms and instruments, also in collaboration with the private sector, to raise additional resources for development.

However, aid effectiveness requires strong absorptive capacity in receiving countries. The effective deployment of resources toward the MDGs, therefore, requires mapping specific absorptive capacity constraints against the identification of MDG-related priority areas. This analysis should take place on a country-by-country basis in the context of the existing processes. The Fund should play a greater role in the context of Art. IV consultations in addressing the constraints that undermine a timely and efficient use of additional resources.

We welcome the technical work of the Fund and the Bank on some options for financing the MDG agenda, such as the IFF and global taxation. At present, Italy is not in a position to adhere to the Facility because of its legislative, accounting and budgetary rules and procedures. Nevertheless, we can support the setting up of the IFF on a voluntary basis. In our view, additional analysis for other preferences is needed, such as the use of incentives to attract remittances to development-oriented programs or mechanisms to involve the private sector in voluntary aid schemes.

Low income countries should have appropriate voice in the Fund and in the Bank. With respect to representation, we are open to consider efforts to align the voting power of member countries more closely with their current economic status, and to explore the feasibility of other measures, provided a broad consensus could be reached. A more effective voice is first of all assured by effective participation of LIC to Board activities and deliberation. Recent decisions to strengthen such capacity go in the right direction. And further initiatives should be pursued.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
JAMAICA

Omar Lloyd Davies

It is a great honor for me to speak on behalf of the Member States of the Caribbean Community (CARICOM). Our delegations would like to express appreciation to the management and staff of the Fund and Bank as well as the Government of the United States of America, for the arrangements made for these meetings.

I wish to focus on an issue which is of greatest importance to the members of the Caribbean Constituency at this time that is the role of our institutions in responding to external shocks to our small island economies. In particular, I refer to the devastation caused by natural disasters.

Economic globalization has brought challenges and opportunities to the small states of the Caribbean. Within recent weeks, the challenges facing the small states in the Caribbean have taken on new proportions in the wake of the recent spate of hurricanes which have passed through the Caribbean. In the Bahamas, Barbados, Grenada, Haiti, St. Vincent and the Grenadines and my own country Jamaica, the loss of life and the scale of destruction and damage to infrastructure and property have been catastrophic. Trinidad and Tobago and St. Lucia were also affected, but to a lesser the extent.

In the case of Grenada, the economy was completely ravaged, with estimates of damage being approximately 150% of Gross Domestic Product (GDP). The agricultural sector was completely wiped out. Approximately, eighty percent (80%) of the housing stock was virtually demolished. Hurricane Jeanne has further aggravated the tremendous problems in Haiti, where over 1300 persons died from the onslaught. Due to the severity of the damage sustained, these two countries, in particular, need urgent and sustained assistance, and I urge the international community to respond generously.

External shocks such as natural disasters are, of course, not unique to the region, but their impact on small island states is exceptional. Given the size of these islands, and less diversified economies, a hurricane, can within the space of a few hours obliterate the entire economic base. In the past, losses from hurricanes in the Caribbean have exceeded the annual GDP of some countries. Even where the devastation is not as widespread, as in the case of Jamaica, the impact is felt throughout the entire

economy, particularly through the effect on government revenues, as well as damage to infrastructure, and major economic sectors. The capacity of the State to respond is constrained as the resources required for rebuilding cannot be accommodated through the usual expenditure budget. Therefore ways to address the immediate and long term needs must be developed.

In the aftermath of recent hurricane, regional members have banded together to provide assistance in cash and kind and technical assistance. Assistance has also been provided even by countries which themselves have been affected. But the requirements for rebuilding are well beyond the region's capacity to deliver.

The logical question which arises is the appropriateness of the present means of response by the international financial community to these disasters. It is quite obvious that the response has to be multifaceted with an immediate, medium term and long term reconstruction objective. In this regard, what is the appropriate role for the Bank and the Fund in these situations?

The immediate response of the IFI's is usually constrained by the nature of their Emergency Reconstruction Facilities which focus on the medium to long term. This is the major area of weakness at present. There is need for a facility which would enable the institutions to respond quickly to meet the immediate needs in a post-disaster situation. We suggest the creation of a facility which would give the Bank the flexibility to respond swiftly, particularly in mitigating the impact on the poor, with few bureaucratic constraints.

Concessional financing must be part of the resource mix available to finance recovery. The region continues to view with disbelief, the decision to exclude IDA-blend borrowers from access to the grant facility for disaster recovery which was created during the 13th replenishment negotiations of the International Development Agency (IDA). This situation needs to be corrected, given the vulnerability of these countries to natural disasters.

The normal approach to a post-disaster scenario by the Bank is the diversion of financing from ongoing projects in order to finance recovery and the reconstruction efforts. While this is an option which might be appropriate in the short run, where time is of the essence, additional resources must be provided for the medium to long term reconstruction. Therefore, the usual lending ceilings must be removed in order to respond to the devastation in a meaningful way.

Furthermore, members of the Constituency, who might not normally borrow from the Bank, should be granted access to resources to finance the rebuilding of physical infrastructure, hospitals and schools.

Quick disbursing loan funds are needed, with several years moratorium to ease fiscal and balance of payments pressures. Quick

disbursing loans in this context imply a maximum of say two months from a formal application to disbursement. We also suggest the creation of a funding mechanism to provide grant funding to ensure debt sustainability, as for some time revenues to the government will be adversely affected by a downturn in economic activity.

Where loans already exist there needs to be a moratorium on both principal and interest payments. Disaster management is a long term development issue, and there is need to focus on mitigation, prevention and the reduction of vulnerability of the poor to these occurrences. There is also a clear need to develop some sort of insurance mechanism to deal with the problem.

When one considers the damage sustained by our economies through natural disasters, it clearly implies that:

- Greater urgency is needed to implement the recommendations of the Barbados Program of Action on the Sustainable Development of Small Island Developing States
- Achieving the Millennium Development Goals (MDGs) will be adversely affected in several countries of the region; and
- There should be a speedy implementation of the Monterrey Consensus to release additional resources to developing countries.

We also urge the Bank and fund to continue to support CARTAC as it has been a key player in providing technical assistance to countries of our region

The region, as usual, is prepared to work with our international financial institutions to improve the welfare of their people and would urge the IFIs and in particular the Fund to have closer policy dialogue with countries outside of the traditional lending relationship and within the Fund's surveillance activity. Within this context, we wish to commend the Fund for its flexibility in agreeing with an "intensified surveillance program" with Jamaica. This paves the way for other countries wishing to have a non borrowing relationship with the Fund, but with the Fund oversight of its macro-economic programme.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR JAPAN

Sadakazu Tanigaki

Introduction

Mr. Chairman and my fellow Governors: I am pleased to take this opportunity today to address the IMF-World Bank Annual Meetings as Governor for Japan.

At the outset, I would like to extend my heartfelt welcome to Mr. de Rato, who is attending his first Annual Meetings since assuming the position of the Managing Director of the IMF. I trust that Mr. de Rato will provide strong leadership in guiding the IMF to play a constant crucial role in the stability and growth of the world economy, in close cooperation with its member countries.

Global Economy and Financial Markets - Outlook, Risks, and Policy Responses

World Economy

I welcome the continued recovery of the global economy at a faster pace and with more strength than expected, as more and more national economies become increasingly interrelated amid the evolving trend of globalization.

The current global recovery, initially driven by the United States and Asian countries, notably China, has now broadened its horizon to almost worldwide to include Latin America, the Middle East, Africa, and now Europe. It is hoped that the momentum of this recovery will continue.

While welcoming these developments, risks for the outlook remain. In addition to lingering geopolitical risks, uncertainties about the prospects for and the effects of rising oil prices, inflationary pressures, and the pace of rising interest rates clearly warrant continued vigilance. Against this backdrop, it is essential for each country to take advantage of the current favorable environment and to continue with a strong commitment their efforts to reduce remaining vulnerabilities, including structural reforms, so as to achieve sustainable growth.

The major challenges facing advanced economies are to pursue medium-term fiscal consolidation and social security reforms, and to

implement structural reforms to increase the flexibility of the economy, against the backdrop of an increasingly aging population. In emerging market economies, it is important to strengthen their resilience to shocks and to cement market confidence by continuing to implement structural reforms, including on the fiscal front, and to improve their financial and capital markets. With respect to Argentina, where the debt restructuring process is under way, I hope that the authorities will, following good-faith negotiations, reach agreement with external creditors on a comprehensive debt restructuring, thereby restoring the confidence of international markets.

Asian Economy

Owing to buoyant trade and investment, the Asian economy as a whole is projected to grow by 7.6 percent in 2004, higher than the world average. I applaud the fact that Asian countries have recovered successfully from the economic crises in the late 1990s and continue to increase their significance in the global economy. However, some concern has been expressed that increased capital inflows could induce overheating, which begs our attention because of the increasing impact of the Asian economy on the global economy. Meanwhile, appropriately sequenced liberalization of capital transactions and a move to an exchange rate regime with greater flexibility would contribute to stable economic growth in the long term.

In addition, regional cooperation in East Asia has made progress centering on trade, and the move to conclude free trade agreements (FTAs) has now gained considerable momentum as in other regions. Concurrently, East Asian countries have recently been promoting their cooperation on the monetary and financial fronts, as evidenced by active regional policy dialogues, establishing a network of financing arrangements among countries to provide short-term liquidity on demand, and nurturing efficient and liquid bond markets. All of these regional initiatives complementing the international trade, monetary, and financial systems, are open to the outside world, and Japan is actively contributing to these initiatives.

Japanese Economy

The Japanese government has made every effort to overcome prolonged deflation and revitalize the economy through reforms in the financial sector, as well as in regulatory, expenditure, and tax policies,

and these efforts are gradually paying off. The impact of the improved profit situation in the corporate sector has increased business investments and has permeated the household sector through better labor market conditions and buoyant private consumption. The economic recovery led by domestic private demand is expected to continue.

Our government views the current recovery as a good opportunity to make further strides in structural reforms, which would lead to sustainable economic growth. We will pursue and accelerate vigorously structural reform efforts aimed at prompt resolution of major banks' nonperforming loan problems, a comprehensive review of the social security system, reform of the fiscal relationship between central and local governments, and privatization of the postal service.

On fiscal policy, we are implementing fiscal consolidation, aiming at achieving a primary surplus in the early 2010s. Given the expected expenditure increase stemming from acceleration of the aging population, this reform should be well balanced, giving due consideration to both the expenditure and revenue fronts.

Regarding monetary policy, the Bank of Japan (BoJ) continues to provide ample liquidity under its commitment to maintain the current quantitative easing framework until the year-on-year change in the consumer price index registers zero percent or higher on a sustainable basis. This aggressive monetary easing has given further impetus to private investment and expenditure as economic recovery unfolds. To support the private sector's efforts to move forward, the BoJ will maintain the current accommodative monetary conditions.

While persistent deflationary pressure has eased, overcoming deflation remains high on the policy agenda. Therefore, the government and the BoJ will continue to join together to ensure overcoming deflation during FY2005 and FY2006, periods defined as the "Concentrated Consolidation Period."

IMF Surveillance and Crisis Prevention and Resolution

While ensuring international financial stability and preventing crises first call for countries' efforts to strengthen their policies and institutions with a view to reducing external vulnerabilities, IMF surveillance is expected to play an even more important role against the backdrop of increased interdependence among countries and a vast increase in international capital flows amid globalization. In this regard, I welcome the progress made by the IMF, including refinement of the framework for debt sustainability analysis and strengthened analysis of the financial sector. Overall, I believe that the current surveillance framework,

including its organizational structure, is effective, and that the next step for the IMF at this stage should be to steadily implement measures to strengthen the existing framework.

The Policy Monitoring Arrangement (PMA), which was recently discussed at the IMF Board, could be worth considering as an instrument to serve the member countries, if any, that have no need for IMF resources but that seek close IMF engagement in promoting sound economic policies, or to obtain the IMF's external signaling on the strength of these policies. I expect the IMF to examine thoroughly whether the demand for such a mechanism actually exists among members, and whether the chosen IMF signaling would actually meet the needs of multilateral and official bilateral creditors or donors. In doing so, it is critical to distinguish clearly between the new mechanism and the existing instruments in order to avoid overlap with various existing IMF instruments, and to ensure that introduction of a new instrument would not hinder members' access to IMF resources via existing arrangements.

In this connection, I believe that precautionary arrangements would be an effective and practical means for member countries with sound policies to cope with potential capital account crises stemming from sudden changes in capital flows. Therefore, I hope that the IMF will continue its work on adapting precautionary arrangements for crisis prevention purposes, regardless of whether a PMA is introduced.

Regarding crisis resolution, I welcome the introduction of collective action clauses (CACs) begun last year by many countries issuing their international sovereign bonds in the New York market where there had been no such market standard. I hope to see other countries follow suit by introducing CACs in their bond issues under foreign jurisdictions. I also hope that further progress will be made in reaching agreement on developing a Code of Conduct, following further discussions among various related parties, such as debtor countries and the private sector.

In order to play its expected role in crisis prevention and resolution effectively, it is essential for the IMF to maintain a sufficient level of financial resources, thereby underpinning market credibility. Changes in the world economy and financial markets can be abrupt and difficult to predict. The IMF, therefore, should continue to examine quota issues and be prepared to act promptly whenever the need for a general quota increase arises. In the review of quotas, their distribution should reflect the current realities of the world economy as well as the relative positions of member countries' economies. With regard to the issue of enhancing voice and participation of developing countries in the IMF and the World Bank, I believe that the discussions on this matter have to be closely coordinated between the two institutions.

Issues in Development

This year marks the 50th anniversary of Japan's Official Development Assistance (ODA). Next year, there will be the UN mid-term review of progress in meeting the Millennium Development Goals (MDGs) by 2015. Even in Asia, where progress in poverty reduction has been remarkable, most part of this progress has been achieved through high economic growth in China and India, while a number of challenges remain in other Asian countries. The sub-Saharan African region will have to overcome more difficult challenges.

Investment Climate and Infrastructure Development

The key to poverty reduction is sustainable economic growth. As seen in China, India, and Vietnam, high economic growth and poverty reduction are closely correlated. "Getting a job" is regarded the top priority as a means for the poor to break out of poverty. To achieve this sustainable growth, improvement in the investment climate and infrastructure development are of particular importance.

Improvement in the investment climate is essential to secure stable inflows of foreign direct investment and to foster small and medium enterprises (SMEs). In this regard, strengthening the financial sector is an indispensable part. In November, we will co-host with the World Bank and other organizations the Tokyo International Conference on African Development (TICAD), Asia-Africa Trade and Investment Conference. At this conference we plan to deepen our discussions on the region's development through promotion of trade and private investment in Africa, as well as private-sector business exchanges between Asia and Africa.

We welcome that the IMF and the World Bank will further explore the issue of fiscal space for infrastructure projects to properly treat these expenditures within developing countries' budgets, recognizing that infrastructure projects could generate further return. With regard to public-private partnerships, it is essential that developing countries establish adequate regulatory frameworks. Although we experienced a number of difficulties at the operational level to promote these partnerships, we have to make our best efforts to overcome them. It is necessary to deepen our discussion on the delivery of infrastructure services, financing for these services, and promotion of discussions among policy makers, operators, and users. In this context, we welcome the work of the World Bank Group to explore new tools of support on this issue, such as support at the sub-sovereign level and by local currency-denominated loans.

Financing Modalities

In order to increase aid flows for development, various financing modalities, such as the International Finance Facility and global taxes, are currently being considered. However, these instruments require careful examination on various issues such as the institutional or political feasibility for each country, the additional administrative cost to introducing the new mechanism, overlap with existing international organizations, and future drastic decrease in aid flows after aid funds are frontloaded. Thus, we are afraid that delving into this matter and having further discussions might not reach productive outcomes.

Instead, we should focus our efforts to reach agreements on replenishment negotiations for the existing international organizations as scheduled. In this regard, we welcome the successful conclusion of AsDF9 in May of this year. The ongoing negotiations on IDA14 and AfDF10 are extremely important, and we encourage donor countries to make serious efforts to finish these negotiations by the end of this year.

Debt Sustainability in Low-Income Countries

To avoid further debt distress, we believe that it is important to sufficiently analyze low-income countries' debt sustainability and utilize the results to consider each debt holder's future support, including the IMF and the World Bank, and to promote the formulation of appropriate borrowing strategies by these countries. In this regard, to effectively operationalize the framework for debt sustainability analysis, which is jointly elaborated by the IMF and the World Bank, we call for prompt deliberation on specific indicators for policies and institutional environment and debt burden thresholds and look forward to taking an active part in such a deliberation. However, we have to be prudent in debt reduction beyond the Heavily Indebted Poor Countries (HIPC) Initiative and an increase in the volume of grants for the following reasons. First, the multilateral development banks (MDBs) are established as lending institutions. Second, further debt reduction and the increased grant might cause moral hazard in low-income countries.

Iraq

Reconstruction and restoration of security in Iraq are extremely important for its people, and also for peace and stability of the international community, including the Middle East and Japan. Later this month, Tokyo will host the third donor meeting of the International Reconstruction Fund Facility for Iraq. As host, Japan will make utmost efforts to steadily implement the assistance that it has already committed. We welcome that the IMF Board approved credit under the emergency post-conflict assistance (EPCA) for Iraq last week, and look forward to an early project implementation through the World Bank-administered trust fund. Japan will also expedite consultations on the Iraqi debt issue with the other countries concerned so that we can reach a conclusion in the Paris Club by the end of this year.

Measures Against the Financing of Terrorism

While three years have passed since the tragic events of September 11, 2001, recent terrorist attacks in several countries remind us that the threat of terrorism remains serious. It is, therefore, paramount for the international community to continue its efforts to combat the financing of terrorism.

In this regard, it is important for member countries to steadily implement the international standard for anti-money laundering and combating the financing of terrorism (AML/CFT). Japan will continue to provide technical assistance in this area, based on the needs of recipient countries.

Conclusion

This year coincides with the 60th anniversary of the agreement on the establishment of the IMF and the World Bank. In those 60 years, the world economy has changed dramatically, as witnessed by the end of the fixed exchange rate regime and the rise of emerging market economies. In response to these drastic changes, both these institutions need to articulate their respective roles and to review their policies vigorously in various areas, including crisis prevention, crisis resolution and support to low-income countries. While it is essential for the IMF and the World Bank to help low-income countries progress toward the MDGs, they must contribute to this cause in a sustainable manner based on economic rationality, without losing their perspectives as financial institutions.

I would like to conclude my remarks by extending my best wishes to each of these institutions in their successful pursuit of policy efforts in a challenging world.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE REPUBLIC OF
KOREA

Hun-Jai Lee

Mr. Chairman, Fellow Governors, Distinguished Guests, Ladies and Gentlemen, let me first welcome Mr. de Rato to his new post of Managing Director of the IMF.

The Bretton Woods institutions have played an influential role in promoting financial stability and economic growth over the past six decades. They have done so despite the challenge of an ever-changing environment. Indeed, the past decade has seen financial crises in Latin America, Asia, and Russia, and the bursting of the IT bubble.

That said, so much has changed since the birth of these two institutions.

The time has come for these institutions to transform themselves, both substantially and quickly, to become better suited to face today's challenges.

