

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

Anwar Ul-Haq Ahady

It is, indeed, a pleasure and honor to address this forum. I would like to take this opportunity to congratulate Mr. Wolfowitz on his new appointment. We, in Afghanistan, are particularly pleased with Mr. Wolfowitz stewardship of the World Bank. Mr. Wolfowitz has been a good friend to Afghanistan, and we look forward to working with him and his team in years to come. These past weeks, the thoughts of Afghans have been with the people of Louisiana, Mississippi, and Texas. The USA has been a true friend to Afghanistan in our hour of need and we hope for a speedy recovery for all those affected by this tragedy.

Afghanistan has begun a comprehensive restructuring toward achieving our vision of a democratic polity, a pluralist society, and a market-based economy. We have made significant progress in all these areas in the past three years.

Politically, we passed a new constitution two years ago, held democratic competitive presidential elections one year ago, and parliamentary elections last week. The current government looks forward to working with parliament, and we are confident that within a few years, we will have all the necessary institutions of a stable and functioning democracy.

Socially: the promotion of human rights, women's rights, civil liberties, pluralism, and tolerance constitute essential elements of our vision. In our recent elections, some human rights violators were denied the privilege of running for public office. Those who fail to respect human rights are now on the defensive in Afghanistan. Women's participation in education, employment, and politics has increased tremendously since 2001. At least 25 percent of our parliamentary members will be women. Afghanistan is now a pluralist society where different ethnic and religious groups peacefully exercise their civil liberties.

Economically, we have evolved from a state-controlled economy to a market-based economy where the state is responsible for developing physical, human, and legal infrastructure that will drive private sector-led growth. We have already made significant progress in developing our infrastructure, particularly in the transportation, power generation, and telecommunications sectors. Our legal reform agenda is on schedule with significant revisions to our Central and Commercial Banking laws, as

well as our customs, budget, and income tax laws. Fiscally, we have consistently met our revenue targets and expect to significantly increase revenues in the coming years. Our budget, which we have balanced three years running, is fiscally responsible and in line with expectations of the international financial institutions. Macroeconomically, inflation is under control, growth rates are strong, and employment is growing. We are privatizing our state-owned financial and commercial institutions, and we plan to build a lean, effective and outcome oriented civil service.

In brief, we have made great progress in the past four years, and have laid the foundation for a healthy democracy, a tolerant society and a market based economy. We could not have begun this effort without bilateral and multilateral international support. The World Bank has been very generous and for that we thank them.

Now it is time to build upon this success as much remains to be done. Most of our physical infrastructure still needs to be built or repaired. Because we urgently need to strengthen our human resource capacity, we need more support soon for higher education and to help reform our public service sector. Many of the institutions essential to a stable state require further development. In short, having emerged from decades of conflict as one of the world's poorest nations, Afghanistan's journey towards stability and the hope of future prosperity will require years of sustained effort and support from the international community.

Perhaps even more important than how much Afghanistan receives is the quality of that support. We must break the cycle of dependant development which circumvents government decision-making. When donors do not let government manage the allocation of resources, they undermine our hopes of achieving the capacity to lead Afghanistan's development in the long run. We believe that donors should give us the chance to lead; they should challenge us to perform and then hold us accountable.

As Finance Minister, I know the costs of externally-managed development, and I believe that donors can achieve more for their money by going through government. Only by showing their trust in us, can we demonstrate the accountability, transparency, and cost-effectiveness essential to a functioning government.

In response to our desire for more control over the allocation of donor's money, we are often urged to borrow. Even though we are doing that for many of our public investments, our borrowing capacity is quite limited. Despite having consistently exceeded domestic revenue targets, we cannot cover our relatively frugal government wage bill with domestic revenues, let alone service a large debt in the near future.

Therefore, we need ongoing support in the form of multi-year grants, not loans.

In brief, Afghanistan is a success story of state-building and international cooperation, but we are not out of the woods yet. We need the right levels and quality of international financial assistance for another few years, and we hope we will continue to receive that support.

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

Peter Costello

The global economic outlook remains favorable, aid flows are increasing, many of the world's poorest countries will receive further debt relief, and the Doha development agenda remains at the forefront of the fight against poverty.