In the new world, capital flows have increased exponentially, such that only 5 percent of these flows are now related to current account transactions. At the same time, the digital divide has become perhaps the greatest threat to our efforts to reduce income gaps.

These challenges are compounded by the existence of large economic imbalances that could start unwinding faster than expected and pockets of what may be called "housing bubbles", that could start deflating.

In this new world, trusty policymakers must continue to carry out prudent policies to maintain market confidence and stability.

Given present circumstances, patience in tightening monetary conditions will probably prove to be a virtue. At the same time, I do not think it wise to risk maintaining large imbalances and pressure points for too long. After all, while the market may be a voting machine in the short term, it is a weighing machine in the long term.

Given time, fundamentals will prevail. And in today's world, events can unfold and spread very quickly.

The IMF and the World Bank must respond vigorously to today's new challenges.

They must each undertake major structural reforms.

The IMF must improve its effectiveness in surveillance and crisis prevention. This is particularly important now when huge, volatile capital flows can quickly give rise to crises, not only in the country of origin, but across the globe.

Concurrently, it is essential that the IMF enhance its financial resources to deal effectively with crises, once they develop.

The IMF must sizably increase its total quota. In this connection, I would also urge the membership to address imbalances in IMF quotas, where in some cases size of quota is clearly out of line with the economic weight and strength of particular member countries.

Beyond reform of the IMF, I would venture to suggest that the international community explore alternative means through which it can deal with problems that can stem from today's huge and volatile capital flows.

As for the World Bank, I believe there is a need to concentrate further the institution's efforts on reducing poverty around the world. Clearly, achieving the MDGs will be an essential element of this.

I believe we must make significant progress in both increasing financial support and improving aid effectiveness. So success of the IDA-14 Replenishment Meeting will be critical. So will be success in the implementation of the World Bank's agenda to improve aid effectiveness including through the Result-Based Management System.

In this connection, I have two specific recommendations regarding the Bank's poverty reduction efforts.

With continued advances in IT, overcoming the digital divide is likely to be a key factor in determining the success of poverty reduction efforts. So I believe the Bank should focus much more on bridging the digital divide, for example by focusing more on education aid.

Second, I believe aid effectiveness would be greatly improved if financing support became more user-oriented. Korea is ready to share its development experience, including its various e-experiences. At the same time, Korea is eager to expand the reach of its development aid.

Finally, Korea will shortly take an Executive Director seat at the IMF for the first time. Let me assure you that we will make maximum effort to properly represent all the members of our constituency.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE LAO PEOPLE'S
DEMOCRATIC REPUBLIC

Somdy Douangdy

It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic at the 2004 Annual Meetings of the Boards of Governors of the World Bank and International Monetary Fund.

Let me join my fellow Governors in congratulating Mr. Chairman, the President of the World Bank, the Managing Director of the IMF, and the Government and people of the United States of America for the excellent arrangements made for this important meeting and for the very warm hospitality extended to our delegation.

The Joint Annual Meetings of this year are in the midst of an environment where the Bank and the Fund are furthering their cooperation with the international community on poverty reduction and fulfilling their "normal role." In this context, the Lao PDR continues to maintain close cooperation with the international community. Cooperation with the international financial institutions (IFIs), the Bank and the Fund in particular, has been eminent in helping us to implement the reform programs in support of our development goals.

I would like to take this opportunity to inform the meeting on the Lao PDR's current economic situation. In 2003, our economic growth was at 5.9%, showing an increase of 0.2% compared with the previous year. Growth in the industrial sector was at 11.5%, while growth in the service and agricultural sectors were at 5.8% and 2.2%, respectively. The high rate of growth in the industrial sector was partly due to the export of US\$60 million of gold ore from the Sepone Gold Mine, one of the major foreign direct investment projects in the country. There was also an overall increase in the country's exports, resulting from the improved economic performance of the countries in the region.

Despite the fact that the economic growth rate was quite high, led by a large volume of exports from foreign investment projects, which helped to stabilize the exchange rate, inflation remained high, averaging 15.5% for 2003. Among the main factors contributing to the high inflation rate are the rise in world petroleum prices, which resulted in higher import prices, the increase in prices of domestic commodities and foods, and the shortage of some commodities, particularly the construction materials. This high inflation has placed the lives of the Lao people in a more

difficult situation and has also discouraged domestic investment because of the high interest rate.

With regard to our efforts toward achieving our 2020 strategic goal of exiting from the least developed country status, the Government has completed the consultation process on the National Growth and Poverty Eradication Strategies (NGPES). The Government has also established the Central Government Level Unit under the Committee for Planning and Investment to coordinate and monitor the implementation of goals and priorities of NGPES, which are in perfect harmony with the Lao PDR's international commitments, particularly the Millennium Development Goals, and the LDC Summit's objectives.

Our partners for Development, namely the donor countries and international organizations, including the international financial institutions have extended the strong support to the Lao PDR in working forward these strategies through the direct support to the sectoral development in the country. In addition, the international financial institutions have also assisted in the efforts of the Government in the areas of macroeconomic stabilization and structural adjustment. Many actions under these adjustment efforts are well under way, particularly those relating to the Financial Management Adjustment Credit (FMAC), the program supported by the World Bank, which was completed in June 2004. We also worked closely with the IMF in August 2004 on the completion of the fourth review of the arrangement under the Poverty Reduction and Growth Facility.

Under the adjustment programs, the Government has completed the first stage in the reform of the state-owned commercial banks and the restructuring plans for the important large and medium state-owned enterprises. The Government will continue the reform process in the telecommunication, water supplies and electricity sectors, as well as in the area of public finance management, in compliance with the law and with the Government's regulation and reform plans. Furthermore, in order to promote more investment, the Government will put more effort into enhancing the investment environment of the country.

In the meantime, partners in development need to adhere to their commitments made in the Monterrey Consensus, particularly to make available the necessary financial and technical assistance in support of the development efforts of developing countries. As export-led growth is the key to attaining poverty reduction goals at the national and global level, we strongly urge the developed countries to remove existing trade distortions and barriers to enable developing countries to have access to their markets, in order to achieve the targets of the Doha Round.

The potential for our country's economic development lies largely in the productive and sustainable use of our natural resources and in export-

oriented production, particularly in the areas of mineral extraction such as gold, copper, and zinc, as well as hydropower. In this connection, we greatly appreciate the international financial institutions' support in the preparation for the proposed Nam Theun 2 Hydropower Project. We will continue to work closely with the IFIs and the parties concerned to realize this very important project, which we believe will benefit not only the Lao PDR, but also its neighboring countries.

In conclusion, in the name of the Government of Lao PDR, I would like to express my sincere appreciation to the managements and staffs of the Bank and the Fund and fellow member countries for the support given to the Lao PDR. I wish the meetings a great success.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF
LITHUANIA

Vitas Vasiliauskas

It is a great privilege for me to address this distinguished audience today at this year's Annual Meeting and to speak on behalf of the Republics of Estonia, Latvia and Lithuania. In my speech, I will concentrate on the general issues of cooperation between the Baltic countries and the World Bank.

The year 2004 witnessed two historical events for the Baltic countries. Estonia, Latvia and Lithuania, together with seven other countries, joined the European Union. The Baltic States also became fully-fledged members of NATO. For small open economies like Estonia, Latvia and Lithuania, both events are of utmost importance in light of the transition process challenges our countries have had to overcome.

Membership in the EU has raised new challenges with membership requirements as well as new opportunities for the future development of our countries. EU membership provides an additional stimulus in the form of inflows of grants from the Structural Funds and the Cohesion Funds, as well as the Transitional Facility. At the same time, we will have to look for synergy between World Bank operations and interventions under the EU financial instruments in the attainment of our common goals.

An outstanding economic performance achieved during the past few years and a sustained upturn this year are common features of all three

Baltic countries. The average growth rate for the Baltic countries was above 7.6 percent in 2003. Sound economic policy maintained by all three Baltic countries creates preconditions for a favourable economic development outlook in the years ahead. The Baltic countries pursuing their Convergence Programmes aim to comply with the key Maastricht criteria by 2007, and as a result, Estonia and Lithuania were admitted to enter ERM-2 this year, with Latvia expected to be admitted in January 2005. These achievements will allow us to fulfil the necessary requirements for early Euro introduction in all Baltic countries.

Over the past year, we continued fruitful and intensive cooperation with the World Bank through the implementation of investment projects. The presence and advice of the Bank and the IMF in many cases served the governments well in keeping track of undertaken reforms and commitments.

From now on, the European Union membership will open a new stage in the relationship between the World Bank and the Baltic countries, with a transition from a borrower-lender relationship to a partnership featuring in particular analytical work and technical advice - targeted at the key challenges the Baltic countries face - to secure growth and to enhance competitiveness.

The issues of economic growth and sustainable development are receiving greater attention by the World Bank. We welcome this shift not only from the viewpoint of operational implications for the Bank but also from the perspective of relevancy for all new EU Member States.

In this regard, I would like to emphasize the new dimension of the Bank's analytical work programme for the 8 new EU members covering the next 2-3 year period. We support the idea of cross-country analytical work for the EU8 and hope that this would contribute to the flexibility and cost-effectiveness of the Bank's assistance.

We welcome particular priority areas of the Bank's analytical work, such as labour market analysis, knowledge economy, public and private partnerships since these areas are not only interrelated but at the time relevant to sustained economic growth and competitiveness of all new EU Member States. The Bank's experience and advice in traditional sectors, such as education, including tertiary education financing, rural development, would also be beneficial for the Baltic countries.

On this occasion, I would like to convey our appreciation for the useful and productive cooperation with the World Bank and the International Monetary Fund and wish them every success in their future work.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE FORMER
YUGOSLAV REPUBLIC OF MACEDONIA

Nikola Popovski

Respectable Ladies and Gentlemen, it is my honour to be offered the possibility to participate in the Annual Meetings of the International Monetary Fund and the World Bank, together with all of you. I would like to avail myself of this opportunity to express gratitude to both the International Monetary Fund and the World Bank for the so-far cooperation and financial support these institutions have extended to Macedonia.

Macedonia, during the last decade and a half, experienced difficult, long-lasting process of economic and political reforms, aimed at building modern democratic society with developed system of market economy.

Current situation in the Macedonian economy

Following the stagnation, the Macedonian economy stabilized in 2003 and realized GDP growth of 3.2%, with low inflation rate of 1.2%, being certain signal of the end of the adverse shock in the economy and return of the economic activity on track. These macroeconomic indicators in 2003 were realized by notable reduction of central government budget deficit from 5.6% to 1.1% of GDP, supported by disciplined monetary policy constantly in correlation with the fiscal one. Although the country managed to successfully stabilize in macroeconomic point of view, still there are additional challenges in the macro-economy, such as the high deficit in the BOP and the high unemployment rate, remaining to be one of the main challenges in the economic policy in the forthcoming period.

During the past period, we have been all assured that Macedonia has the capacity to surpass the problems and the existing reform path has never been abandoned.

Macroeconomic indicators during this year as well show similar performance. In 2005, the Government of the Republic of Macedonia will focus on the following strategic priorities:

- Further steps for integration of Macedonia in the EU;
- Completion of the preparations for membership of Macedonia in NATO;

- Implementation of the obligations arising from the Framework Agreement;
- Government decentralization and development of local government;
- Judiciary reform;
- Further strengthening of the combat against organized crime and corruption;
- Accelerating the economic development and stimulating domestic, and attracting, foreign investments;
- Strengthening the market model of running the economy and reducing unemployment and poverty.
- Relations with the IMF and the World Bank

We will also continue to implement the policy of maintaining monetary and fiscal balance.

- Further maintaining the price stability with inflation that would not exceed 3% and stability of Denar foreign exchange rate in relation to the Euro;
- Realizing 4.5% real GDP growth in 2005;
- Continuing the policy of rational budget spending;
- Maintaining the level of external debt at less than 40%, with a tendency for medium-term reduction by 2%;
- Creating conditions for more aggressive investment policy, especially in the private sector, as well as improving the business environment in the country;
- Stimulating foreign investments by creating modern, open and competitive economy;
- Constant employment increase on annual level by 1.5-2%.

Fiscal policy will support the efforts for approximation to the European Union, including managing the fiscal pressure arising from the implementation of the transition reforms and the decentralization processes.

In the forthcoming period, the Republic of Macedonia is strongly committed to continue the structural reforms, being important basis for promotion of the investment climate, aimed at realizing 4.5% economic growth and job creation. In 2004, supported by the World Bank, public administration reforms gained pace. To the end of attracting foreign direct investments, Government program will be supported by several World Bank projects. In the period to come, the transformation and privatization process of the public enterprises will be realized, mainly "Macedonian

Railways" public enterprise, and "Electric Power Company of Macedonia", a joint stock company, owned by the state, where EBRD participates actively as well.

Macedonia, as WTO member, and taking into account the active Stabilization and Association Agreement with the EU, as well as the free trade bilateral agreements concluded with 9 other countries, has already reached an impressive level of liberalized trade relations with the countries throughout the world.

The Government of the Republic of Macedonia will continue to develop the relations with the International Monetary Fund and the World Bank, as partners in the implementation of credible macroeconomic policy and structural reforms program. Cooperation with the IMF will continue with the negotiations for concluding long-term arrangement, thus strengthening the reform and structural component of the existing economic and financial policies.

Cooperation with the World Bank is evolved within the three-year Country Assistance Strategy (2004-2006), whereby Macedonia has met the requirements for high-case scenario, which the World Bank Board of Directors confirmed on 13th May 2004 and approved a package of three reform loans - Public Sector Management Adjustment Loan in the amount of US\$ 30 million, and two investment loans in the amount of US\$ 10 million each intended for health sector management support and support in implementation of the social protection and pension reforms.

Honourable Ladies and Gentlemen, we are aware that on its development path, the Republic of Macedonia will face many temptations and serious challenges. Nevertheless, we have a clear vision for the future of our country and we are committed to work hard towards realizing the priority objectives. We want a peaceful region, region integrated in the EU and therefore we expect that both the IMF and the World Bank will extend full support in attaining this goal.

I would like to assure you that we will continue making efforts for building ever stronger mutual cooperation.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
MALAYSIA

Tan Sri Nor Mohamed Yakcop

Global Economic Outlook

We welcome the strengthening and broadening of the global economic recovery since our meeting in Dubai last year. We are further encouraged by the strong performance and recovery in many developing economies, which has been aided by improved fundamentals and a rebound in the external sector.

An outstanding concern is the need for appropriate policies involving authorities in major financial centres, especially the G-3, to mitigate risks emanating from the extent and severity of the global imbalances. Such policies entail cooperation to maintain orderly market conditions to facilitate the smooth adjustment of the external imbalances, while cognizant of the need to encourage measures to strengthen growth further. Key elements of such policies should incorporate strategies of the US to restore medium-term fiscal balance, to advance the pace of structural reforms in the Euro area, to ensure further progress in the banking and corporate sector reforms in Japan, and for Asia, to continue with structural reforms to support domestic demand.

We welcome the greater resilience and stability of the global financial system and the broadening of global growth. These have resulted in improved corporate and banking sector earnings, as well as low inflation, which led to stable, and low yield in major bond markets. Accommodative monetary policies have made available low cost external financing especially for emerging markets. Notwithstanding the above, the question remains as to how much interest rate should rise as economy continues to expand. During the transition toward higher interest rate, it is important to manage the rise in interest rate to ensure that global growth is sustained.

Malaysia's Economy

Malaysia has benefited from the continued strengthening of the global economy, reinforced by the strong domestic demand that had supported growth for the previous couple of years when the external

environment was less than encouraging. Thus, for the first half of 2004, Malaysia's economy expanded at an accelerated pace of 7.8%, with the manufacturing and services sectors as key contributors to growth. More importantly, private investment activity recovered strongly to become the engine of economic growth. The robust economy further strengthened the nation's macroeconomic fundamentals and resilience as indicated by the low inflation, 81 consecutive months of trade surplus, rising international reserves, full employment, as well as a healthier banking system. Given the strong economic performance during the first half of the year and a generally encouraging external environment, the economy is expected to record the highest GDP growth since 2001 that is at 7% for 2004.

Going forward, monetary policy will remain accommodative and will continue to support growth and ample liquidity is expected to continue supporting financing needs of the private sector. The financial system experienced a smooth transition to a new market-based interest rate framework introduced in April 2004. The average base lending rates of financial institutions is on the decline with the overall financial position of the banking system remaining sound. On the exchange rate, the current regime continues to facilitate increasing trade and investment flows. The present exchange rate regime is supported by the rising international reserves, low external debt, low inflation and sound banking system.

The significant domestic restructuring undertaken since the Asian crisis and strengthened economic fundamentals continue to underpin the sustained growth performance of the Malaysian economy. We anticipate the growth momentum to continue for 2005. Forward-looking indicators continue to point towards strong and sustainable growth. Improved consumer and business confidence, favourable commodity prices, stable employment conditions, low inflation and rising incomes are expected to support further growth in the Malaysian economy. Meanwhile, Malaysia is resilient to high oil prices given that it is a net oil exporter. The impact of imported inflation should be modest.

In the context of the uncertainties in the external environment, the Budget 2005, which was tabled recently in Parliament, continues to build from past achievements to strengthen the foundation and competitiveness of the economy. The focus will be on enhancing the effectiveness of Government financial management, improving the delivery system and competitiveness, accelerating the shift towards a higher value-added economy, developing human capital and improving the quality of life, particularly those in lower income groups. The Government will also continue its pragmatic fiscal policy of striking a balance between prudent financial management and pro-growth strategies which has resulted in the gradual decline in the deficit from 5.6% of GDP in 2002 to 5.3 percent

in 2003, with an expected further reduction to 4.5 percent in 2004 and 3.8 percent in 2005.

IMF Surveillance

The IMF should be more focused on surveillance issues central to its mandate; and that the quality of policy dialogue between IMF and member countries should be improved by making better use of cross-country experiences. In addition, the IMF should not overdo the need for transparency at the expense of its role as a confidential advisor to members. Equally important, considerations to make IMF surveillance more effective should include the accountability factor where the IMF should be held responsible for the policy advice that they provide to member countries.

Aid Effectiveness and Financing Modalities

We agree that larger and more effective aid flows are critical in implementing the international development agenda. We also agree that concerted efforts are needed on several fronts, in particular reform of the international trading system and in improving the ways aid is delivered. At the same time, development assistance must be aligned to country priorities. Equally important is the need to strengthen the capacity of countries to absorb and effectively use aid. We also support continuing work on efforts to look at innovative mechanisms to provide additional aid. In this regard, we support the agenda on financing modalities as proposed, namely:

- Continue working on the feasibility of the more promising global taxes; and
- Exploring the blending of aid and other financial sources to augment existing resources.
- Investment Climate

The investment climate is a very important factor to sustain and generate economic growth. The increasing mobility of capital flows across borders, facilitated by the more liberal investment regime, globalisation as well as ICT necessitated that economies pay special attention to providing at least the basic facilities required to retain and attract new business activities. Of course, with increasing competition for

FDI, resulting from the slow growth in FDI from source countries coupled with increased demand for such flows from new and emerging market economies in recent years, the basics will just not be enough.

Countries are coming under increasing pressure to go beyond the basics to provide highly attractive fiscal and non-fiscal incentives to attract potential investors and even retain those who are already in the country. However, in trying to outbid one another, the capital recipient countries have to be cautious that they do not fall into a trap à la a 'price war' which could ultimately reduce the returns from such capital flows for all involved.

Infrastructure Development

Malaysia fully agrees that infrastructure is an indispensable prerequisite to support investment, trade and other economic activities as well as to address poverty. We have on many occasions and in many international fora leading to the Monterrey Consensus emphasised the critical importance of infrastructure and the need to identify new and specialised sources of financing to support infrastructure development particularly among developing countries. In this regard, Malaysia strongly supports the initiatives undertaken by the World Bank. Malaysia requests serious consideration on our proposal for an appropriate kind of global infrastructure tax and a specialised global fund to actively promote and aid infrastructure development particularly for developing economies.

Infrastructure is a major contributor to economic growth, poverty reduction and achievement of the Millennium Development Goals. Malaysia has always given emphasis to infrastructure development as evidenced from the allocation of funds throughout the years.

The focus of infrastructure development in Malaysia is moving towards improving quality of service, efficiency of delivery, affordability as well as the user pay concept. Hence the private sector has been and will continue to be encouraged to participate in the provision of infrastructure facilities and services, with emphasis on public-private partnerships, particularly for operation and maintenance as well as financing.

Voice and Participation of Developing and Transition Countries

Malaysia takes note of the work that has been carried out by both the Bank and Fund in addressing institutional and structural issues to enhance

the voice of developing and transition countries in the operation and the decision making of the Bretton Woods institutions. While we have made further progress, particularly on capacity building assistance for the most over-stretched Executive Directors and constituencies, we have yet to achieve much progress on the more challenging institutional and structural changes, such as quota, voting power and the under-representation of developing countries in the Board.

Debt and Debt Sustainability

At the Spring Meetings, we broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be thrashed out to provide lenders with a measure to determine the appropriate level of debt. Today, we welcome the opportunity to discuss this in the upcoming debt agenda especially in view of the recent extension of the Heavily Indebted Poor Countries (HIPC) Initiative sunset clause.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE FEDERATED
STATES OF MICRONESIA

Nick Andon

Mr. Chairman, President Wolfensohn, Managing Director de Rato, Honorable Colleagues, Distinguished Delegates, Ladies and Gentlemen:

I am deeply honored and privileged to address these fifty-eighth Annual Meetings of the International Monetary Fund and the World Bank Group on behalf of the Pacific Constituency comprising Kiribati, the Republic of the Marshall Islands, the Republic of Palau, Samoa, the Solomon Islands and Vanuatu, and the Federated States of Micronesia.

May I also echo the sentiments made by previous speakers by expressing our deep appreciation and gratitude to the management and staffs of the Bank and the Fund for their tireless efforts and hard work in arranging and preparing our meeting venue at the Headquarters here in the beautiful city of Washington DC, and to express to you, Mr. Chairman, our congratulations on your election. I also would like to

welcome and congratulate Mr. Rodrigo de Rato on his recent accession to the post of IMF Managing Director. Finally, I would like to thank the city and the people of Washington DC for the warm hospitality extended to us since our arrival, and for their continuous efforts in making sure our meetings are given the maximum security attention the world has ever seen.

Since the 1980s, just as our Asian neighbors were propelling into economic center-stage, it was projected that the next century will be the 'Pacific Century'. And as the new millennium dawns on us, there is still little sign of the 'Pacific Century' in the Pacific island countries. Regardless we are hopeful that through our works with the Bank and the Fund the realization of the 'Pacific Century' will come sooner than later for us.

World Economic Outlook

Over the last twelve months, there has been a significant expansion in the global economy, fuelled by a sharp rise in industrial production and global trade. Business confidence and to a lesser extent consumer confidence also rose during this period. And in most regions around the world, investment growth has turned solidly positive. In the second half of 2003, for instance, global GDP growth averaged nearly 6 percent on an annualized basis, the highest since 1999. Likewise, global GDP growth for 2004 and 2005 is likely to exceed expectations, projections being 4.5 percent for 2004 and 2005.

In short, the global economic recovery over the last 12 months and more likely into 2005 is laudable and would not have been achieved without the economic reforms many nations around the world have undertaken.

Economic performance in the Pacific Constituency

In the context of the Pacific region, aggregate GDP rose by 2.7 percent this year over last year. However, on an individual basis amongst our Pacific island member countries, the growth rate ranged from 0.1% to 7% per annum, and favorable international primary commodity prices had much to do with our relatively benign GDP growth rates, which have benefited Samoa, the Solomon Islands, and Vanuatu—our big three commodity exporters.

Like many other small open economies around the world, the Pacific island member countries in our constituency have also been benefiting

from the recent expansion in the global economy. Such a benign global economic outlook has also enabled the island members to withstand the impact of the terrorist attacks of September 11, 2001, the SARS outbreak that started in 2003, the ongoing war in Iraq and the recent increase in oil prices. Notwithstanding this relatively good progress against these odds however, it is important to note that our regional economic growth is still being hampered by our high annual population growth of 3%, which continues to put pressure on, and to restrict our governments from providing adequate key essential services in health and education for our people.

Questions still remain as to whether the region is actually on a sustainable growth path or perhaps is only experiencing a temporary knock-on effect from the expansion of the global economy. Time will tell, but we are confident that with the right policy mix, we should be able to harness the success of the past 12 months to ensure sustainable growth and development that will lead to higher quality of life in our region.

Challenges Ahead and the Way Forward

The development characteristics of our Pacific island members are quite similar to the world's other small states. They have small populations, small domestic market, small landmass, narrow resource base, limited economic opportunities, weak institutional capacities, and they lack adequate financial capital needed for development. In addition, they are scattered across a vast Pacific Ocean and are relatively far away from many of the world's major commercial markets therefore, the transport costs including cost of doing business in these countries, are quite high.

Many of the islands are no higher than two feet above sea level and are very susceptible to environmental risks such as rising of the sea level. Being small open economies, they are also highly vulnerable to exogenous shocks such as changes in the global economy and changes in the economies and policies of their bilateral development partners. It is within these development constraints that our islands' ability to take full advantage of the opportunities presented by globalization, is marginalized.

In August this year during their Pacific Islands Forum Annual Meeting, our Pacific island leaders adopted a Vision for the Pacific, which enunciates the ideals the region must work towards to secure its future prosperity and stability. In the Pacific Vision, our leaders "believe the Pacific region can, should and will be a region of peace, harmony,

security and economic prosperity, so that all its people can lead free and worthwhile lives.”

We agreed to give effect to this Vision through, the development of our Pacific Plan, which is a development framework for implementation of the vision created by our leaders, that envisages to develop stronger links between our sovereign countries and would identify the sectors where we would gain most from sharing good governance and aligning our policies.

Our leaders have also agreed that the goals for development of our region are economic growth, sustainable use of our scarce financial and natural resources, good governance and security. These goals have become the principal focus of our efforts at both the national as well as the regional levels.

We have already engaged the Pacific Islands Forum and its Secretariat in these processes and would welcome a more active role by our development partners such as the Bank and the Fund.

We have recognised that the Pacific Vision cannot be achieved by Governments alone, but can only be attained through a broader platform for partnership. In building a more resilient economic base, it is vital that the region collaborate with the Bank and the Fund to formulate practical strategies to mitigate the region’s exposure to shocks and more broadly to achieve the Vision which we have set for ourselves.

Over the last several years, all countries in the Pacific Constituency have undertaken some form of structural and institutional reforms aimed at improving economic performance in order to achieve sustainable growth and development. These reform programs are still ongoing and although we are making good progress, these oftentimes difficult and painful, reforms cannot be successfully implemented by our countries themselves without the ongoing support of our development partners such as the Bank and the Fund.

We are grateful for the Fund’s support through the Pacific Financial Technical Assistance Center (PFTAC), which has been very instrumental and effective in assisting our countries in our reform efforts over the years, and we would like to call for and urge increased funding support for PFTAC, to bring it up to par with similar institutions in other parts of the world. When we are discussing the need for increased donor coordination and harmonization, PFTAC is one effective avenue in which we would like to encourage and see closer Bank and Fund collaboration.

The thematic focus by the Bank and the Fund on poverty reduction is one that is equally vital for our region. If I may, at this juncture, recall Dr. Henry Kissinger, the former US Secretary of States’ famous 1974 declaration that, “by 1984 no child, woman, or man would ever go to bed hungry.” Three decades later, and notwithstanding our world leaders’

endorsement of the Millennium Declaration in New York in 2000, Dr. Kissinger's declaration remains grossly unfulfilled. This, in itself, is an indication of how important it is for us to redouble our efforts if we are to achieve the Millennium Development Goals (MDGs) by 2015.

We note recent advancements in the international efforts against money laundering and terrorist financing. We also note the Bank's and the Fund's pivotal role in ensuring the convergence not only of international standards, but equally important the convergence of assessment methodologies. Our region has benefited greatly from better coordination in the assessment processes in that we now are able to devote more time and efforts to actual implementation as opposed to being locked into an assessment fatigue. And as the international community embrace the Revised Forty and Special Eight Recommendations, there will be increasing need for our region to align our implementation programs with the new standards. We therefore will welcome any assistance from the Bank and the Fund to further strengthen our anti-money laundering and counter terrorism initiatives.

Over the years many studies and analyses have been undertaken to better understand our economic and social development needs. While we remain grateful for these studies, there is some concern among us that some of these resources could be better utilized as direct assistance towards our social and economic programs. For instance, those programs that will have a positive impact on our goals to reduce poverty, curb population growth, create jobs and enhance our food security.

We also would need to strengthen our democratic processes and improve our governance but we would need to have the necessary expertise and training support, therefore the Bank and Fund's support in this area will be very invaluable.

Our three productive sectors of tourism, fisheries and agriculture will continue to be important foreign exchange earning sectors for our economies. And given the absence of heavy industries in small island countries like ours, we would still not be able to compete with major industrial regions of the world, and would continue to depend on our development partners' support for the development of our light industries, which we believe are appropriate and would complement our important primary and service sectors.

We very much welcome the Bank's rekindled interest and hence its focus on infrastructure which is an essential element for a good investment climate and key to development of the private sector.

Our islands, having varying stages of development, share the same need for infrastructure development which is an important pillar for growth, poverty reduction and for the achievement of the MDGs. We

would therefore be grateful for adequate Bank involvement in the development of our infrastructure.

We are cognizant of the importance of the Bank's engagement in our Pacific region but, we are also aware the Bank's involvement in our region over the last 12 years or so, has not been up to expectation. We therefore echo the sentiments expressed in the Bank's recent Operations Evaluation Department (OED) report which shows that the Bank's lending to the region has not only been low compared to the other regions which have similar development challenges, but also has been uneven as some islands have received support from the Bank while others have received nothing at all.

The OED report lamented that although the Bank was able to produce its 2000 strategy for the region, the strategy was broad and offered no clear strategic direction, therefore, the Bank as a "knowledge bank" ended up with "a lack of strategic objectives, weak relations, and inadequate resources" to do a great job for the islands as an effective development partner.

Since the Bank is in the process of creating its second Pacific Regional Assistance Strategy (PRAS) for the island members in our constituency, which is expected to be coming to the Board of Executive Directors sometimes in the early part of next year, we would like to strongly encourage, and urge, the Bank to seriously take into account, the sentiments expressed in the OED report and develop this new strategy accordingly and then put its weight, and its resources, behind its implementation.

Conclusion

In closing Mr. Chairman, I would like to now take this opportunity and express our sincere appreciation to the managements and staffs of both institutions for their ongoing commitment and support for our islands' development efforts.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MYANMAR

Hla Tun

Mr. Chairman, Excellencies, Distinguished Delegates, Ladies and Gentlemen, I am honoured, in representing Myanmar, to have the opportunity of addressing the 2004 Annual Meetings of the Fund and the Bank. At the outset, I would like to join my colleagues in congratulating the chair on his election as chairman for this meeting. I strongly believe, Mr. Chairman, that under your guidance today's meeting would be a very successful one.

We are heartened to learn that the pace of global growth has continued to exceed expectations. Global recovery has become increasingly well established with strong growth in industrial countries and exceptionally rapid expansion in emerging markets. However, risks and challenges, including global imbalances, increase in oil prices and inflationary pressures, still remain and therefore we should be diligent in addressing these issues.

Let me now brief you on Myanmar's economic development. As have been stated in previous years, Myanmar has been striving to achieve economic stability, with our own resources, in order to fulfill the basic needs of its populace.

For that, a series of short-term economic plans have been formulated and implemented which have resulted in significant growth rates for the country in recent years. We are now implementing the fourth year of the third short-term plan. During the first three years, remarkable growth rates have been achieved.

As an agro-based country, Myanmar's economic growth has been led by the growth of the agricultural sector which accounts for about 45 per cent of the economy. However, in recent years, strong growths in the energy, livestock and fishery, mining, and manufacturing and processing sectors have also contributed quite significantly to the country's economic growth.

We are happy to say that the Myanmar economy is growing at a sustainable up-ward trend. We are self-sufficient in agricultural produce and self-sufficient in food supply. The authorities are also encouraging industrial development and at present there are 18 industrial zones. Moreover, for the future long-term growth of the economy, the government is investing in building necessary infrastructure, including

construction of dams, reservoirs, roads, bridges and major Hydro Power Projects.

Due to the Government's foresight in investing in the above mentioned infrastructure development, although there had been severe flooding this year, we were able to safely store our harvested agricultural produce including paddy. We remain committed to continue our efforts to improve the living standards of our people, especially in the rural areas.

According to the development needs of the country, appropriate policies have been implemented. With regard to fiscal policy, the government is giving high priority to its fiscal consolidation efforts. However, for the past few years, in the absence of external financial assistance, Myanmar had to use its own resources for the development of its infrastructure, which has resulted in budget deficits. However the budget deficit is now in a declining trend as efforts, such as strengthening tax administration and collection system, reducing tax exemptions, educating the public for tax compliance and reduction of tax evasion, have been taken in order to increase tax revenue, while on the other hand unproductive expenditures have been cut out.

The main objective of monetary policy in Myanmar is for sustainable economic growth with relative price stability. In order to do so, the Central Bank of Myanmar has adjusted its monetary policy according to the changes in the economic needs of the country. The Central Bank of Myanmar, in ensuring stability and soundness of the banking system, is also strengthening its supervisory and regulatory activities.

The Myanmar authorities do not accept any form of abuse of the financial system including money laundering and terrorist financing. We know that money laundering and financing of terrorism undermine the global economic growth and stability. We support the efforts, both at international and national levels, to combat them. We would also like to inform you that we have strengthened our regulatory policies and guidelines. We have enacted relevant laws and rules, and have also issued necessary instructions and directives. We are now working closely with the respective regional and international organizations on these issues and are also building the capacity and efficiency of our human resources. We are determined to forge ahead with our efforts to be in compliance with international norms and standards with regard to Anti Money Laundering and Combating Terrorist Financing.

The successes we have thus far achieved have been attained by using our own limited resources, as we have been unfairly deprived of international assistance for more than 15 years. There is no denying that national efforts, if supplemented by external assistance would have been more beneficial for the economy. Although Myanmar has been a legitimate member of the IMF and the World Bank since 1952, both of

the institutions have suspended their assistance to Myanmar based mainly on political considerations. In actual fact, the objectives of the founders of these two institutions were purely economic in their nature and character. We would therefore urge these institutions to adhere to their founding principles.

There are differences in the structure of economic and institutional capacities among countries of varying levels of development. Thus, the institutions should not use one size fits all policies, but should adopt appropriate policies in advising member countries according to their needs and development. There is also need for equal voice in these institutions. However, it seems that developed countries monopolize the policy decision making and the developing countries find it hard to speak out their needs.

Both institutions have an important role to play in the world economy. But there may be need to improve their activities. For the members to achieve our common goal of sustained economic development and poverty alleviation, the IMF and the Bank should avoid any bias that favour some while discriminating others. According to the changing needs and time of the world economy and its environment, the institutions should be adaptable to those changes so as to meet the requirements of the developing countries.

There is no doubt that the organizations have a pivotal role in the global economic development and they have undertaken some joint activities in recent years such as the HIPC and PRSP. In undertaking their leading role they should not forget their core mandates and increase the representation of developing countries in the decision making process.

In conclusion I would like to call the IMF and the Bank to further enhance their assistance in supporting countries facing macroeconomic difficulties without any discrimination. For Myanmar, I would like to reiterate that we would continue with our efforts in maintaining our economic growth momentum and look forward to resuming normal relations with both of the institutions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

Bharat Mohan Adhikari

Mr. Chairman, President Wolfensohn, Managing Director de Rato, Excellencies, Ladies and Gentlemen, I feel greatly honored to represent the Kingdom of Nepal in these 2004 Annual Meetings of the Boards of Governors of the Fund and the Bank. Let me thank the government and the people of the United States of America for the generous hospitality extended to myself and the delegates. I would like to extend our deep appreciation to the management and the officials of the Fund and the Bank for the impressive arrangements made for the meeting.

The world economic situation as well as the international financial environment has been gradually improving. The economic growth scenario in the US looks strong followed by modest recovery in the Japanese economy. Though the prospect of the world economy as a whole is now better over the years since 2000, the situation of prevailing unbalanced growth performance and continuing disparities among countries has been aggravated with the continuation of the geo-political uncertainty and the emerging oil price risks.

Mr. Chairman, modest recovery in the Asian region has been realized with the adoption of the prudent macroeconomic policies and flexible exchange rates along with the recovery in the trade and IT sectors. The Asian developing countries are now registering higher economic growth, with the upturn getting rapid particularly in China and India. However, the disparity in the growth rates among the countries persists. Therefore, a broad-based and sustainable growth as well as pressing forward in areas like structural reforms, good governance, and transparency comprise the most important economic policy challenges. The financial crises across the nineties teach us the need of a healthy financial sector for allocating resources efficiently. Sound, deep and strong financial sector is a prerequisite to attaining the benefits of an open, liberal and globalized economy. Enabling low income countries to reap the full benefits of a globalized economy should be the focus of the international efforts. In order to enhance the competitiveness of their respective economies, the need for the governments in the developing countries to be more responsible to consolidate their fiscal position has become urgent.

Combating poverty is one of the greatest challenges facing low-income countries. Although poverty reduction initiatives and necessary policies are put in place, implementation weaknesses persist. Hence,

attaining the Millennium Development Goals (MDGs) requires strengthened efforts from international community backed by increased resources. I believe that trade would work as an engine of economic growth and low-income countries need to be given special space in realizing this potential. The Fund and the Bank are, therefore, advised to be serious in realizing the goal of poverty reduction and economic well-being on a global basis.

Mr. Chairman, in Nepal, the overall economic development indicators have continued to improve despite unfavourable peace and security situation. The Nepal Development Forum (NDF) meetings held in Kathmandu in April 2004 provided the opportunity to apprise the donor community about the overall development problems and prospects and also the commitments from the development partners. Preparations for the post-membership of the World Trade Organization (WTO) and the implementation of the ongoing development and reform programs including the Poverty Reduction and Strategy Paper (PRSP) and the Poverty Reduction and Growth Facility (PRGF) have remained the national priority. As a result, notwithstanding the prevailing adverse situation of the peace, improvement has been observed in the overall economic situation as GDP in 2003/04 grew by 3.7 percent, agriculture by 3.7 percent and non-agriculture by 3.3 percent. The growth projection for the current fiscal year is 4.5 percent. Government revenue mobilization has recorded an impressive improvement. The growth of broad and narrow money accelerated by 13.5 percent and 12.6 percent respectively and the inflation rate remained stable at 4.0 percent in 2003/04. The restoration of peace has now become the topmost priority for the people of Nepal. Therefore, the government is taking serious initiative to settle the ongoing conflict through negotiation.