This puts us in a strong position; however, too many people still live in poverty. The challenge is to ensure that the opportunities that have been created are not squandered. Global economic activity needs to remain strong through reforms to broaden and deepen economic growth. Aid needs to be made more effective and developing countries need to continue to strengthen their institutions and governance. Debt relief needs an accompanying focus on debt sustainability to prevent history from repeating itself. Very importantly, we all need to throw our support behind the Doha development agenda—trade and investment opportunities are far more important than aid and debt relief in lifting countries out of poverty.

Economic Outlook

While the outlook for the world economy remains favorable, reflecting accommodative policy settings, healthy corporate balance sheets and benign financial market conditions, medium-term risks are skewed to the downside and remain centered on global current account imbalances. Associated with this, growth divergences across regions remain wide, with the expansion still led by the United States and China, increasing the world economy's exposure to developments in these economies. A key challenge for the membership is to ensure that there is a broadening and deepening of global growth, under-pinned by a mix of policy, structural and relative price adjustments.

Australia's economic expansion is now into its 14th year, and as noted in the recently released Article IV report, continued strong growth is anticipated. This strong performance is under-pinned by an ongoing commitment to a medium-term macroeconomic framework and structural reforms, with low unemployment, increased competition, low inflation and the near elimination of public debt among the benefits.

Aid

Global aid flows have increased significantly in recent years and are projected to increase even further between now and 2010. Australia has played its part, and will continue to do so.

Since 2000–01 Australia's aid has increased by more than 30 percent in real terms. At the recent UN Summit in New York, Australia announced a substantial commitment of additional aid, with the goal of doubling Australia's aid by 2010 to around a\$4 billion. This commitment is subject to annual budget review, taking into account the effectiveness of the additional funding and strengthened governance and reduced corruption in recipient countries.

This decision reflects the Australian Government's ongoing commitment to helping developing countries, while recognizing that it is ultimately up to countries to take primary responsibility for their own development.

Australia's aid program will continue to have a particular focus on the Asia-Pacific Region. Many people in Asia remain in poverty and the recent United Nations *Investing in Development* report has identified that the Pacific is off-track with respect to almost every Millennium Development Goal and falling back in some areas. While poverty in the Pacific does not have the same profile as poverty in Africa, the core problem of both regions is that they contain certain fragile states (Low-Income Countries Under Stress —LICUS), as well as many small states. Finding ways to effectively engage with fragile states is a key challenge for the entire international community.

For these reasons the Australian aid program focuses on those countries in the Asia-Pacific region; the Government has demonstrated this commitment by implementing large, long-term and whole-of-government development program in Solomon Islands, Papua New Guinea and Nauru and a partnership to support Indonesia's reconstruction and development efforts.

Debt Relief

The proposal for 100 percent multilateral debt relief for Heavily Indebted Poor Countries (HIPCs) being considered at this meeting has

our support. We urge the World Bank and the Fund to implement this proposal as soon as possible to enable poor countries to benefit from it. We also emphasize that it is important that the savings from debt relief are applied to poverty reduction programs in an environment of improving governance and institutions and not lost due to corruption or mismanagement.

I would also like to emphasize the importance that the Australian Government places on ensuring that countries do not build up unsustainable debts in the future. The joint IMF/World Bank Debt Sustainability Framework can play an important role here. Preventing unsustainable borrowing from occurring in the future will require all creditors and borrowers to accept that it is not in anyone's interest for countries with excessive levels of debt to continue to receive assistance in the form of loans. We therefore urge the IMF and the World Bank to further refine and promote the Debt Sustainability Framework as the key tool to inform the lending and borrowing decisions of today to ensure that HIPC's do not need debt relief in the future.

Trade Liberalization

Meaningful trade liberalization is the single greatest contribution the international community can make to achieving sustainable reductions in poverty. Without it, our efforts on aid and debt relief will at best be of limited benefit, and at worst counterproductive. If 2005 is to become known as the 'Year of Development' then it is critical that the global community supports the Doha agenda.

Australia welcomes the leadership shown by President Bush when he pledged that the United States is ready to eliminate all tariffs, subsidies and other barriers to the free flow of goods and services as other nations do the same.