Exports rose by 5.6 percent and imports rose by 11.9 percent in 2003/04. Due to higher growth rate of imports, trade deficit has been expanding. The balance of payments, however, remained favorable by Rs. 16.5 billion due to the rise in the private remittances and loans. The present foreign exchange reserve level at US\$ 1.3 billion is sufficient to finance merchandise imports of 11.2 months or merchandise and service imports of 9.2 months.

While the overall public sector finances have witnessed prudent management, the initiation and implementation of some important projects have suffered on account of the unfavourable peace situation. Despite the growth rate of capital expenditure and current expenditure at 9.5 percent and 8.9 percent respectively, the principal repayment rose by 14.2 percent in 2003/04. With the resources registering a growth of 9.1 percent, the budget deficit/GDP ratio remained at 3.7 percent, recording only a marginal increment over such ratio of 3.6 percent in 2002/03.

Mr. Chairman, with a per capita income level of around US\$ 250, i.e. about 69 cents a day, the need for vigorous development endeavors in Nepal has become urgent. Accordingly, the ongoing Tenth Plan/PRSP (2002-07) aims to reduce the poverty ratio from 38 percent to 32 percent over this period. GDP is estimated to grow by 6.2 percent, agriculture by 4.1 percent and non-agriculture by 7.5 percent, and per capita GDP by 4.1 percent, with a number of other socio-economic targets envisaged during the period. In view of the huge financial requirements for tackling the problems of poverty, unemployment, and the inadequate level of socio-economic infrastructure, a substantial level of financial and technical resources needs to be extended to Nepal at generous terms and conditions. Even for the sake of global peace and stability I use this platform to appeal the industrial countries to comply the commitment on ODA.

We are very grateful to the Fund and the Bank for their continued support to help Nepal improve the economic conditions of the people. I believe that the PRSP and PRGF are primarily oriented toward this objective though much needs to be done. The government especially needs the consideration and adoption of special packages for socio-economic revival in a least developed country like Nepal. The role of the Bretton Woods institutions in this endeavor would be of utmost importance. I would, therefore, like to request the Fund/Bank and the entire donor community to make arrangements to include Nepal in the Highly Indebted Poor Countries (HIPC) Debt Initiative framework so as to assist Nepal alleviate the gravity of the development challenges.

Mr. Chairman, greater support is also expected in the context of the opportunities and challenges associated with the WTO membership, especially in the transitional phase of the reform process, so that small and underdeveloped economies like ours will be able to participate in the global economy more meaningfully. I would like to assure our full support and participation in every action of the Fund and the Bank in this direction.

I would like to reiterate our sincere thanks to the Bank and the Fund as well as the entire donor community for rendering valuable technical as well as financial assistance in our development endeavors. We are always effortful to make optimum use of resources along with carrying our further reform programs in all our important socio-economic spheres. I seek more considerate support from the Fund and the Bank as well as our entire donor community in our endeavor of poverty reduction and sustainable socio-economic development in Nepal.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK FOR THE
NETHERLANDS

Agnes Van Ardenne

Mr. Chairman, fellow Governors, Ladies and Gentlemen, let me join fellow-governors in congratulating the Fund and Bank with their 60th anniversary. In this statement, I would like to focus on four topics. First, the recovery in the global economy. Second, crisis resolution and exceptional access to Fund resources. Third, debt sustainability in low-income countries. And fourth, the mobilisation of resources for development.

The world economic outlook points to continued strong growth in most parts of the world, although global imbalances still represent a downside risk. The key challenge for all regions is supporting and consolidating this economic recovery through sound fiscal and structural policies. I would like to highlight three issues with respect to the economic outlook.

First, the urgency to take appropriate measures to ensure medium and long term sustainability of public finances in view of the costs of ageing. At present, the Fund's debt sustainability analyses for industrial countries have a five-year horizon. The major impact of ageing in Europe will be felt after 2010, however. It would therefore be appropriate to extend this horizon. The long term impact of ageing can then be mitigated by measures in the short term.

Second, the present economic momentum should be effectively used to implement budgetary consolidation in all major economic areas of the world. It is of paramount importance to increase budgetary discipline in good times with the objective to gradually achieve budgetary surpluses.

Third, the opportunity to foster economic growth by reducing the administrative burden for the business sector. I refer to it as 'opportunity' since this growth-promoting policy does not lead to budgetary costs. The World Bank's 'Doing Business' report clearly demonstrates that reducing the administrative burden for the business sector could significantly accelerate economic growth in both developing and developed countries. But deregulation and a better investment climate have to go hand in hand with strong institutions as illustrates the World Development Report 2005 "A Better Investment Climate for Everyone". That means that we should also invest in capacity building.

Turning to crisis resolution. The Fund's involvement in crises has in some cases led to a prolonged and high exposure of the Fund to a small group of borrowers. This might jeopardize the principle of equal treatment of member states and risk the revolving character of Fund financing. Therefore, a strict implementation of existing IMF policies, especially the exceptional access framework, is required. Furthermore, we favour the presumed use of the Supplemental Reserve Facility in exceptional access cases. In addition, I invite the Fund to design a specific exit strategy for existing exceptional access cases.

The development of a Code of Conduct could foster an ongoing dialogue between sovereign debtors and the private sector. We therefore encourage these parties to swiftly agree on such a Code.

A positive development is the increased attention for Fund arrangements to provide a signal on good policies without significant financing. The Fund should not be peddling loans to countries that do not need the Fund financing, or have precarious debt levels. The quality of a country's policy can be demonstrated by adherence to Fund's conditionality, Board involvement, and an appropriate level of ownership. This can induce the private sector and donors to provide a country with necessary funds. These three crucial elements determine the value of Fund arrangements as a signaling device. Examples of these arrangements that have proven effective in the past are (low access) precautionary stand-by arrangements and low access arrangements under the Poverty Reduction and Growth Facility.

The third issue I would like to address is the need to ensure long-term debt sustainability in low-income countries. HIPC has been a useful tool to deal with intolerable debt burdens and I fully support a limited extension of the HIPC initiative with two years, while ring fencing eligibility. However, it is time to focus on the future and prevent new debt problems from arising. We have to break the vicious circle of lending, new unsustainable debts and subsequent debt relief. Against this background, we should assess the various proposals for further debt reduction that are now on the table.

I call upon both the Bank and the Fund to show leadership and accelerate the development and implementation of a framework for Long-term Debt Sustainability in low-income countries. This framework and joint Debt Sustainability Analyses should be the sole determinants for the allocation of grants and credits of all development partners, including the regional development banks. Of course, this could imply that also IDA will provide grants in certain circumstances. However, I would caution against turning IDA into a 100% grants window. Not because I am per se against grants but, more fundamentally, because I am very much against,

weakening important development institutions that are grant based as a consequence, notably the UN Funds and Programmes.

I would like to stress the need for a strong multilateral system. In a globalizing world with increasingly a common international agenda, we have to ensure that our multilateral institutions can live up to the challenges. This principle should in my view guide the ongoing UN reforms.

A stronger multilateral system should ensure more co-ordination and co-operation and less overlap and ineffectiveness. This implies the avoidance of mission creep and a clear division of labour, for instance between the World Bank and the UN Funds and Programmes.

Of course, we should also step up our support to developing countries. At least an additional \$ 50-60 billion needs to be raised to achieve the Millennium Development Goals. As countries improve their policies and institutions, this amount could be used effectively by developing countries. This is taxpayers' money well spent. As a believer in equal burden sharing among donors, I urge countries to formulate a convincing time frame within which to raise aid levels to the UN norm set some 35 years ago.

Finally, next to aid volumes, the delivery of aid should be improved. I thus call on Fund, Bank, and donors to further align their policies with recipient country policies and harmonise their procedures and policies. Furthermore, aid should also focus on private sector development and be supported by better international trade opportunities for developing countries. Let us use the coming year to do whatever we can to finalize the WTO negotiations. This in itself will already lift hundreds of millions of people out of poverty.

STATEMENT BY THE GOVERNOR OF THE FUND FOR NEW ZEALAND

Michael Cullen

Introduction

Fellow Governors and delegates, I am delighted to participate once again in this meeting. This year holds special significance as the 60th anniversary since the formation of the Bretton Woods Institutions. The

two sister institutions have played an influential and leading role in economic and development issues over the past 60 years. While neither institution is quite in the form envisaged by Keynes or White in 1944, the outcomes achieved support the need for the formation of both institutions:

- Greater stability to economic growth and cycles;
- Stronger fiscal policies;
- Greater surveillance of financial and monetary systems;
- Widely observed standards and codes; and
- Greater transparency.

Development Effectiveness and Harmonisation

This is a time of great challenge for the international community. A major UN review will take place next year of progress against the Millennium Development Goals (MDGs). We are lagging behind and we must turn this situation around. We need to look closely at development financing and effectiveness issues. The Bretton Woods Institutions, and the World Bank, in particular, have vital roles to play.

New Zealand strongly supports the international efforts to turn development assistance towards a focus on results. The Bank has made good progress on this front. New Zealand endorses the Bank's Results Management agenda, including its work on statistical capacity building. It is important to follow through on the outcomes of the Marrakesh conference on Managing for Development Results. This work is critical to improving the effectiveness of development outcomes. When Official Development Assistance (ODA) resources are scarce, and numerous contending priorities exist, the multilateral system must play its part to demonstrate impact and results.

I have been interested in the discussions on the need to improve linkages between the United Nations and the Bretton Woods Institutions. The United Nations and Bretton Woods Institutions have differing mandates, funding bases and representation, but there are overlapping responsibilities and both are striving to deliver more effective and sustainable development outcomes, and do so more efficiently. Better coordination and harmonization between the two sets of institutions, and other donors, would improve the effectiveness of their operations and, importantly, reduce the transaction costs for developing countries. Much more needs to be done, particularly at the country level. Fundamentally, we need international actors assisting developing countries by harmonizing their support around country owned priorities and plans. The

world is too small, and developing countries face enough pressure on their administrations already, to have unhelpful competition, duplication and overlap of external assistance.

New Zealand is responsive to the need to provide more stable and predictable aid flows. Through our aid programme we are moving towards multi-year commitments with our development partners which will enable them to plan and budget over a longer time frame. We are also looking to improve the effectiveness of the assistance provided to support poverty reducing expenditure in core partners through greater use of sector wide approaches, in coordination with other donors, and budget support. This has been most apparent in the Pacific, where New Zealand has worked closely with Australia and other regional donors in Pacific partner countries.

Pacific

Governors, I look forward to reading the review by the Bank's Operations and Evaluation Department of its engagement in the Pacific over the past 10 years. I am concerned that the review of the Pacific has reached some disappointing conclusions about the Bank's performance in the region. I strongly encourage the Bank to act on the findings of the review and ensure that the conclusions are taken fully into account in the development of a strategy for future engagement in the Pacific. I also encourage the Bank to consult widely on its strategy with stakeholders in the Pacific. The need for a coherent Bank strategy that takes full account of the efforts of other players is as great as ever. The Bank and Fund have valuable expertise to offer their partners in the Pacific, and it is important that they remain engaged in an effective and appropriate manner. The best way forward is learning from the past and building an effective programme for the future.

Last year New Zealand's Prime Minister chaired the Pacific Island Forum. In a recent strategic review by the Forum, members adopted a "Pacific Vision" and identified four priority topics for the forum to address: economic growth, sustainable development, good governance and regional security.

The review identified these issues as ones leading to:

- Enhanced regional cooperation;
- Greater sharing of resources; and
- New thinking about the relationships between sovereign states.

Following the review, Forum leaders have taken a number of decisions that are likely to have far-reaching implications for the Forum, including how it interacts with the rest of the world.

Leaders have approved the development of a Pacific Plan for intensified regional cooperation. It will be a basis for stronger and deeper links between the sovereign countries in the Pacific region. The Pacific Plan will also affect the way that international agencies interact with the Forum region in the future. The development of the plan would benefit from input and assistance from the Fund and the Bank. I encourage both the Bank and the Fund to be actively involved when views and opinions are being sought on the Pacific Plan, and to actively seek out opportunities to strengthen its engagement with the Pacific Island Forum. We have, for the first time in decades, a chance to unite behind one vision, one regional response. Let us not see the opportunity foregone.

Debt Sustainability

New Zealand is concerned about the high debt levels in a large number of developing countries. New Zealand has supported the Heavily Indebted Poor Countries Initiative and the efforts to reduce debt levels to sustainable levels. New Zealand commends the Bank and Fund for their recent work on a debt sustainability framework. New Zealand is supportive of this work and would like to see a consistent approach applied to future lending by the Bank, Fund and other multilateral institutions.

High debt servicing costs are an impediment to growth. Strong institutions and policies, and accountability arrangements are necessary pre-conditions for growth. The resources that the Bank and Fund provide for technical assistance and capacity building are very important so that the underlying causes behind the debt distress and poor performance are addressed.

New Zealand supports a comprehensive and balanced approach to development, including effective ODA contributions and trade liberalization to open markets for poor countries. Looking ahead, New Zealand continues to consider concessionary financing to be a valuable source of development financing. We are pleased to be participating in the international Development Agency (IDA 14) negotiations, and look forward to their successful conclusion in the next few months.

WTO: Doha Development Agenda

The agreement to the framework package on 31 July of this year was an important and historic milestone for the World Trade Organisation (WTO). The agreement brings many benefits to the nations involved and also brings credibility to the multilateral trading system and the WTO. I am pleased with the agreement and see it as an important step for the Doha Round and for the WTO in general.

Agriculture remains at the heart of the Doha negotiations, offering the greatest potential for gains to developing countries. While many details are still to be negotiated, many of the difficult political decisions have been taken, ensuring technical work can continue.

The outcomes in other areas such as non-agricultural market access, services, Singapore issues, trade facilitation and other development issues are encouraging. We recognise that there are reservations, particularly from developing countries, to further liberalisation but hopefully the positive outcomes on agriculture will encourage developing countries to engage effectively on these other issues.

We encourage both the Bank and Fund to be active participants in the process. Areas such as trade facilitation and providing financial support for improvements in ports, customs, and other trade-related infrastructure, are areas where the Bank and Fund could be involved.

Into the future, New Zealand remains committed to a multilateral trading system and the pursuit of further liberalisation. There is still much work to be done including improving access to markets and improved trade rules that can benefit everyone. It is important to remember that a comprehensive package in the future could stimulate worldwide increases in income and lift millions out of poverty. The stakes are very high and we hope the momentum from this historic agreement will continue.

Internal Reform

New Zealand is an advocate of the internal reforms to improve the transparency, effectiveness and efficiency of the Bank and the Fund. We would like to voice our support for the Bank and Fund's work in relation to internal governance and external transparency. We would like to see more work on budget reforms to encourage more explicit linkages between resource allocation and outcomes.

One area of reform from within the Bank that has resonated well with New Zealand is the replacement of Adjustment Lending with Development Policy Lending. We support this change as the new policy

acknowledges that each country has its own set of unique circumstances and that governments must take ownership of reforms to develop a program that meets their countries' needs. Hopefully the new policy will lead to broader participation in government policy making and a greater understanding of the social and environmental impact.

It is unfortunate that the handling of remuneration issues by both institutions in this anniversary year has been untidy and has highlighted the governance problems that still need to be addressed. The handling of the issue has given no credit to either institution and has shown that sibling rivalry between the two sisters has not been constructive, and that more professional and transparent remuneration and promotion systems need to be put in place.

Concluding Comment

Finally, allow me to close by restating that the Fund's and Bank's contribution to the Pacific region is important. We look forward to increasing dialogue with the Bank and our development partners on the issues facing small states in the Pacific in the coming year.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Salman Shah

Mr. Chairman, Mr. Wolfensohn, Mr. de Rato and distinguished delegates, it is a great honor for me to address the 2004 Annual Meetings of the World Bank and IMF. Let me also take this opportunity to thank our hosts for their warm hospitality and also express my appreciation for the admirable arrangements for these meetings.

We meet at a time that present great opportunity, yet is fraught with great risk and momentous challenges lie ahead. Security issues threaten many countries of the world and rightly demand our focus. Yet we risk losing sight of a fundamental principle - global security and prosperity are not only intimately linked but are indivisible. We cannot have a secure world when it is full of grave imbalances, where the absolute number of poor are growing and continue to live in abject poverty and despair. Mr. Chairman, only if we succeed in providing hope, can we win the war against terror.

The Monterrey consensus was a historic global compact that provided both hope and the framework for a unique partnership between developed and developing countries to serve as a road map to a better world. Never before in the history of global dialogue did we achieve such unity of purpose.

However, two and a half years after Monterrey there is little real progress on the commitments made at Monterrey. Even as developing countries continue to strengthen their macroeconomic framework and deepen the process of painful structural reform, ODA levels have increased marginally. On the voice issue peripherally changes have been made without addressing substantive issues that would enhance the voice and participation of DTCs in the decision making process at the Bretton Woods Institutions and the Doha round has yet to move forward meaningfully.

We need now to be courageous and far sighted. We know that these are complex issues, yet we must not continue to debate, discuss and analyze. What is really required is the political will to move forward, lest we loose entirely, the momentum gained from Monterrey. That would be an irreparable loss to all of us and our coming generations.

Mr. Chairman, unless the levels of ODA are increased to close the financing gap estimated at \$50 billion, the MDGs will not be met by most countries by 2015. Let us clearly understand this stark reality and let us act before it is too late.

The primary responsibility for lifting our people out of poverty and deprivation rest with us in the developing world. Yet by no amount of reform or any other effort can we bridge the financing gap in time to meet the MDGs unless there is front loading of ODA now. We acknowledge and deeply appreciate U.K.'s efforts in this regard and their tabling the IFF, which has support amongst some donors and nearly all developing countries. Only the IFF has the potential of speedily frontloading ODA and therefore we should focus efforts primarily on operationalizing IFF. Donors who cannot participate in this mechanism will need to scale up their ODA, consistent with their budgetary and legislative frameworks. The target of 0.7% of the GNI of developed countries was set over 34 years ago. We must move towards achieving this goal.

Yet far more important for private sector led sustainable growth and poverty reduction in the developing world, is the issue of market access. Improvement in investment climates will be given a strong impetus by market access, more than any change procedures and practices. Unless the developed world allows this access and reduces significantly trade distorting subsidies, developing countries will continue to rely on ODA, and continue to be vulnerable to debt crisis.

Mr. Chairman, we have to address the gaps between the international economic conceptual framework and practice. We want to achieve MDGs by 2015, yet the requisite increase in ODA is not forthcoming, we want private sector led sustainable poverty reducing growth, under-pinned by investment climates, yet market access is denied, we urge democracy, the world over, yet we fear democracy at the BWIs. We have to address these inconsistencies squarely if we are to really be partners in economic development and transformation, as was our joint vision at Monterrey.