As has been emphasized at these meetings, the Doha Round will not be a development round if countries do not begin to tear down barriers to agricultural trade. This is particularly the case for sub-Saharan Africa. To provide one example, research by the Food and Agricultural Policy Research Institute (quoted in the forthcoming *September 2005 World Economic Outlook*) indicates that removing global agricultural subsidies would raise cotton prices by 12 percent over the period until 2012, equivalent to over US\$200 million a year for African producers.

Role of the IMF in Low-Income Countries

We welcome the Fund's recent reassessment of its role in low-income countries. A key consideration for the Fund is how it interacts with the international community to provide assistance. The Fund should

focus on its core mandate around macroeconomic and financial stability as the underpinning for growth and poverty reduction. It is important for the Fund to ensure that all of its instruments for assisting low-income countries—including the new Policy Support Instrument, the new Shock Facility and debt relief—are effective and complementary.

The Medium-Term Strategy of the IMF

We have been encouraged by the Fund's recent medium-term strategy (MTS) discussions, and we welcome the strategic approach outlined in the Managing Director's Report. In particular, we welcome the intention to better focus the Fund's work in several areas.

We encourage greater focus on areas within the Fund's core mandate, including international monetary co-operation, global prosperity and financial stability, and temporary balance of payment support. Within these areas, the MTS has usefully set out the general emphases that will be needed for countries at different stages of economic development.

Ultimately, the challenge for the Fund will be to translate the MTS into action. This will depend fundamentally on organizational and cultural change within the Fund, including budget reform and priority setting for resource allocation, and we look forward to further consideration of these critical governance issues.

Quotas

We welcome the Fund's acknowledgement in its MTS that the current quota allocation puts its legitimacy at risk. We wish to see these issues addressed in the context of the Thirteenth General Review and agree that even if there is no general increase, there is a need to consider revised quotas at that time. The challenge for the membership remains to generate wide-spread support for an option that balances greater recognition of rapidly-growing economies, particularly in Asia, with the need to provide smaller developing nations with adequate voice.

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

Saifur Rahman

I feel honored to have the privilege of addressing once again the Annual Meeting of the Bank and the Fund. I extend my warmest felicitations to Mr. Wolfowitz on taking over the stewardship of the Bank. I wish him all success. I also extend our deep appreciation to Mr. de Rato for the excellent leadership he has been providing the Fund.

The common goals we set for ourselves through Monterrey Consensus rekindled hopes of a better life for about three billion poor people of the world who earn less than two dollars a day. Insecurity of livelihood and lives of these poor people is a threat to peace and security anywhere in the world. Large scale awareness worldwide about the historic global compact brought about by Monterrey Consensus as well as the wide-ranging participatory process in developing PRSPs have popularized MDGs throughout the developing world. Three years have already elapsed, yet we are far away from our set goals. It is high time for us to act together to deliver on these promises in order to meet the growing aspirations of the poor. Our failure to do so will expose us to new challenges and risks.

Many developing countries across the regions have continued to improve their policies and governance framework within their own country—specific socio-economic realities. Faster reduction of income poverty is a formidable task without stronger economic growth led by sizeable investment in infrastructure and capacity building. Reduction in the level of human poverty requires substantial investment focused in health and education sectors. Lack of availability of needed assistance would not only be a major roadblock to MDGs, but will also create new challenges for the developing countries to sustain domestic support to accelerate the pace of reforms.

We welcome recent initiatives to increase aid commitments, provide debt relief, introduce innovative sources of development financing, and improve quality of aid and its effectiveness. We expect to see real actions on these initiatives and hope committed aid would be directed to the poorest countries on the basis of their actual needs, demonstrated utilization performance, and improved governance. No amount of aid is likely to deliver poverty reduction without sound institutions and good governance.

Aid alone is not the panacea for poverty reduction. The Monterrey Consensus recognized trade as the engine of growth. We urge upon the developed countries to provide the needed market access to exports of low income countries. The Bretton Woods Institutions should also play greater advocacy role in this regard.

Global economic conditions, through their impact on trade and capital flows, play a major influencing role on prospects of economic growth and poverty reduction in the developing countries. Global imbalances continue to persist and inflationary pressure is building up. Recent oil price hike has become a nightmare for low income countries. As a result, their macro-economic balance and Poverty Reduction Strategies have been thrown out of gear. We must set up a new financing facility to absorb the rising oil price shocks on the low income countries.

Let me now say a few words about the developments in my country over the last four years under the able leadership of Prime Minister Begum Khaleda Zia. We have achieved an annual average growth rate of about 5.5 percent in recent years. We have made impressive gains in human development raising our country to the category of medium developed countries in Human Development Index. We have already achieved two MDGs. We have liberalized our trade, tariff, and investment regimes. As part of governance improvement we are implementing a series of institutional reforms in almost all sectors to minimize waste, inefficiency and curb corruption.

Let me conclude, Mr. Chairman, wishing the Bretton Woods Institutions continued success and hoping all of us would fulfill respective commitments and carry out respective responsibilities to translate our common vision into reality.

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

ANDREI V. KOPYAKOV

Since time immemorial humankind has sought to establish more effective social relations and to create a mechanism in the system of government that would guarantee every citizen the freedom to choose his economic and social way of life.

The new states that emerged at the turn of the 21st century naturally want to build their own “happy homes.” Some copy their neighbors, others become infatuated with trendy theories, while still others come under the wing of the powerful.

Belarus is also looking for its path to prosperity. The results of this search are stirring more and more interest, especially in the context of the latest events that have occurred in the global economic community. The global problems stemming from the global economic recession, from energy price increases, from the stagnation of a number of highly developed countries, from the decline of GDP in many countries and from economic shocks as a whole, have a negative impact on global economic ties and hamper the development and strengthening of trade and socioeconomic relations between nations. In addition, a number of seemingly non-economic factors, such as the aftermath of natural cataclysms, international terrorism and social conflicts within nations, have an adverse effect on national economic indicators and international economic relations.

For almost a decade now the Republic of Belarus has been a stable country, bolstering its economic, social, and political positions in the international community step by step. This can be attributed to a strong and effective government that works for people’s welfare and does not allow anarchy or interethnic or political conflicts. One of the most important components of the Belarussian development model is a strong social policy that is oriented above all toward improving people’s living standards.

In recent years problems associated with the economic recession in the industrialized countries have increasingly come to the fore. The steady prevalence of capital flight over trade in goods and services lowers GDP. In terms of economic growth, Belarus consistently ranks among the leading countries of Europe and the CIS. In terms of GDP, Belarus was the first post-Soviet republic to surpass its 1990 level. GDP grew 11 percent in 2004, and in the first six months of 2005 it was 8.9 percent higher than over the same period in 2004 (the forecast for 2005 is 8.5–10 percent).

Industry is undergoing steady and dynamic growth. The 6.7 percent decrease in the energy intensiveness of GDP from January through May 2005 (the forecast for 2005 is 6 percent) at a time of rising world energy prices demonstrates that GDP growth continues to be achieved without a significant increase in the consumption of fuel and energy resources. The profitability of production has increased, and the proportion of enterprises operating at a loss has declined.

The Republic of Belarus’s monetary and credit sector is operating reliably, as evidenced by the stability of the Belarussian ruble, the

continual decline in the inflation rate and the steady increase in the flows of investments in fixed capital.

Significant factors in the development of investment infrastructure and financial and insurance services markets include the geographical location of Belarus, its well-developed industrial and transportation infrastructure, growing export capacity, research and technology facilities and an amply skilled work force. Our country's trade and economic relations are also growing stronger. Belarus maintains trade relations with more than 150 countries.

Belarus is a European supply corridor through which a substantial quantity of Russian goods is exported to the EU countries. Belarus has a well-developed transportation infrastructure, which is to be further developed under government programs.

The volume of foreign trade in goods and services has shown growth. In actual prices it increased by 11.1 percent over January-May 2004, with exports increasing by 19.3 percent and imports by 3.2 percent.

The 16.1-percentage point differential between the growth rate of exports of goods and services and the growth rate of imports produced a balance-of-payments surplus of \$698. 6 million in the trade of goods and services from January through May 2005. Of this total, the balance-of-payments surplus for trade in goods was \$318. 5 million, and for services, \$380. 1 million.

I would like to highlight in particular the changes that have resulted from the ownership-reform process. More than 4, 000 state-owned facilities with a total of almost 1 million employees were restructured during the entire privatization period from 1991 through July 2005. Most of the facilities were converted to open joint-stock companies.