On the 60th anniversary of the BWI, there is much to celebrate. The Bank and the Fund have undergone transformation from organizations that prescribed one size fit all, take it or leave it solutions, to institutions that genuinely try to listen and be real partners with developing countries. Mr. Wolfensohn has spearheaded this change and has earned respect the world over for this. We thank him. We welcome the Bank's several initiatives on infrastructure lending to MIC, streamlining processes and procedures. However, much remains to be done. We would like to see more work in a larger number of countries on the fiscal space issue, to accommodate the burgeoning financing requirement of social and physical infrastructure, without which growth will be choked. We would like to see greater harmonization within the Bank Group, harnessing the synergies that exist to provide support for infrastructure development. Our private sectors, too, need to be supported strongly by a far more proactive IFC, as well as MIGA.

IDA is doing a tremendous job and playing an enormous role in reducing poverty, supporting growth and reform in our countries. We look forward to a successful completion of the IDA-14 replenishment process, at a level that is consistent with the magnitude of the challenges before us.

The world economic outlook is stronger than at most anytime in the recent past but risks to the expansion have increased in recent months. While global growth has become increasingly broad-based geographically, it remains heavily dependent on the momentum generated by the U.S. and Chinese economies. The growing recovery in the euro area and in Japan is relying to a much greater extent on external demand rather than on domestic spending. The developing world continues to contribute strongly to the global recovery, which extends beyond the emerging market economies of Asia and Latin America to encompass sub-Saharan Africa as well.

The risks to the favorable outlook have both a short-term and a medium-term dimension. Among the former, the volatility of oil prices, despite strenuous efforts of the major oil exporters to stabilize the market, is a matter of concern, especially where possible supply disruptions are associated with geopolitical developments in a major producing region.

The movement towards a higher interest rate environment in international capital markets has implications for private capital flows to the periphery countries. The large and persistent payments imbalances among the major industrial countries create risks of disorderly exchange rate and interest rate movements; together these factors generate a high degree of uncertainty that is inimical to the prospects for investment revival in several regions of the developing world.

Among the medium-term risks perhaps the most significant is the perverse direction of official capital flows, in the form of accumulating dollar reserves, that is the counterpart of growing U.S. external and fiscal imbalances. Only second to that is the negative transfer of official resources from the multilateral development finance institutions to their borrowers in the developing world; even net disbursements have turned negative in the case of the World Bank Group in the last two years at a time when there are enormous needs for infrastructure finance and other capital investments in their client countries.

Given this background, current proposals for reform of international financial arrangements being released as “trial balloons” appear to us to bear little relation to the magnitude and character of the problems confronting the poorer countries. It is being suggested, for example, that the International Monetary Fund, our premier monetary institution, gradually withdraw from its financing responsibilities to its low-income members and instead devise a kind of signaling instrument (called a Policy Monitoring Arrangement) to providers of debt relief and to serve as a “gate-keeper” for other sources of funding. We don’t think it is yet time for IMF to give up its traditional role. Moreover, there is no precautionary type of facility envisaged that would help emerging market countries prevent temporary difficulties from turning into full-blown capital account crises. Nor are there any moves to improve upon the Compensatory Financing Facility to help other countries deal with exogenous shocks.

In the same line of temporizing reforms, the World Bank is being pushed to convert loans into grants, with no clear assurance that there would be truly additional official funds to cover the resulting gaps in projected re-flows of its “soft-window” resources. Grants must be funded incrementally; otherwise, they will cut into the Bank’s resources for development lending in the years ahead. As we approach the MDGs, we need to strengthen, not undermine, the Bank’s ability to provide scaled up assistance to poor countries. A debt sustainability analysis (DSA) is being proposed as a framework for determining the ceilings on external debt that each low-income developing country could carry, with the rest of its external funding requirements for attaining the Millennium Development Goals (MDGs) to be met, presumably, through grants. While this clearly

represents an advance on the “one-size-fits-all” criteria that were incorporated into the HIPC Initiative, there is again no assurance that grant funds would be forthcoming to fill the gap that has already emerged for several countries that have reached their “completion points” but find their remaining debt burdens to be in excess of the DSA thresholds. These thresholds are meant to apply not only to HIPC-eligible countries but to the generality of low-income countries, thereby opening up a void that will require large amounts of grant money.

Pakistan

A few words about Pakistan: Pakistan’s economic scene and prospects have undergone a sea change in the last five years. Exchange rates and foreign exchange reserves, inflation and interest rates, fiscal and current accounts.....all point to stable and improving macroeconomic performance. External debt, though still high, has declined appreciably as a proportion of GDP, as has the debt service burden, thanks to lower interest rates, debt re-profiling and prepayment of some expensive debt. We are targeting a growth rate of 8% in the medium term. Implementation of wide ranging structural, institutional and governance reforms, which were initiated in the face of most difficult challenges, are on track and beginning to show results. Growth rate has reached its historical average of 6% plus. Domestic capital markets are buoyant and access to international capital markets has been restored. The stage is also set for Pakistan to exit from IMF’s PRGF at the end of this year.

These measures, supported by the IFIs, have enabled the Government to substantially increase social expenditures. Yet no one can deny that, going forward, the challenge remains formidable. The benefits of growth must be meaningfully shared by, not just trickle down to, the poor. While we remain committed to relentlessly pursue our poverty reduction strategy and make progress toward the MDGs, we also need to improve the investment climate in the country. Enhance the competitiveness of the economy, to compete in world markets, foster private sector development, and boost FDI to expand the economy and generate employment. We cannot do this alone. We need scaled up support of the Bank Group, and I do mean the whole of the Bank Group—IDA, IFC and MIGA—to mobilize substantial incremental resources. Now that the country has demonstrated a better than expected economic performance, we look forward to a substantially bigger envelope under IDA14, in order to sustain the momentum going into a second generation of reforms.

Mr. Chairman, developing countries today are faced with a huge challenge and tough choices. The challenge is to lift their people out of

poverty. And this requires investing in growth that provides quick economic returns, and jobs and incomes to the poor. Without economic expansion, poverty reduction will remain an illusion.

Mr. Chairman, let us, as developing and developed countries work together to create hope, towards global peace and prosperity, the twin yet inseparable goals.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

Bart Philemon

I join my fellow Governors to convey my delegation's appreciation to the President of the World Bank Group, Managing Director of the IMF, and the Government of USA for the warm hospitality and excellent arrangement in making our stay a pleasant one.

I also convey my Government's congratulations to Mr. Rodrigo de Rato on his appointment as the new Managing Director of the IMF. I am confident that he will continue to advance the good working relationship with all member countries.

In my first address to this forum during the 2002 Annual Meeting, I highlighted a number of difficulties and challenges that Papua New Guinea would have to overcome, in order to achieve macroeconomic stability and sustain economic growth over the medium term.

These challenges will always be present now and in future, in part to Papua New Guinea's comparatively small and open economy, which will continue to be affected by events and developments in the global economic and political arena.

I, therefore, reiterate that meetings such as this provide an important forum for us to have continuous dialogue with these two institutions, and our bilateral and development partners from around the world. The forum also gives us the opportunity to share and inform the international community, and in particular, our donor friends, on the latest developments in our economy and the challenges that lie ahead.

Since late 2002, the Government has acted responsibly by undertaking a mixture of macroeconomic and structural reforms to restore fiscal discipline and improve economic conditions, which was further aided by the improved global economic conditions.

The Government continued to implement the structural reform program of promoting good governance, sustaining macroeconomic stability, improving public sector performance, and removing impediments to business and investments, because it believes that continued adherence to these reforms represents the best means of enhancing economic and human development.

The country is now benefiting from the Government's prudent fiscal management and some of the reforms undertaken so far. Economic growth has picked up and employment is growing, while inflation and interest rates have declined sharply. On the external front, the exchange rate has stabilized and foreign exchange reserves are at record levels.

Whilst economic conditions have improved, there is still a lot of hard work to do, particularly in the areas of public expenditure and continuous implementation of structural reforms. The various fiscal issues and the challenge of mobilizing resources to address many of the social issues threatening Papua New Guinea's development aspirations will exert considerable pressure on the budget framework over the medium-term.

The Government is aware that accelerating and sustaining growth requires not only quick fixes but sustained period of political and macroeconomic stability, and continuous adherence to structural reform. The Government will, therefore, continue to pursue short and medium-term fiscal and structural reforms to sustain and build on this growth.

The medium-term picture, and more immediately, the outlook for next year, will depend not only on how well the Government manages the immediate pressures and the challenges that it is confronted with today but also the supportive role that its development partners such as the Bank and the Fund have to play in the whole process.

The Government is keen to address the challenges that lie ahead and has undertaken a number of policy initiatives, together with the public expenditure review and rationalization exercise with the World Bank and the Enhanced Co-operation Program with the Australian Government.

Our Budgets over the next couple of years will be framed against a background of improving economic conditions and an on-going reform agenda but with spending constrained by a legacy of excessive debt and a misallocation of resources – with the aim of getting the balance right through the “adjustment and prioritization” exercise.

The Government intends to achieve a target budget deficit of 1.0% of GDP in 2005, with a view to achieving a balanced-budget over the medium-term, and reduce the debt-GDP ratio from the current level of 60% of GDP to around 55% of GDP by 2007. The full details of the medium-term debt management strategy will be announced in the upcoming 2005 Budget.

Consistent with new Medium Term Development Strategy (MTDS) 2005-2010, more attention will be focused in priority areas of transport infrastructure, rehabilitation and maintenance, basic education, primary health care, law and justice, and programs that promote rural income earning opportunities.

The MTDS 2005-2010 will be an integral component of the Government's overall economic and public sector reform program, which will map-out an appropriate development strategy for the period 2005 to 2010 and a matching policy framework that will guide the Government's budgetary allocations and wider policy initiatives. The objectives of the MTDS 2005-2010 are consistent with the Millennium Development Goals.

This document would also set the basis for productive discussions between the Government and the development partners, in order to ensure that all development programs, whether government or donor funded, have to subscribe to its development strategy – MTDS.

This implies that improved harmonization of donor support is crucially important in achieving the Millennium Development Goals. Aid coordination and delivery mechanisms in Papua New Guinea were reviewed this year, with a view to moving towards improved harmonization of aid and towards sector wide and whole of Government budget support forms of delivery.

The Government, in collaboration with the United Nations Development Program (UNDP), has successfully completed its first Country Report on its performance in the implementation of the Millennium Development Goals. The Draft Report is now before the Government for approval.

The implementation of the Enhanced Co-operation Program is underway with the placement of Australian officials in key economic, spending agencies, law and justice agencies, border management and transport security agencies and police.

The Australian officials will work side-by-side with Papua New Guineans to strengthen Papua New Guinea's ability to develop and implement sound economic policies, manage our finances, maintain law and order, tackle corruption, and improve border security, so that investor confidence is maintained and an environment for broad based development is facilitated.

The Government is also engaging in closer dialogue with the private sector. The Consultative Implementation Monitoring Council is an important forum that allows the private sector and civil society to engage with the Government and provide meaningful input into the National Budget and contribute towards the policy framework.

In response to the call for greater responsiveness of the Government to private sector concerns, a National Working Group on Removing Impediments to Business and Investment was established by the Government in August last year to assist in facilitating the Government's policy of fostering economic growth through increased exports and improved business and investment climate. The National Working Group is currently considering various initiatives to facilitate and promote commerce and business within Papua New Guinea.

The main thrust of adhering to reforms and adjustment, as well as maintaining the on-going and future dialogue with our development partners, is to stress that the achievements of the current reforms and adjustment are the beginning of a process of evolutionary development to put PNG back on a path to sustainable economic growth and development. The task is enormous and requires a collective and partnership approach with the development partners, including the World Bank and the Fund.

In concluding, I would like to acknowledge and express my Government's sincere gratitude to the management and staff of the World Bank and the Fund for their continuous support in PNG's development effort.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Juanita D. Amatong

After their establishment, the role and relevance of multilateral institutions have never been discussed more extensively until now.

On the one side, the Bank and the Fund are both challenged to assist countries attain the objectives of the Monterrey Consensus. They must put their resources in activities that enable countries to meet the MDGs by 2015. Disturbing assessment is that many countries, at existing growth rates, will be unable to meet the MDGs. Multilateral institutions will need to scale up to move closer to the goals.

On the other hand, the sustainability of their operations has been put to question as both institutions have suffered from big declines in lending operations. Idle resources piled up even as sovereign middle-income country borrowers opt for private international banks and bond markets to satisfy their huge appetite for funding. Both the Bank and the Fund will

need to reverse deteriorating income outlook to keep their topnotch credit ratings and sustain their roles as MDG movers.

In both of these issues, there is now increasing recognition that the middle-income countries hold the key in their resolution.

The middle-income countries are home to 2.7 billion people, almost a half (44%) of the world's population. Of these, over 300 million subsist below US\$1 per day and almost a billion below US\$2 per day. These represent a hefty 29 and 34 percent, respectively, of the impoverished people on this planet.

Likewise, in terms of volume, it is the middle-income countries that have the greatest need for resources and assistance. They accessed the international markets for funds and avoided borrowing from multilateral institutions. In 2001 and 2002, they issued, on a net basis, US\$25.9 billion in international bonds while they, excluding two large Latin American countries that obtained emergency funding, shunned Bank and Fund financing, recording only US\$8.5 billion in net borrowings from these two institutions during those two years. Preliminary information shows that recent net borrowings of middle-income countries from the Bank and the Fund have dwindled to a trickle more recently. Why this development has escaped the notice of these two institutions, the knowledge banks, the repositories of economic information so vital to policy decision making, is somewhat perplexing.

However, winds are shifting directions after a period of denial. The Bank's study on middle-income countries early this year included some interesting findings. The main conclusions---The cost of borrowing from the Bank has increased tremendously. The Bank's financial products are inappropriate for middle-income countries' evolving needs. To stay relevant to their middle-income country clientele, the Bank must strengthen their voice in the formulation of country assistance strategies.

The Bank and the Fund should engage in a new type of partnership with middle-income countries---one that is more efficient, flexible and one that is more responsive to middle-income countries' needs. Reforms to use country systems are in the right direction. At the same time, we are eager to see increased progress in decentralization, harmonization and streamlining of conditionalities and procedures.

In addition, we call for greater flexibility. If central government programs and projects are slow in coming, let's look at the programs and projects of local governments and communities. In almost every country, there are gems of governance among local government units and communities. In fact, the Shanghai Conference recognized many of these.

Since a large number of middle-income countries are in dire fiscal straits, products should be tailored to avoid further fiscal deterioration. The Bank's SWAPs should be adopted in more countries and used more

often. The Bank does not need to invent new projects; it just has to look at the projects already listed in countries' budgets.

Likewise, infrastructure deserves a second look as many private sector participants have shunned from infrastructure provision and governments wean away from costly enhancements earlier provided. The infrastructure requirements of developing countries are huge at 7% of GDP but only a half of this has materialized. As of today, private infrastructure investment has dwindled to less than a third of its peak levels in the 1990s.

The Fund should pursue ways to redefine the public finance conditionality to avoid depriving developing countries of productive investments for future growth. We urge the Fund to remove expenditures on productive infrastructure from the definition of "fiscal deficit", use "primary surplus" as criterion and/or exclude the operations of commercially-run public enterprises from the coverage of fiscal conditionality.

Likewise, while the Fund and the Bank play an important role as knowledge disseminators, they have not played a more active role in assisting developing countries in coming up with policies steadfastly dedicated to growth and in ways that biases income gains towards the poor. Information counts heavily in making intelligent policy decisions. Given at the right time, the right venues and appropriate approach, I believe that success stories are to be emulated. We just have to make good governance irresistible. It is a product that should be attractive to sell.

We are living in tough, uncertain, volatile times. Exchange rates, interest rates, oil prices move frequently in directions that are difficult to predict. In a borderless world, imbalances could occur and recur, intensify and spill over into neighboring countries with all its dire effects on growth and poverty. In such times, the roles of the Bank and the IMF become even more profound. Both are uniquely placed to intentionally smooth the markets with their products. Both target their services to attain greatest impact on poverty reduction. The knowledge they share is the best foundation for future reforms.

Their operations should move ahead with the times; they should make their products and services more accessible and more useful to their clients. They should be more aggressive; they should develop closer linkages with their clients and policymakers.

The fates of the multilaterals and middle-income countries are inextricably intertwined. Multilaterals help middle-income countries attain the MDGs by expanding and improving their lending and analytical services. The middle-income countries provide the clientele that enables the multilaterals to enhance their resource positions and the Bank, in

particular---can then allocate more funds at lower costs for the programs of low-income countries.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF
POLAND

Leszek Balcerowicz

Mr. Chairman, Fellow Governors, Ladies and Gentlemen, I am pleased to participate in the Annual Meetings during the 60th anniversary of the World Bank and the International Monetary Fund. The year 2004 is of paramount importance for Poland, which – together with the other seven Central European transition economies and Malta and Cyprus – has joined the European Union. This is a sign that the transition process which started in 1989 from a communist central planning model to a market-based system is well advanced. I would like to use this opportunity to express my appreciation and gratitude to the Bank and the Fund for their outstanding contribution to reforms in Poland.

Poland is ready to share lessons learned during the transition process with other countries and has already begun to do so. In 2002, in cooperation with the United States Agency for International Development (USAID), Poland established the *Training Initiative for Banking Supervision* (TIBS) – a training centre and forum for banking supervisors of Central, Eastern, and Southern Europe to share practical experiences relative to advancing their supervisory framework and capacity. TIBS holds two one-week training seminars in Poland each year and is starting to arrange training sessions for banking supervisors in other countries, like recently in Kiev. Poland also organizes study visits and internships for staff of governmental agencies in Poland and sends Poland's experts to other countries to help in strengthening institutional capacity and provide advisory assistance. In 2004, a conference on exchange rate regimes and monetary policy for officials from countries of Southern and Eastern Europe and Central Asia was organized in Warsaw together with the Swiss National Bank. Poland is ready to scale up these training and technical assistance activities, including in cooperation with the Bank and the Fund.

The lessons learned by Poland and the post-communist transition in general are like those of other emerging countries: to succeed in convergence, a country needs an institutional system with a rationally limited state, which gives rise to an open market economy within the rule of law or the successful transition to such a system.

It means that an appropriate program of reforms must free up the forces of growth by strengthening the propelling institutions as well as ensure a stable macroeconomic framework by enhancing the stabilizing institutions and good monetary and fiscal policies. Let me focus here on of the first category of actions, which in recent years have regained much deserved ground in economic debates on development. In order to stay within time limits, I will concentrate on four key principles.

First, the state needs to grant its citizens and entrepreneurs a sufficiently large scope of real economic freedom. The creation and development of private companies in virtually all sectors of the economy should not be restricted. The economy must be open to foreign trade and investment.

Second, the rights and freedoms of entrepreneurs may not be attenuated by excessive regulation. Governments must recognize that excessive, overcomplicated regulations are damaging to economic development and very often fail to achieve their declared goals. Such burdensome regulations should also be seen as a major cause of corruption. This includes inter alia the overregulation of the labor market by restrictive labor practices and too much job protection, which contribute to unemployment.

Third, governments need to strengthen their capacities to protect the property rights of all its citizens, not only the privileged minority.