In the medium term, there are plans to beef up the social orientation of the country's development. The Republic of Belarus Program for Socio-Economic Development for 2006–2010 provides for a further improvement in living standards and in the quality of life based on the development and effective utilization of human potential, equipment overhaul, and upgrades in the structure of economy, while increasing its competitiveness.

This shows that Belarus has chosen the correct path of development, which enables us to take a leading position both economically and socially. It is no secret that the republic is running into certain difficulties and problems in the socio-economic sector. A number of economic and political reforms are proceeding with a weak momentum. But one must take account of the fact that the country's economy is in a transitional stage of development. The government is making every effort to speed up the republic's integration into the global community and strengthen its international economic ties. These processes would have more

momentum, if the country had a more detailed program of cooperation with the Fund and the Bank.

Over the years Belarus and the World Bank Group have executed a number of important agreements that define the framework of cooperation: the Memoranda of Understanding (1994 and 1997), the Cooperation Strategies (1999 and 2002), and loan agreements on specific projects.

At the same time, as we have previously noted, the time has come for a substantial revision in the format of our cooperation with the Bank. The lessons of recent years dictate the need for a more balanced and flexible approach to determining the program of cooperation, which takes into account its changing priorities and the trends in the republic's macroeconomic situation.

In formulating its economic policy, the Government of Belarus makes use of the recommendations by experts from the International Monetary Fund. In recent years these recommendations played a role in the significant tightening of monetary and credit policy, the unification of the national currency's exchange rate, the easing of restrictions in foreign trade and the progress that has been achieved in privatization.

Working with the IMF has produced concrete results in improving the system of collecting, compiling, and disseminating statistical information and devising actions to take against the funding of terrorism and money laundering.

In the short term, cooperation with the Fund will continue across a broad spectrum of technical assistance areas. In this connection we would like to count on fuller recognition from the Fund of the positive results the Republic of Belarus has achieved in economic policy and development, as well as in the creation on that basis of a favorable information base, which is essential for attracting foreign investors. We would also hope that, despite certain difficulties in the relationship, the International Monetary Fund will take into consideration the specific characteristics of the Republic of Belarus's socio-economic development and its desire to continue close cooperation.

I would like to conclude by delivering high praise to the authorities of the city of Washington, the staff of the International Monetary Fund and the World Bank and the security service for the wonderful job they did in organizing the Annual Meetings.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR
OF THE BANK FOR BELGIUM

Jean-Pierre Arndt

Even if the world economy has proved to be remarkably resilient in the face of recent evolutions, important regional divergences can still be observed and global imbalances remain worrying. It is of course to every country to put in place appropriate national policies in order to tackle these problems. However, individual action is not enough. Indeed globalization with its benefits but also with its challenges reinforces the necessity of an intensified and more efficient international co-operation.

IMF medium-term strategy

The Fund has a key role to play in the ongoing process of **globalization**, which should indeed be the main focus of its action. Of course, it should be made clear that the IMF cannot solve all the challenges linked to globalization. Other institutions, in particular the WTO, also have an important role to play.

The action of the Fund should remain focused on **surveillance** not only from a bilateral point of view but also from a regional and multilateral point of view. External imbalances and macro-financial stability issues should continue to be closely followed. In particular, we think that there remains substantial room to strengthen the coverage of financial sector issues. Indeed, given the increased importance of financial markets in our globalized economy and the differences in the surveillance of the financial sector across countries, progress in this area is essential. Where FSAP assessments have been made, their conclusions must be tightly integrated in Article IV reports. Consequently, these reports must provide clear information on progress on previously identified financial sector weaknesses. However, efforts to improve financial sector surveillance cannot rely solely on full FSAP assessments, given resource constraints and the voluntary nature of this program. In this regard, a more thorough appraisal of the soundness of the financial system in Article IV reports for countries not opting for a full FSAP would be a step in the right direction.

A profound review of the Fund's **current financial system**, considering in particular concrete proposals for broadening its income base, is critical to our shared goal of equipping the Fund for the future. During the last decades, the Fund has embraced a vast expansion of its

activities and the cost of running the Fund has expanded significantly. Today, the Fund is an institution providing primarily non-financial services to its members. At the same time, however, the Fund's income comes almost exclusively from a margin applied on its lending operations. This is an issue that must be effectively addressed in an institution whose success should, over time, result in a reduction of its lending activities. Although a consensus on the establishment of an investment account is a step in the right direction, more could be done to this end.

The current discussion on **voice and representation** is an important one. We stand ready to consider alternative quota formulas that take into account members' relative position in the international financial system and the ability of members to contribute resources to the Fund.

For member countries whose **quotas** are considered out of line, given their relative importance in the world economy, we support ad hoc increases in their quotas, to be discussed on a case-by-case basis according to country specific circumstances. Equally important is the erosion of the relative importance of basic votes since 1946. These were meant to symbolise and underpin the co-operative nature of the Fund. Hence, we would welcome an increase, in such a way that basic votes would again constitute a considerable part of total votes.

I would also like to stress that the IMFC should continue to evolve towards a more strategic dimension with an important role of giving impetus to the Board.

Strategy vis-à-vis low-income countries

The Bretton Woods institutions have an important role to play in low-income countries by providing adequate policy advice and technical assistance as well as the financing that low-income countries need in order to promote growth and to fight poverty.

Belgium, as shown by the important contributions of my country to the financing of this facility, has always considered that the **PRGF** is and should remain the cornerstone of the IMF financial assistance to low-income countries and considers it important that this instrument be preserved in the future.

The proposed **Policy Support Instrument** can also be useful for more advanced countries and the new **Shock Facility** should complete the range of IMF instruments.

Despite undisputed progress, a long way remains before achieving the Millennium Development Goals (MDGs). In this context, my country remains committed to reach the agreed UN target on Official Development Assistance by 2010.

Belgium supports the recent G-8 proposal on debt cancellation for countries that qualify for HIPC debt relief. It offers a major opportunity for the alleviation of the debt burden these countries are facing and for the mobilisation of additional concessional resources. This initiative, to be fully effective, must be adequately funded and not weaken the capacity of the IMF and the IDA to provide financing to the poorest. A major feature for the Fund is to be able to continue providing assistance while respecting the uniformity of treatment principle.

With respect to IDA, it is our firm view that the costs associated to the debt cancellation should be borne by all donor countries according to their shares agreed upon for IDA-13.

My country agrees that HIPC conditionality is appropriate and sufficient. We think that there is a need to close monitoring of the continuity of the eligibility of the recipients and of the use of resources so as to avoid the building up of a new unsustainable debt level.

I would like to express my appreciation of the progress achieved during the Annual Meetings; the commitments made by the G-8 countries are an important contribution for a final agreement on all necessary arrangements in the IMF and in the World Bank.

Belgium also welcomes the **Bank's action plan for Africa** which focuses on results and aid efficiency. The Africa Action Plan contains the elements to make it a success story provided transparency on aid allocation and on its use is fully ensured. The proposal to track and closely monitor public expenditure is a step in the right direction. However, we do feel that a stronger focus on capacity building is warranted. Belgium firmly believes that regional integration is an important element in stimulating South-South trade and economic growth but also in restoring peace. The success of the Action Plan depends on the increase of total resources and on the willingness of other donors to support and to collaborate with the World Bank. In addition, the importance of coherence between different initiatives, namely the EU's strategic partnership with Africa, needs to be stressed.

Finally, let me stress the importance of trade for poor countries. The outcome of the **WTO Hong Kong ministerial meeting** is of great consequence for the world economy in general and for the developing world in particular and, we should all strive to make it a success. In the meantime, it is also important for political leaders to resist unavoidable protectionist pressures.

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

Ralph Goodale

As we meet here in Washington this weekend, it is a time to reflect on how we can work together to make a positive change in our world. The ravages of Hurricane Katrina felt in the southern United States last month remind us that we are all vulnerable to loss. It is a lesson that must guide us in all our efforts, this weekend and beyond. I would like to take a moment to express my sincere condolences to those who have lost so much over the past several weeks. Canada offers you our friendship and support as you begin the difficult process of rebuilding.