And fourth, taxes should be low and simple and public finances should be healthy. Many governments impede long-term development by having excessively high public expenditures that result in increased taxation and/or unsustainable fiscal deficits and can also be linked to unemployment, tax evasion, and the growth of a shadow economy.

Thus, I would like to commend the World Bank for focusing on the need to improve the investment climate as indicated by the *Elements of the Growth Agenda* paper submitted for the Development Committee meeting and the fact that this is the topic of this year's *World Development Report*. I would like to especially praise and thank the Bank for launching the *Doing Business* project. By benchmarking and providing comparable, systematic data on how burdensome and costly the observance of the existing regulations is, *Doing Business* gives valuable information on which areas of firms' institutional environment constitute major barriers to growth. Therefore, it is a useful tool for defining priority areas for the reforms necessary to improve the investment climate. The

information provided by the *Doing Business* report that demonstrates the weaknesses in a country's business environment may not be enjoyable to everyone, but it is crucial for creating incentives for policymakers to undertake needed reforms. Everybody needs right incentives, politicians and policymakers, too.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PORTUGAL

Luis Miguel Morais Leitao

Mr. Chairman, Governors, Ladies and Gentlemen, it is a great pleasure for me to be here. In Portugal, the economy is recovering, with domestic demand contributing to expand economic activity. For 2005, we expect a GDP growth above 2%, a rate that has not been recorded for the last five years.

We are also on the way to collect the benefits of important structural reforms adopted in the last two years - health, education, social security, public administration, labour market and tax system - allowing us now to focus on growth as the major goal of our policies. Concerning fiscal policy, we continue strongly committed to fulfilling the objectives of the Stability and Growth Pact. In 2004 the deficit will remain below 3% of the Gross Domestic Product and the debt ratio will be 60% of GDP. Keeping in mind last years' negative economic growth of -1.3%, these results show the strong commitment of the Portuguese government to the budgetary consolidation process. Inflation has been decreasing, more in line with the European Central Bank's objective, and is presently contained.

As recent events have shown, promoting peace and security worldwide must be a priority and requires global co-ordinated action. Defending the integrity of the World's Financial System and avoiding its mismanagement for irregular purposes are crucial features for Peace, as well as creating conditions for access to better living standards and freedom of faith.

Portugal has stood at the forefront of the fight against the financing of terrorism and money laundering, having ensured that legal measures to make our financial system resilient to these phenomena are swiftly implemented, and cases are quickly detected and addressed. Full adherence to the Financial Action Task Force's recommendations on

money laundering and on the prevention of terrorism financing is crucial, and this is an area where the success of our action is highly dependent on strong co-ordination, both among domestic institutions and at the international level.

Portugal remains fully committed with the global effort to fight poverty. As the World Development Report 2005 highlights, the promotion of a better investment climate in developing countries is central – it allows official development assistance to be leveraged by private sector development. We firmly believe that economic growth is the key for poverty reduction and that is the combined result of good governance, improvements in health and education systems and private investment.

As a measure of our common efforts, the Millennium Development Goals (MDGs) continue to provide the major framework for our action. We look forward to discussing our major achievements and shortcomings next year.

The new partnership for development between developed and developing countries established during the Monterrey, Johannesburg and Doha summits remains the best way to provide urgent, concerted and sustained action in order to make faster progress towards the achievement of the MDGs. The first of the MDGs, poverty reduction, has been the Bank's overreaching objective for many years and it is also the priority of Portuguese cooperation.

The Comprehensive Development Framework that includes the Poverty Reduction Strategy Papers (PRSP) and the Country Assistance Strategies is, in our opinion, a useful tool for the definition of national development strategies and we reaffirm the importance of a closer link of these documents with the budget process. The World Bank plays a crucial role in providing technical assistance and capacity building for the implementation, monitoring and evaluation of this framework.

Portugal encourages the World Bank to fully implement its Infrastructure Action Plan and its growth agenda, as economic growth is the driving force for development. In this context, we welcome the Bank's renewed commitment to infrastructure and private sector development.

Strengthening aid effectiveness requires concerted efforts and coordination of donor actions. We support the efforts made for the definition of a framework for monitoring coherence, coordination and cooperation of the World Bank with other multilateral organizations. It's a tool that can contribute to enhancing the overall development impact of aid, as well as provide feedback in real time to influence key decision-making processes.

Emphasis should be given to the importance of aligning aid resources more closely with countries' priorities and processes and of harmonizing donors' requirements and practices. This exercise is particularly relevant for Portuguese cooperation, which has made efforts to concentrate its assistance in a small group of countries with whom Portugal has strong historical and cultural ties, namely in the Portuguese speaking countries in Africa and Timor-Leste.

We are aware that developed countries will need to provide stronger support through increased market access. The breakthrough achieved on August the 1st in the Geneva World Trade Organization negotiations gives hope to a positive outcome of the Doha Development round. Its benefits will be felt worldwide, particularly in developing countries. In order to be prepared to take full advantage of a new trade regime, developing countries should also reform their government structures, improve governance, enhance democratic and participatory decision-making and implement sound and coherent macroeconomic policies.

When it comes to aid, we should be prudent not to create misguided expectations, promising additional resources beyond those we can commit, especially at a time when national budgets are under severe constraints. We must focus on the need to make aid flows more effective, namely through a better alignment of donors' aid with the countries' development priorities.

In terms of Official Development Assistance (ODA), Portugal is firmly determined to reach at least 0.33 percent of Gross National Income to Official Development Assistance (ODA) by 2006, thus contributing to the EU collective commitment of reaching an EU average ODA of 0.39 percent of Gross National Income (GNI) by 2006.

With respect to debt, we encourage the World Bank and the Fund to continue exploring new solutions that provide a tool for ensuring long-term debt sustainability. After the positive results of the HIPC Initiative, we must remain vigilant to avoid the repetition of debt distressed situations. Developing countries must improve institutional capacity, develop good governance and above all seek peace and security conditions. For low-income countries, especially those that benefited from HIPC, where the challenge to maintain macroeconomic stability is greater, due mainly to being more exposed to external economic shocks, access to financing on appropriate terms is clearly needed. It is important to appropriately tailor the mix of grants and loans to the countries' circumstances so as not to increase the risk of debt distress in already highly indebted countries.

I would like to finish by thanking the Bank and the Fund Staff and Management for their excellent work, the Boards of Directors for their

strategic view and guidance and President Wolfensohn, for his marked leadership.

I would also like to welcome and congratulate Mr. Rodrigo de Rato for his recent appointment as IMF Managing Director. I wish him every success in his new assignment.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR THE
RUSSIAN FEDERATION

Aleksei Kudrin

The Global Economy and Financial Markets

Over the last 6 months there was a noticeable increase in the rate of global economic growth, surpassing earlier expectations in practically every region. Thus, the forecast of global GDP growth for 2004 was revised to 4.9 percent, which is almost one percentage point above the year-old estimate. We welcome the encouraging improvement in the world economic situation. At the same time, we are concerned by the fact that as before, the global economy is recovering against a backdrop of persisting imbalances and risks. As previously, the U.S. growth rates continue to play a central role in supporting global growth, while current account imbalances among the main regions not only persist but even continue to deepen. This means that there is still the risk of a significant drop in the dollar's exchange rate and a slowdown in the U.S.

Under these circumstances, there is continuing urgency in the appeals for a cooperative strategy that would include components such as a medium-term fiscal consolidation in the U.S., enhancing growth potential in the euro area and Japan through structural reforms, and more exchange rate flexibility in emerging Asia.

The increase in world oil prices in 2004, which was unexpected in many respects, has become a new risk to the recovering global economy. Persistence of these prices at today's level may lead to some slowing of global growth (by 0.3 percentage points in 2004-05), and to higher inflation. As it became obvious by now, in view of capacity constraints and the limited throughput of pipelines in the main oil exporting countries, the increase in deliveries of oil to the world market is not keeping up with the vigorous growth of world oil demand. Together with

ongoing political instability in a number of key exporting countries, this may lead to persistence of high oil prices at least until the end of this decade. Measures to expand the productive capacities of oil exporting countries and to restrain growth of the demand for energy resources take on special importance under these conditions.

A pick-up in inflationary pressures has been observed recently, connected in part with the increase in oil prices. Should these pressures persist, tightening of monetary policy at a faster rate than anticipated today may be needed in a number of advanced economies, which may adversely affect their housing markets and consumer demand. This could complicate the conduct of monetary policy.

The economic situation in advanced economies has not undergone significant changes compared to April 2004. Some slowdown in the U.S. growth in the second quarter of 2004 has added another element of uncertainty. The intensity of economic recovery in Japan looks optimistic. Some recovery in the euro area takes place against a backdrop of persisting weakness of domestic demand. The tasks of medium-term fiscal consolidation, including through reforms of pension and healthcare systems, are becoming increasingly pressing in all developed countries.

We welcome the continuing improvement of the economic situation in developing countries and emerging market economies. This is connected in many respects with acceleration of growth in developed countries. At the same time, we would like to make note of the gradual increase in the role of new regional “centers of growth,” such as China and India in Asia, and Mexico and Brazil in Latin America.

In 2004 high economic growth was observed once again in countries of the Commonwealth of Independent States. This was facilitated to a significant extent by solid growth in the largest economies of the region (Russia, Ukraine, and Kazakhstan). It is necessary to mention that high growth was observed both in oil-exporting and oil-importing countries and in terms of its growth rates for 2003-04 the CIS region was second only to China (7.8 and 8 percent as opposed to 9.1 and 9 percent respectively). The dependence of CIS countries on exports of energy resources and metals is their main element of vulnerability over the medium term. In this connection, diversification of the economy is the most important priority for many of these countries. This, in turn, requires improvement of the investment climate and development of market economy institutions through further structural reform.

Significant potential for further increase of growth in the CIS region can be found in intensification of economic cooperation through fostering trade and further integration of capital markets.

Making IMF Surveillance More Effective and Strengthening Crisis Prevention

Surveillance is central to the work of the Fund. The global economy and international financial markets are changing, and surveillance methods need to adapt to the new realities. We believe that, on the whole, this process moves fairly quickly. After the Asian crisis efforts were made to promulgate standards for provision of statistical data and increasing transparency and for country compliance with best practices for fiscal and monetary policies. The number of countries taking part in Reports on Observance of Standards and Codes (ROSCs) and Financial Sector Assessment Programs (FSAPs) is constantly growing. We should also commend efforts underway to develop Debt Sustainability Assessment (DSA) criteria, the use of alternative economic development scenarios when preparing Fund programs, and application of the balance sheet approach.

At the same time, surveillance methods should be further improved and new approaches should be applied. For example, at the last IMFC meeting we suggested implementing regional surveillance at the Fund. We are pleased to see that the Executive Board has decided to undertake regular discussions of the economic situation at the regional level, thereby taking an important step toward eliminating a large gap in the Fund's surveillance instruments.

It seems that another step toward improving our understanding of international financial flows and enhancing surveillance would be to heighten the Fund's attention to the problem of migrant workers' remittances. The lack of reliable information in this area is contributing to large errors and omissions in countries' balances of payments, which often are automatically interpreted as capital outflows or inflows. According to preliminary assessments, the total volume of inflows into developing countries from migrant workers' remittances exceeds official development assistance. We think that work needs to be done to improve the accuracy in assessing volumes of such transfers, which could be of great importance for the conduct of monetary policy, strengthening banking supervision, and simply better understanding the balances of payments of the individual countries.

Aid Effectiveness and Financing Modalities

The international community is increasingly focusing on the Millennium Development Goals, and in particular on the steps necessary to accelerate progress in this important area. In this respect we see the

approaching fifth anniversary of the MDGs as an opportunity to review the experience so far, and to take a fresh look at the problems of development. The report under consideration takes an important step in this direction. We are particularly gratified to see that the authors of the report have managed to avoid bias and undue simplification in describing the current state of play. We support the analytical approach of the paper, which stresses the need to improve the quality of development assistance rather than calling for a mechanistic increase in aid volumes.

This is not the first time that we turn to the issue of aid effectiveness. The novelty of the latest report is in that it presents a thorough and comprehensive description and analysis of all the options at our disposal. The paper correctly recognizes enhanced absorption capacity as a key condition of reaching the MDGs, and takes a pragmatic and realistic approach towards identifying and addressing the main obstacles in this area. In our view one of the paper's most interesting conclusions is that many such obstacles are found at sub-national levels, and that the IFIs can help to address them. Another noteworthy conclusion concerns the link between country absorptive capacity and sectoral distribution of aid, which we see as yet another argument for increasing the share of infrastructure lending.

We share the concern about the lack of resources for development, and therefore support the work aimed at augmenting aid volumes. Several proposals have been put forward in this area, including some ground breaking ones. We are ready to consider any constructive proposals leading to progress on the basis of international consensus, which, in the case of the more novel initiatives, would likely require piloting as the first step. However, in view of the utmost importance of this issue, we believe that our first priority should be exhausting the opportunities implicit in the existing international financial architecture.

Although we strongly support the efforts to increase aid volumes and improve aid effectiveness, we are also convinced that this work should not distract us from the more important goal, that of fostering economic growth and sound economic policies. Experience has proven that this is the only sure and sustainable way for the developing countries to reach the MDGs, while external assistance can at best play a supporting role. If we look at the record of growth from the early 1960es to today, we will see that the countries that made the most spectacular progress did so almost entirely on their own, without any significant external aid. At the same time all successful countries based their growth strategy on the traditional recipe of macroeconomic stability, trade liberalization and the use of market systems – adapting it as necessary to local conditions. On the other hand, countries that have been receiving massive volumes of concessional financing, often to the tune of 10 percent of their GDP

annually, not only failed to produce comparable growth results but became dependent on external aid for the foreseeable future.

Strengthening the Foundations for Growth and Private Sector Development

Investment Climate and Infrastructure Development

The Development Committee has not addressed the issues of private sector development and infrastructure since the mid-1990s, and in our view this discussion is long overdue. We find it especially appropriate because it responds to the concerns raised recently by many borrowing countries about maintaining the capacity and relevance of the World Bank Group in crucial areas of development. We welcome the respective papers, which are concise and direct in dealing with these issues. We also appreciate an explicit link between these papers and the document on aid effectiveness and financing modalities, which emphasizes the crucial role of economic growth underpinned by private sector and infrastructure development in attaining the MDGs.

We are also pleased to see that access to infrastructure services is identified as a major component of overall investment climate, regardless of the sources of infrastructure development – public or private. These initial studies should be expanded to cover not only the areas pertaining to governance and business regulations but also other important components of investment climate, such as access to credit, financial sector development, competitiveness and productivity factors, and so on.

It is now clear that the decline in the Bank's infrastructure lending during the 1990s was a serious strategic miscalculation. This experience needs to be critically analyzed in order not to repeat these mistakes in the future.

Another area that needs to be addressed is sub-sovereign lending for infrastructure development without sovereign guarantee. Bank's inability to engage in this type of operations despite their increased relevance, large potential demand and direct links to poverty reduction represents a serious gap in WBG services. We look forward to possible solutions in this area and stand ready to support any proposal, including the creation of a special entity dedicated to sub-sovereign lending if this type of activity could not be accommodated within the existing structure of WBG.

Debt and Debt Sustainability

We believe that the issues of debt management and debt sustainability cannot be considered in isolation from the implementation of the HIPC Initiative. We cannot increase lending, even for the noblest of purposes, while at the same time continuously forgiving earlier debts. Such a practice impedes fiscal transparency, undermines international financial architecture and distorts incentives for the borrowing countries. It is time we took a fresh look at this problem and address it in a firm and comprehensive manner. We cannot attain the Millennium Goals through uncontrollably and unsustainably inflating the level of indebtedness.

We hope that the latest extension of the HIPC Initiative for another two years is the last action of this sort, after which no more extensions will be considered. We would also urge the international community to adhere to the existing December 31, 2004 deadline for including new members into the Initiative.

We need to confront the problem of financial discipline and display restraint in extending new credit to low-income countries. The mechanism for maintaining debt of the poorest countries at sustainable levels, which is currently being developed, should give us an adequate tool for addressing this problem. At the same time, we are concerned that the proposed framework for assessing debt sustainability may encourage the quick accumulation of external debt by low-income countries to levels above the thresholds of the HIPC Initiative. In this respect we should also make an effort to develop new financing mechanisms that do not lead to debt accumulation.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR SPAIN

Pedro Solbes M.

Mr. President of the Assembly, Mr. President of the World Bank, Mr. Managing Director of the IMF, Governors, Ladies and Gentlemen:

World Economic Outlook

The current recovery phase of the world economy is consolidating. Throughout this year, the recovery of growth rates will be evident in most areas and indicators suggest that this situation will be sustained in the

very near future. This will be more feasible as progress is made towards the correction of the main imbalances that impinge on the international financial order: gradual correction of the current account disequilibria (of vital importance to emerging countries) and, hence, gradual and firm adjustment of the public deficit in those cases in which it constitutes an important determinant in the accumulation of external liabilities.

It is acknowledged that all areas face important challenges. Allow me to make particular reference to the ones faced by the Spanish economy.

The Spanish Economy. Over the last years the Spanish economy has been satisfactorily growing, being capable of creating employment; however with a major weakness that has become increasingly acute: the little contribution of productivity to growth. Therefore, the Spanish economy needs a balanced and durable economic growth pattern, based on productivity and employment increases, which fosters its competitiveness in an increasingly open framework.

Under these premises, the economic policy which has been designed by the Government will be articulated around three fundamental axes: budget stability, productivity boosts and transparency and quality of the regulatory framework.

The benefits of the budget stability in the short and long run functioning of the economy are obvious. Thus, the government has expressed its most determined commitment towards the achievement of the stability objective, which has been captured in the first budget presented towards the end of last month.

Productivity driven policies will tackle several areas, as this is the outcome of multiple factors which refer to the framework in which economic and social agents operate and develop their activity. Hence, measures which reinforce the liberalization process in the goods, services and productivity factors markets will be undertaken; improvement in the antitrust institutional framework will be fostered, endowing authorities with enhanced independence and action capacity; due to their direct impact on productivity, special attention will be given to education, innovation, and infrastructures, both from a budget and regulatory perspective; and entrepreneurial environment in which entrepreneurial activities take place will be improved.

Finally, the third economic policy axis will seek a profound reform in the government's action, aiming at making it more transparent and efficient.

Surveillance and Crisis Prevention

Surveillance. Going into more specific issues related to the International Monetary Fund, we welcome the improvements that have been introduced in the Fund's surveillance activities during the last biennial review. I also judge that it is interesting to maintain the debate related to a possible reinforced supervision without associated financing facility, which will enable those countries that wish to, signal their commitment to implement sound economic policies without the need to neither increase their indebtedness nor alert markets on possible liquidity tensions. Likewise, I would like to insist on the need to count on exceptional access to the IMF's resources framework sufficiently predictable to the markets, which includes clear and realistic related to when it is possible in the precautionary framework.

Low-Income Countries

IMF's role. The IMF fulfills an irreplaceable role in low income countries, through a macroeconomic and microeconomic analysis, as well as, in the event, the design of the necessary programs for the simultaneous achievement of growth and balance of payment's structural tensions relief. To that end, technical assistance as well as surveillance, creditor signaling and financing are of utmost importance and none of them should have a subsidiary position with respect to the others. All of this, without prejudice that, in the event that debt sustainability conditions in those countries entail serious risks, adequate concessionality graduation on external funding is achieved, as well as on its origin.

Millennium goals. Spain is a determined supporter of the Millennium Development Goals, as long as poverty eradication must constitute a moral imperative in a developed and increasingly prosperous world. We believe that important volumes of additional financing will be necessary in order to progress on their achievement that it must be supplied to the beneficiary countries in parallel to the evolution of their absorption capacity. The materialization of this progress will crucially depend on the identification of new sources of financing, based on concessional credit (basically of multilateral origin) as well as other alternatives that are being studied. The Initiative against Hunger and Poverty is a first step forward in this sense, with proposal that must be examined thoroughly in order to guarantee their compatibility with growth, economic stability and financial viability.

ODA. Nonetheless, it is essential to stress that the objective to increase ODA flows must be something that accompanies and supports

country macroeconomic stability and policy compromise, institutional strength and good governance. Both elements must be closely linked as, regardless of the relevant role that the ODA may play under adequate circumstances, experience reveals that the key to success is that developing countries, especially poorer ones, achieve higher growth rates that can be sustained in time. It is by these means that the most important resources upon which development depend on, may be mobilized: domestic resources and foreign direct investment.

Trade and development. Trade openness and market access are also a necessary condition in order to consolidate economic growth and to reduce poverty. To that end, we insist on the importance of the prompt conclusion of the Doha Round. Developing countries must establish the necessary conditions in order to take advantage of the benefits that the trade liberalization will bring about.

World Bank

We definitely support the work carried out by the World Bank Group aimed at promoting private sector development as an engine for growth and the revitalization of its strategy in support of the infrastructures services provision. The World Bank has experience and knowledge in order to play a crucial role in the mobilization of public and private necessary financing in order to ensure that stable, predictable and transparent regulatory frameworks are established.

Abuse of The Financial System and Fighting Against Terrorism

We welcome the collaboration and coordination of the IMF/World Bank and the FATF (Financial Action Task Force on Money Laundering) to evaluate the situation of the countries in the fight against the money laundering and the terrorist financing. We consider that this fight is essential to combat a very serious threat for the democracy, the human rights and the stability of the financial systems. IFIs cannot forget these issues, and we want to remark the essential role of the IMF/World Bank.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
SRI LANKA

Sarath Leelananda Bandara Amunugama

Mr. Chairman, Ladies and Gentlemen, it is encouraging that there has been a firming of the global economic recovery. The buoyant global demand has led to a pick up in commodity prices that have benefited many emerging economies. However, the high price of oil and its volatility are a major concern to oil importing countries, such as my own. Co-operative efforts by suppliers and consumers are required to mitigate the adverse effects. The world is entering a period of higher inflation and interest rates. The policy responses by many countries have helped to bring about orderly changes in interest rates. Nevertheless, the transition to the new phase needs to be carefully managed so as not to stifle the on going recovery.

There are significant vulnerabilities in both industrial and emerging market countries. If the current positive developments in the world economy are to be sustained, fundamental problems such as difficult fiscal positions, structural weaknesses, financial vulnerabilities and global current account imbalances need to be addressed. This requires a further strengthening of international cooperation, particularly in macroeconomic policy co-ordination, by the industrial countries.

The Fund and the Bank have important roles to play in strengthening the global economy, and we appreciate the efforts being made by these institutions. We welcome the cooperative efforts by the Fund and the Bank to support multilateral trade liberalization and in this regard, we welcome the activation of the Trade Integrating Mechanism by the Fund to help ease the related temporary balance of payments pressures. In its Strategic Review, the Fund should critically examine how the streamlined conditionality has worked in the context of political realities in different countries and their stage of economic development. The attention being paid by the Fund and the Bank to assist countries to reduce poverty and achieve the Millennium Development Goals is extremely important. The Fund needs to make its resources more flexibly available to support stabilization, growth and poverty reduction efforts of member countries. We would also stress the importance of having a contingent facility, which could be applied in covering all major types of contingencies, an example being the current rise in oil prices. All these imply that the Fund resource base needs a significant expansion.

Mr. Chairman, let me now focus on the economic and policy developments in my own country, Sri Lanka. The economic recovery has continued, although we have been affected by a severe drought and the very high international prices for oil. Growth in the first half has been 5.7 per cent and we expect the annual growth for 2004 to be in the region of 5-5.5 percent. The high oil prices have increased our expenditure by 50 percent and strained the balance of payments position.

Our government is committed to promoting regionally distributed pro-poor pro-growth within a consistent and sound macroeconomic framework. In particular, we are taking steps to ensure that the disadvantaged segments of our population would rapidly reap the benefits of economic growth. We envision that the public sector and the private sector together will play proactive roles in developing our economy. We are increasing investment, particularly in infrastructure and in rural development. Increased emphasis is being placed on developing agriculture, small and medium scale enterprises and tourism. We are deeply conscious of the fact that a significant portion of our population is in poverty and we are confident that we would succeed in our efforts to generate employment opportunities necessary to meet the needs of a growing labor force, achieve a steady reduction of poverty and provide the necessary safety net for vulnerable segments of our population. We are convinced that generating productive employment could be a rapid means of alleviating poverty and are happy to note that the G-24 in its communiqué has called on the Bretton Woods Institutions to stress this aspect in their programs.

Our government is making a determined effort to carry forward the Peace Process and establish a permanent peace through a negotiated process. Those of you who come from conflict affected countries would understand the difficulties that my country faces from the ill effects of war. We are resolute in our efforts to achieve peace and thus create an environment conducive to sustainable economic growth and improved well being of our people. In this process, the role of the donor community in supporting the reconstruction and economic development as part of the Peace Process is greatly appreciated.

In all these efforts, we appreciate the support that we have been receiving from the international community, including the Bank and the Fund.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR
SWITZERLAND

H. E. Hans-Rudolf Merz

I am pleased to address you, President Wolfensohn, Managing Director de Rato, Honorable Governors and distinguished Delegates, in the year of the 60th anniversary of our two institutions. When the founders met in Bretton Woods, the world was still caught in the struggle of World War II. It took remarkable vision to devise the new financial order that should provide the wealth and standard of living we are now experiencing. Sixty years later, the Bretton Woods Institutions' original mandates are still valid. Today's challenge is to transform the Fund and the Bank into learning organizations that permit them to adapt to a constantly changing world, while allowing them to keep focussed on their mandates.

The background of our 60th anniversary is very encouraging. The global economic outlook is better today than we would have expected a year ago, in fact better than in nearly three decades. Today we are experiencing a more and more broad-based recovery that is also increasingly well distributed across regions. The inflation outlook is still relatively benign and incipient gradual monetary tightening did not lead to adverse financial market reactions. Global financial stability has strengthened, with corporate, financial sector and household balance sheets generally strengthening.

While global growth has picked up, the down-side risks of increasing oil prices, emerging inflationary pressures and imbalances in both advanced and emerging market countries remain. However, the positive current outlook provides an excellent opportunity to move ahead with the unfinished agenda of fiscal and structural reform in most member countries. This is indispensable to sustain the recovery and ensure that it is also benefiting the poor. Every country must address its own shortcomings. While every country individually benefits from its reforms, it will also contribute to the adjustment of the significant global imbalances. Acting on the reform agenda today is all the more important, given the medium and long term challenges of aging populations.

The Fund and the Bank should support these efforts. They each have their role in assisting members in their reform efforts by providing advice to promote good policies, technical assistance to strengthen institutions and financing at appropriate terms to alleviate adjustment cost, and make

the necessary investment in people and national systems of developing and transition countries.

For the Fund, surveillance remains the key instrument to assist members. Given the virtually universal country membership in the Fund, it should put to use its global expertise and draw from lessons from around the world, but nevertheless provide tailor-made country specific advice. I welcome the efforts to enhance effectiveness of surveillance by increasing the focus on each country's specific vulnerabilities and highlighting the regional and global impact of each individual country's economic policies.

Effective surveillance is also the best crisis prevention. In that context, the idea of a program without Fund resources for a country that does not want or need Fund resources, is appealing: A country may wish a sort of strengthened policy cooperation with the Fund to provide a clear signal of its sound policies. However, the Fund must be careful setting up such an arrangement's design. Experience shows that the ability of an arrangement to provide that signal depends very much on its program requirements.

Yet, I do not think we need an additional instrument providing large amounts of precautionary funds to hedge against the possibility of a crisis. We have seen in the past that Fund membership provides ample insurance with readily available resources. I think, such an instrument is a diversion from the centrality of sound economic policies and it would tie resources of the Fund, thus weakening its financial position.

I warmly welcome the significant steps that the Bretton Woods Institutions have taken to further strengthen the effectiveness of their work in low-income countries. The Poverty Reduction Strategies have become the cornerstones of Bank and Fund support in the context of country-led efforts for poverty reduction.

Close cooperation between the World Bank and the IMF is crucial to achieve the Millennium Development Goals. In my view, the primary task of the IMF is to support low-income members through policy advice and capacity building in their efforts to implement sound macroeconomic policies. The IMF's concessional resources are limited. Moreover, the core mandate of the Fund is of a monetary policy nature. Therefore, its role should not be to provide long-term development finance. Instead, its programs must be designed to maximize the catalytic impact on concessional financing from donors and private sector investment.

The World Bank has a key role in helping countries make more effective use of limited aid resources. It must help strengthen local institutions and systems so that donors can increasingly operate through country-based systems. It should also continue allocating its aid based on policy and institutional performance of recipient countries. At the end of

the day, it is the developing countries themselves that have to take the lead to improve the effectiveness of aid, among other things by strengthening governance and fighting corruption.

Looking towards 2015, I note with some concern that many countries in particular in Sub-Saharan Africa continue to lag behind the schedule set to meet the MDGs. All stakeholders, developing and developed countries as well as the international organizations, must step up their efforts to achieve their commitments given in Monterrey. The focus on increasing the effectiveness of finite aid resources is critical, not only from an economic, but also from a political point of view. The credibility of the international community is at stake.

Switzerland is therefore ready to participate in the examination of alternative proposals to identify new and additional sources of financing. In this, we should be guided by the following principles. First, our efforts should be targeted at the poorest countries. Second, aid must, to the largest extent possible, be allocated based on performance. Third, we need to avoid creating new institutions or additional cumbersome procedures and conditionality. Fourth, we should avoid using instruments, such as transaction taxes whose distortionary effects on capital flows exceed their potential benefit.

With respect to the International Finance Facility, we recognize the opportunity provided by a facility that would allow to frontload aid. Yet, we remain concerned that global aid would experience a sharp drop following the maturity of the IFF. We believe that we should not borrow against future commitments. In addition, implementation constraints of national budgeting systems would have to be taken into account – which, in the case of Switzerland, would not allow participation.

Finally, we should not lose sight of the fact that the most straightforward approach rests in appropriately endowing the existing development vehicles. In this sense, we urge that the IDA-14 negotiations will be concluded in time, and with a policy and financial framework that allows it to play the role expected of it with respect to achieving the MDGs.

The most important source of development finance will not come from the public, but the private sector. Private sector investment is indispensable to create employment, generate revenues and promote growth. In the case of foreign direct investment, it also provides an important channel to transfer technology and know-how. The World Bank plays a key role in identifying and addressing the structural, regulatory and institutional changes required for private sector development to happen, while the IMF guarantees the necessary macro-economic framework and helps strengthen the financial systems.

Lastly, I am pleased with the joint work of the Bretton Woods Institutions on debt sustainability. While I support the extension of the sunset clause of the HIPC-Initiative, I regret that there still remain 11 countries that have not been able to meet the criteria for debt relief under the Initiative. Looking forward, we must make sure that the countries that have benefited from a substantial reduction of their external debt will not fall back into a situation of unsustainable debt. Therefore, I support the forward-looking framework for debt sustainability in low-income countries presented by the Bank and the Fund. Some important methodological issues remain, including the need of full collaboration between the Bank and the Fund in preparing debt sustainability analyses. This is an urgent matter since the framework is key for a timely completion of IDA14. We will therefore monitor further work carefully.

I closing, I would like to thank the staffs of both the Bank and the Fund for their contributions towards a prosperous, financially stable world without poverty.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Virachai Virameteekul

Mr. Chairman, President Wolfensohn, Managing Director de Rato, Fellow Governors, Distinguished Delegates, Ladies and Gentlemen, on behalf of the government of Thailand, let me first join others in thanking the World Bank, the IMF and the United States' authorities for their warm hospitality and the perfectly organized Meeting of the Board of Governors. I also would like to welcome Mr. Rodrigo de Rato y Figaredo as the new Managing Director and is looking forward to work with his new leadership in increasing the voices of developing countries as well as improving the governance system.

Mr. Chairman, the faces of the world have changed dramatically since the meeting in Dubai. Global prospect is now challenged by the rising energy prices and interest rates as well as threats of terrorism. As always, these challenges would be overcome if we work together as one people, each doing its own part. There are still exciting times ahead.

Mr. Chairman, Thailand is on the move, with all major agencies upgrading our sovereign rating. The World Economic Forum places

Thailand among the top ten from more than 100 countries in the macroeconomic stability index.

The state of our economy is strong, and strong in every indicator. Our growth rate is recorded at 6.8 percent in 2003, and is expected to continue into 2004. Inflation remains within target. Foreign reserves have risen to 43 billion US\$. The Thai Baht is stable, and becoming a trade currency in our prospering neighbors.

Things have improved so much that we now have a balanced budget for the first time in contemporary history. This is a balanced budget that does not lose sight of its balance. A balance between fiscal consolidation and our values towards building a better future for all.

The policy blueprint for the next five years is now clearly laid out in the Economic and Social Sustainability Framework. This Framework entails, for example, an annual GDP growth over 6% and unemployment below 2%, keeps foreign reserves at least 3.5 times short-term foreign debt, maintains a balanced budget and reduces public debt to 35% of GDP.

Mr. Chairman, Thailand welcomes the recent outcome in the WTO, where progress is made on agriculture, the main source of income for the poor. The richest countries need to be reminded that only fair trade can provide a sustainable exit from poverty.

So there are to be new responsibilities for the richest countries to stop trade-distorting export subsidies, and to stop them completely under an agreed-upon timeframe. There should be no turning back.

Thailand appreciates the UN plan to raise an additional 50 billion US\$ a year for development aid. However, we need to do more if we are to succeed in our fight against global hunger. It is disappointing to note that the Millennium Development Goals of halving world poverty by 2015 would not be achieved. This is the one time we should do more than giving a statement.

The world should not come together to make this promise of historic significance, and then to break it. What we are going to do with it will test the character of our generations. This is the ultimate challenge of our time.

On our part, Thailand has been active in regional development through various activities under the Greater Mekong Sub-region (GMS) framework as well as the framework of Economic Cooperation Strategy (ECS). Such cooperation is expected not only to bring millions out of poverty but also facilitate deeper economic integration within the region. The establishment of an ADB resident mission in Bangkok confirms the increasing role of Thailand in the region.

Mr. Chairman, on this note, Thailand would like to express our support for the Bank proposal in trying to increase the voices of the

developing countries and urge the Bank to step up its efforts while taking into consideration the limited resources of developing countries.

On the Fund matters, Thailand joins other developing and emerging market countries in the urge for concrete reforms in the way the Fund is being governed. The Fund needs to ensure its commitment to increase the voice and participation of developing countries by expediting the 13th quota review. In accordance with a more transparent governance structure, the Fund needs also to institutionalize the selection process of the Managing Director. This is the only way to go forward in the world, where freedom is on the march and democracy is flourishing.

Mr. Chairman, in conclusion, Thailand recognizes the importance of the Bank and the Fund work. Let us show that world economic growth is not an end in itself. Let us use our material prosperity, abundant more than ever, to build a foundation where the strong are just and the less strong are fairly treated. Let us join hands to write the next chapter of our future. Together. As One.

STATEMENT BY THE GOVERNOR OF THE BANK FOR TONGA

Siosuia T.T. 'Utoikamanu

Mr. Chairman, Managing Director de Rato, President Wolfensohn, Fellow Governors, Distinguished Delegates, Ladies and Gentlemen, it is an honor to attend the Annual Meetings of the Board of Governors of the International Monetary Fund and World Bank Group for 2004 on behalf of the Government of the Kingdom of Tonga. I would like to begin, by congratulating and welcoming Mr. Rodrigo de Rato to this annual meeting in his capacity as Managing Director of the IMF.

Although recent global economic growth remains strong not all regions have benefited. Some countries, such as those in the Caribbean, remain adversely affected by depressed tourism earnings, and by the most damaging hurricane season in many years while the growth prospects in Sub Saharan Africa appear unlikely to be sufficient for these countries to achieve the Millennium Development Goals.

It is important for policy makers to take appropriate action to sustain the current global economic recovery. These actions include addressing the fiscal and balance of payments imbalances in the US while implementing structural reforms to sustain stronger growth in Japan and

the euro area. Developing countries policy makers ought to continue to implement policies needed to promote faster growth and poverty reduction and to improve the environment for domestic and foreign direct investment, supported by increased external resources. Furthermore, all countries need to work together to maintain stability in the international oil market with prices consistent with long term growth and at the same time making rapid and substantial progress in agreeing and implementing the Doha Development Agenda, in particular on agricultural trade liberalization.

On credit arrangements, the efforts of the Fund to explore precautionary credit arrangements that include minimization of risks to the Fund's liquidity, debtor and creditor behavior are supported. The issue of representation at the Board calls for consideration of an appropriate revision of present quotas to ensure that the formula, variables and weights reflect positions representative of many countries profile in the world economy.

Furthermore, the Fund's strategy of remaining engaged with its low-income country members, and its recognition that in many cases their economic problems are deep seated, and require many years of successful macro-policy implementation to address, is particularly welcomed. We also support the forthcoming Fund review of its conditionality guidelines and at the same time, we encourage the Fund to further develop its capacity to support country-led intensive surveillance for those countries desiring enhanced Fund surveillance without the need for them to seek more Fund borrowing.

The work to date of the Bank in terms of enhancing the participation of developing countries in the decision making of the institution by separating the issues into administrative issues and structural issues is supported, as this will strengthen the capacity of developing countries to interact with the Bank. We hope that these changes will benefit small member countries like Tonga and we support further initiatives that the Bank will take to assist in strengthening our capacity for effective interaction.

We support the efforts being made towards a successful outcome of the 14th IDA Replenishment, as it continues to focus on helping developing countries to meet social and economic challenges, especially small island states which are vulnerable to frequent natural calamities and other external shocks.

Moreover, the Bank's efforts to improve the process of assessing the performance ratings of IDA eligible countries are supported especially through the use of transparent processes that ensure that members are fully involved and consulted throughout all stages of the process.

The Bank's regional office has been proactive in consulting the Pacific member countries in the preparation of the Regional Country Assistance Strategy and we commend the Bank's work in this respect. We express our gratitude to the Bank for its continued assistance to Tonga through providing credit lines and technical assistance.

Overall, the two Bretton Wood Institutions continue to be valued partners in Tonga's efforts to address the challenges of poverty and ensuring that essential services are made available to its citizens. Moreover, the Government of Tonga continues to take necessary steps to pursue its reform objectives, clearly recognizing that the most appropriate policies ought to be based on a market-based, outward-oriented private sector led growth. Tonga's reform program to date includes structural changes to the public service to achieve higher levels of efficiency and measures to enhance the strengthening of regulatory and supervisory skills and operational systems. Despite the progress made, the challenges of a lower than expected GDP growth, high inflation and fragile external and fiscal accounts remain. These economic indicators reflect the vulnerabilities and activities in the agriculture, tourism, transportation and construction sectors of the economy.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the government and people of Tonga. The assistance continues to improve the standard of living of our people and we look forward to a continued partnership for the future. May I conclude by wishing the Bank and the Fund continued success in resolving the difficult challenges that lie ahead.

STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKEY

Ali Babacan

Mr. Chairman, Mr. President, Mr. Managing Director, distinguished Governors, Ladies and Gentlemen, I am pleased and honored to have the opportunity to address these 2004 Joint Annual Meetings of the World Bank Group and the International Monetary Fund which mark the 60th anniversary of these institutions. On this occasion, I would like to express our thanks to the Managing Director of the IMF and the President of the World Bank for their efforts, and the wisdom they have shown in leading

these important institutions in this era of uncertainties, complexities, and challenges.

2004 has been a good year despite higher than projected oil prices. The global economy is experiencing the fastest growth in several decades, the volume of world trade has picked up and private capital flows to emerging markets remain strong.

However, there are also important risks that we should be aware of. Namely; the recent developments in oil prices; transition to higher interest rate environment; fiscal deficits and high public debt of both developing and developed countries and persistence of large global external imbalances.

I would particularly emphasize that transition to higher interest rates in mature markets should be managed skillfully, not only in the interest of financial stability in those markets themselves but also to avoid financing difficulties for emerging markets. At the same time, the emerging market countries should strengthen their fundamentals to limit the negative impact of such a transition to a higher interest rate environment. Turkey, as an emerging market country, is implementing a strong economic program to reduce its vulnerabilities.

I also would like to discuss some development issues. It seems that with the current level of Official Development Assistance (ODA), most countries will not achieve the Millennium Development Goals (MDGs) by 2015. Therefore, we welcome the efforts that are being made to move forward with a new aid framework designed to emphasize the fight against poverty and achieve improvement in the living conditions in the less developed countries.

Ensuring sustained growth is the most essential requirement for lasting poverty reduction. I would like, therefore, to stress the importance of multilateral trade liberalization. We also welcome the additional technical and financial assistance being provided by the Bretton Woods institutions to developing countries to promote capacity building.

A sound investment climate and adequate level of infrastructure are crucial for private sector led economic growth and sustained poverty reduction and hence for the achievement of the Millennium Development Goals. Good governance and anti-corruption measures are essential for stimulating domestic investment and attracting foreign direct investment. We urge the World Bank Group to continue to further develop and apply instruments for risk mitigation in the developing countries to encourage foreign direct investment.

Enhancing the voice and participation of developing and transition economies in the World Bank is extremely important not only to make sure that the position of all members of the Bank is properly expressed, but also to preserve the Bank's basic principle of representation and to

improve the effectiveness of the Board. Better communication between the Bank and the stakeholders about the projects financed by the Bank is also important to enhance country ownership of Bank operations. In this context we also favor higher representation of developing country nationals in senior management level of the Fund and the Bank to enhance the voice of these countries as a group.

Finally, I would like to mention briefly recent developments in Turkey and prospects for the Turkish economy. Our government has made great progress on the economic front. Growth is strong, inflation is coming down and interest rates are declining. The growth is expected to significantly surpass the end year target of 5 % as inflation keeps falling down. As a strong sign of our prudent policies, we increased the public sector primary surplus to more than 6 percent of GNP in 2003, the highest ever recorded in Turkey. Moreover, we are confident that we will meet and even exceed this year's target of 6.5 percent.

We have enacted comprehensive structural reforms in the fiscal, monetary and financial sectors. We shall continue our efforts on this front, including fighting against the informal sector, improving tax policy and tax administration, reforming the social security system and rapid privatization. Lowering unemployment, bringing inflation closer to EU levels, maintaining a strong fiscal stance, and improving the investment climate will be our priorities in the coming years.

We will also continue close cooperation with the Fund and the Bank. We believe that the new economic program that we are finalizing will be supported by the International Monetary Fund and the World Bank. It is designed to meet the Maastricht criteria and to start accession talks with the European Union which will open a window of opportunity for Turkey to usher in an era of sustained high growth, low inflation and declining unemployment and poverty along with increasing credibility in world financial markets.

STATEMENT BY THE GOVERNOR OF THE FUND FOR UKRAINE

Arseniy Yatsenuk

While appreciating the efforts undertaken by the meetings' organizers and the host country to counteract potential security issues, Ukraine

believes that the Annual Meetings should ideally be conducted in a normal and usual format.

The world economy, trade; and the state of financial markets can be characterized by rather positive current trends, although not without some risks for oil importers and heavily indebted countries. Countries depending to a significant extent on external demand for their products and services are very much interested in a better assessment of the sustainability of these current positive trends. Ukraine, for example, was able to almost double its exports in just three years. This to a large extent is the result of the implementation of our reform agenda, of successful trade diversification, but it also reflects our increased interaction with and interdependence on the rest of the world. We are now closely watching developments in some regions which are not even our major trading partners, but which are nevertheless important trading partners of our export destinations.

We therefore appreciate additional research and recommendations on how the international community and different groups of countries can better deal with abrupt changes in global demand. The volatility of capital flows and of international trade (from zero growth only 3 years ago to an expected 8-9 percent this year) confirms that IMF surveillance should not discount the importance of the volatility of current receipts and capital flows. Discussions about new Fund quota formulas should also take external openness and variability of trade and capital flows into account.

As it seems, the current account surpluses of developing and emerging market economies should be explained not only through the angle of the levels of their exchange rates, or exchange rate misalignments and/or fiscal challenges of major industrialized nations, but also as a possible result of some more fundamental changes in the world economy. We appreciate more attention to these longer term fundamental challenges, including global changes in the division of labor, demographic trends, challenges to health and pension systems which may be affecting competitiveness and capital flows. We would also appreciate more attention to the emergence of a few new major producers and consumers of the world's output, and better surveillance of regional and sectoral interdependencies.

Further progress in trade negotiations also seems essential for smoothing excessive global cyclicality. We hope the IFIs will contribute to the success of multilateral trade liberalization by providing more substantial and timely temporary financial assistance and advice on how to deal with the immediate effects of liberalization of the previously protected sectors.

Work on capital markets may concentrate more on providing insights into why current trends are happening, and how to anticipate the likely

changes in global financial flows and instruments. The official sector will benefit from recommendations on how to better react to the reemergence of national and global market participants willing to take on more risks. Addressing existing gaps in regulations of the financial sector may also need to be better tailored to the levels of development of the national capital markets and financial systems. Instruments that help to diversify risk in a more developed market may contribute to concentrating risk in a less developed environment.

It is rather discouraging to note that not all regions of the world are on track in meeting the major Millennium Development Goals. IFIs may contribute to faster progress by preparing non-politicized professional assessments of national poverty reduction strategies and by providing different scenarios of various mixes of adjustment and financing. This menu of options and of policy mixes may help the national authorities and donors to make better choices. To this end, the promoted intensified non-financial engagement of the Fund, be it some new form of monitoring, or a precautionary PRGF, may eventually prove to be a suboptimal instrument for improving the prospects of low-income countries in attracting necessary inflows of aid and investment. Addressing infrastructural gaps, inadequacies of health and educational systems, and developing more modern public administration in low-income countries require not only macroeconomic prudence, but substantial and well-targeted technical assistance and financing.

We have been learning by doing -- that growth is essential for lasting poverty reduction. A good investment climate is vital for sustained growth and productive employment creation. We very much welcome this year's discussion on the topic of "Elements of the Growth Agenda: Investment Climate and Infrastructure." Developing this topic further and addressing outstanding issues requires more careful analysis of developing and transition countries' experiences. We acknowledge that perspectives on what best influences growth have become more nuanced with additional experiences and policy experimentation. We would like to encourage the World Bank to strengthen their specific capacity building initiatives and knowledge transfer programs used to assist countries interested in improving their investment climate.

IFIs may also contribute to the progress of low and medium income countries by more systematically making available the accumulated positive experience of other countries. Greater accountability of the IFIs for the quality of their advice to member countries can be enhanced. One of the venues for such enhancement – wider dissemination of the experience of other countries, which followed similar advice, as well as more systemic integration of the research and self evaluation work done by IFIs into their operations. Organizing more conferences, workshops

and using other dissemination vehicles could be considered. It is being done in a rather effective way, for example, in spreading the best practices in implementing various Standards and Codes.

Ukraine continues to demonstrate rather impressive economic performance: the economy is expected to grow by over 12 percent this year. The average annual growth rate since 2000 has been 8.4 percent under a reasonable single digit inflation. Public debt to GDP ratio decreased from 48 percent in 2000 to 27 percent today, debt service as a share of exports is below 5 percent.

We are currently paying substantial attention to preventing overheating of the economy, strengthening our financial sector, further reforming the tax system, enforcing anti-monopoly policies, and improving our pension system. The business climate has improved and this is reflected in a very substantial increase in domestic investment and overall factor productivity.

The current account has recently demonstrated healthy surpluses, our international reserves have also substantially increased to about 12 billion dollars, while we feel that global uncertainties warrant building additional buffers against future contingencies.

The government in partnership with private sector entities, is working on improving the transportation infrastructure, and activating the research and development capabilities in order to move to an economic model based predominantly on knowledge and innovation. After almost a decade of output collapse, our industrial capacity in many sectors is still used to quite an insufficient extent.

The introduction of a reasonable 13% flat income tax rate, simplified taxation of small businesses, combined with pension reform and a reduction by 10% in the enterprise profit tax rate, accompanied by some widening of the tax base, and recent improvements in tax administration have all helped to reduce the size of the unofficial economy, although its share still remains excessively high.

Addressing our developmental bottlenecks requires primarily more structural reforms, especially in the areas of public finances and the enterprise sector, where there is a need for introducing greater transparency and improved protection of the minority shareholders' rights. Among our priorities are also reducing red tape, more efficient bankruptcy proceedings, reform of the judiciary, and further progress and in increasing the efficiency of the services provided by the public sector.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE UNITED STATES

John W. Snow

Good morning, and welcome to Washington. Thank you Chairman, Mr. Wolfensohn, Mr. Rato.

Each year, we gather to review the state of the world economy and discuss how to carry forward our shared mission of promoting growth and stability, advancing development, and improving the lives of all our peoples. Today, we meet at a time when global growth is stronger than it has been in three decades -- a time that gives us the opportunity and the obligation - to build on what has been accomplished. We cannot be complacent - too many people depend on us. We must do all we can to ensure that all people can enjoy the benefits that come from sound economic policy.

The U.S. economy has been an strong engine of growth in the global economy, so I am pleased to report that the U.S. economy is on a very positive path. Although growth slowed slightly in the second quarter this year, real GDP was up more than 4 ½ percent over the past year. Capital spending has risen at a double digit pace over the last year. Manufacturing output is strong. And the economy has now added more than 1.7 million jobs over the last year. This recovery didn't occur by accident. It occurred because the U.S. economy is open, dynamic and flexible, and because of the implementation of sound fiscal and monetary policy -- including implementation of President Bush's Jobs and Growth Plan.

U.S. economic fundamentals are sound: productivity growth continues; inflation remains modest; interest rates remain low; and job creation is continuing. And at a little over 3.5 percent of GDP in the current fiscal year, the federal deficit remains low compared to the levels in the 1980s and 1990s. But deficits are always too high and so we expect to reach the President's goal of cutting the deficit in half over the next five years.

In the global economy, we still want to see growth be more broad-based. The G-7 countries are working to increase economic potential through their commitment to structural policy reforms under the Agenda for Growth. We are already seeing results from this effort. For our part, President Bush has introduced a plan to make tax cuts permanent, make health care costs more affordable and predictable, reduce the lawsuit burden on the economy, ensure an affordable and reliable energy supply, and streamline regulations and reporting requirements. Other G7

countries are implementing reforms appropriate to their own economic conditions.

The international financial institutions are vital agents in delivering the resources and advice necessary to achieve broad-based growth and raising living standards. It is a key priority of President Bush that the institutions are focused and prepared to achieve these goals. President Bush's delivered this message, and innovative proposals, when addressed the World Bank in the summer of 2001. I am proud to have worked with our fellow shareholders and the leaders of the IMF and World Bank to achieve an important policy shift in the institutions - bringing tighter focus, more predictability and transparency, and greater emphasis on delivering measurable results.

Specific changes - including greater use of grants instead of loans to the poorest countries, the introduction of limits for exceptional access to the IMF's financial resources, and the advent of collective action clauses as the market standard in sovereign external bond issues - are already making a tremendous difference in individual countries and the system as a whole.

The successes we have had together thus far should inspire and embolden us to extend our drive for reform. We all know that we must continually strive for excellence at the IMF and World Bank so that they can work more effectively in the modern global economy. I hope we can work together to make it happen.

In my view, there are several particularly key areas for reform.

In addition to strengthening the analysis and advice provided all members, I support introduction of a new tool facilitating the active policy engagement of the IMF with countries that seek such a relationship but do not need financial support. Such a policy monitoring arrangement should serve to increase the emphasis on countries' own policy programs and maintain a high standard for reforms.

The World Bank must maintain its focus on areas critical to economic growth and poverty reduction. Greater priority on the private sector, particularly small and medium-sized enterprises is important. Good progress has been made in introducing results-based programs; these tools need to be more fully integrated within the World Bank and other development banks to help us measure and learn from successes.

Finally, President Bush and the G-8 Leaders in Sea Island reiterated a strong commitment to the HIPC initiative and to helping the heavily indebted poor countries achieve sustainability. We must do more to prevent the build-up of unsustainable debts in poor countries. Increased reliance on grants is an important first step. But we need to do more to put these countries on a path to the future. Employing both grants and debt relief together would give the poorest countries a chance to reach their

international development goals of the Millennium Declaration without adding to debt burdens. I am working with my colleagues in the G7 and other donors, with the institutions, and with recipient countries to achieve a consensus on the best way to solve the debt sustainability problem and ensure that our reforms only result in greater, not fewer, resources to poor countries.

I hope that we can all work together - shareholders, donors, and institutions - to succeed in achieving these goals.

STATEMENT BY THE GOVERNOR OF THE FUND FOR VIETNAM

Le Duc Thuy

Mr. Chairman, fellow Governors and Delegates, first of all, on behalf of the delegation from the Socialist Republic of Vietnam, I would like to express our warmest congratulation to the Chairman for being selected to chair the Annual Meetings of the International Monetary Fund and World Bank Group this year. It is our high appreciation to these two leading international financial institutions of their recent efforts in supporting member countries to ensure financial stability, sustainable growth and poverty reduction. Also on this occasion, may I send a special congratulation to Mr. Rodrigo de Rato as these are the first Annual Meetings Mr. de Rato has attended as Managing Director of the IMF.

In retrospection of the two institutions' activities last year, apart from general efforts in improving and strengthening international financial systems, the IMF and the WB have also focused on supporting developing countries, particularly the poor in order to facilitate growth and poverty reduction and strengthen their debt sustainability. While the WB concentrates on such areas as strengthening the financial support to developing countries for the purposes of infrastructure development, creating more favorable investment environments and reinforcing supports to poor countries, the IMF has strengthened its surveillance as a contribution to international community's efforts in preventing crises, strengthening financial stability and fostering high and sustainable growth.

Ladies and Gentlemen, since the last Annual Meetings, the global economy has experienced a fundamental recovery, evidenced by significant improvements in many aspects such as stronger reforms and

poverty reduction in developing countries, substantial growth in trade and industrial production, and sharp, though unstable, increase in international capital flows. The world economy, however, is facing with certain risks such as potential terrorist dangers, unresolved and unpredictable political instability, irregular movements of hard currencies, and large increases in prices of crude oil and some raw materials, etc. Moreover, the recovery is uneven across countries, which makes it much more challenging to reach the Millennium Development Goals and to maintain sustainable poverty reduction. Nevertheless, it is hoped that the expected promising economic outlook for the near future will create favorable conditions for strengthening the policies which aim at addressing the macroeconomic imbalances and the vulnerability of the banking and financial system, and deepening structural reforms to promptly improve the investment environment.

In the overall picture of the global economy, Asia-Pacific is recognized to be the region which achieves the highest and most stable economic growth in the world. Despite difficulties resulted from oil price hikes following the Middle East region chaos, and the SARS epidemic, Asian-Pacific as a whole still has its growth rate reached 6.3% in 2003 and expected to reach 5.8% between 2004 and 2008, higher than that of any other region.

Ladies and Gentlemen, right from the beginning of 2004, the implementation of Vietnam's socio-economic development goals has faced with many challenges such as the avian flu, the unfavorable natural conditions, and the sharp increases in prices of certain raw materials and consumption basic necessities, which induced inflation to accelerate in the first months of the year and slightly mitigated the first quarter growth rate. Nevertheless, real GDP growth rate for the year is projected to be at 7.5 percent or higher. The current account registered a deficit but at a controllable level, and export-import activities showed positively developments, with exports in the first eight months being projected to increase by 25.7% from the same period last year. International donors and investors are of the view that in Asia, Vietnam is among those countries that have developed favorable business environment, thanks to the Government's efforts in improving the investment environment for all economic sectors. Donors continue to support the reform program in Vietnam and assist the Government's efforts in accelerating growth and fighting against poverty, specifically in implementing the Comprehensive Poverty Reduction and Growth Strategy (CPRGS, the name of the Vietnamese PRSP). Also, the Government of Vietnam is determined to accelerate trade reforms and continues its efforts in negotiating to access WTO in 2005.

In order to fulfill the socio-economic development tasks set for this challenging year, the Government of Vietnam has initiated major solutions, including the continued focus of effort on stronger improvement of business environment, more enhancement of investment efficiency, higher progress in external economic development, pushing up the preparation for WTO accession, and strengthening the administrative reform program. In facing with the accelerating inflation in the first months of the year due to exogenous factors, the Government of Vietnam has prioritized the task of stabilizing the macroeconomic environment in order to facilitate the sustainable growth of the economy.

I am convinced that, with the utmost determination and efforts by the Government and people of Vietnam, and the continued support from international community including the International Monetary Fund and the World Bank, our country will overcome the challenges ahead to successfully achieve the objectives set forth for 2004, therefore, creating a firm momentum for a faster and steady development in 2005, the final year in the 5- year program for 2001-2005.

Finally, I would like to wish all the delegates good health and success, and wish the 59th Annual Meetings a successful accomplishment.

CONCLUDING REMARKS BY THE CHAIRMAN OF THE EXECUTIVE BOARD
AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Rodrigo de Rato y Figaredo

Mr. Chairman, Governors, Honored Guests: We have come to the end of very productive discussions. I want to thank the staff for their excellent work. I am grateful to our hosts, the District of Columbia, the citizens of the city, and the U.S. Government, for their hospitality and the security arrangements they have provided. Minister Lim, thank you for your able chairmanship of today's meeting.

We all know that the global economy is having a good year. The prospects for next year remain bright, though oil prices have added significantly to downside risks. Several governors noted that the high oil prices have strained their balance of payments positions. The Fund is ready to help countries cope with this adversity. We will continue to monitor carefully developments in oil markets and their effects on our