Hurricane Katrina and the tsunami in Asia last year remind us how interdependent the world has become. The Bretton Woods Institutions are there to help members maximize the benefits of this increasing globalization, while mitigating the risks. This weekend's meetings could represent a turning point in our collective efforts to promote global prosperity and reduce poverty and vulnerabilities. Five years since the Millennium Summit and ten years remaining to the international deadline to achieve the Millennium Development Goals (MDGs), we must focus our collective attention to helping countries, especially those in Africa, achieve the MDGs. We also have a window of opportunity to complete the process of debt relief for low-income countries at the International Development Association (IDA), the African Development Fund, and the International Monetary Fund (IMF). For the IMF, this weekend's meetings are also an opportunity to take stock of its role in supporting the international monetary system and its success in fulfilling its mandate of fostering a stable and prosperous global economy and financial system. The conclusions of the Managing Director's Strategic Review both reaffirm the central relevance of the Fund's mandate to its members and demonstrate clearly the institution's capacity for renewal.

Focusing on the MDGs and Africa

As leaders emphasized during the UN summit a few days ago, with only a decade left to meet the MDGs, many countries, especially in Africa, are at risk of not reaching them. Success will likely require a significant scaling up of actions by both donors and recipients. Good policies, increased aid, and improved aid effectiveness are critical to achieve the necessary progress.

Certainly, some progress has been made. Global poverty rates are falling, led by Asia, and real progress has been made in Latin America and the Caribbean. But in other parts of the world, we are not seeing the results that we hoped. In Africa, many countries are off track on all the MDGs, with more than 300 million people still living in abject poverty and two million expected to die this year from HIV/AIDS.

The Commission for Africa was motivated by a desire to meet these challenges. The Commission emphasized the underlying principle that development—and the achievement of the MDGs—must be led by Africa itself. And it laid out concrete actions where donors could support African initiative. The World Bank's Africa Action Plan is a welcome contribution to this response.

Aid will only have a meaningful impact in countries with strong domestic institutions and an environment that allows enterprise and human initiative to flourish. To this end, we must continue to work to strengthen Poverty Reduction Strategies (PRS) by broadening their content, strengthening their focus on the poorest, and improving the effectiveness of the participatory processes, including greater involvement of parliamentarians and civil society. Credible, costed, results-based PRSs can serve to attract greater levels of support.

At the global level, more concentrated efforts must be made to level the playing field and to ensure that developing countries become better integrated into the global trading system. A successful Doha round that lowers tariffs and non-tariff barriers, for example, could lift over 100 million people worldwide out of poverty by 2015. This was a key message of the Commission for Africa report. We welcome the work of the World Bank and IMF on "Aid for Trade" to overcome the constraints on some countries' abilities to benefit from the lowering of trade barriers.

Aid budgets are increasing, and are increasingly focused on the poorest countries. Recent commitments made by donor countries mean that total annual ODA flows in 2010 will be around US\$50 billion more than in 2004. Significantly, at least half of this increase will be directed to Africa—resulting in a doubling of ODA to that continent. Canada will double its overall international assistance by 2010, and double its assistance to Africa by 2008. Canada is focusing its bilateral assistance on 25 countries—14 of them in Africa—where aid is most needed and most likely to be effective. With strong support from Canada and other donors, IDA has been able to increase funding for its programs by 25 percent over the previous replenishment—the largest expansion of IDA resources in two decades. Canada increased its contribution by almost 40 percent. Donors have also recognized the vulnerability of poor countries to exogenous shocks, and are addressing these through proposals such as an IMF concessional facility to help countries faced

with short-term difficulties arising from adverse shocks to their balances of payments and the broadening of the World Bank Group's efforts on catastrophic insurance.

Aid must also be delivered and used effectively. Mutual accountability between donors and recipients for results is essential. To this end, we strongly support the Bank's direction to enhance its framework for monitoring, reporting, and following up on the delivery of aid commitments. We are also encouraged by the World Bank's efforts to deepen the harmonization and alignment of aid resources. It will be critical to ensure that our commitments with respect to untying aid are met. We welcome the initiative by the OECD-DAC to move this forward. It will be important to continue discussions to ensure that developing countries have the capacity to employ increased resource flows effectively.

Completing the process of debt relief for low-income countries

Reducing unsustainable debt burdens in low-income countries is an essential part of helping them achieve sustained growth and poverty reduction. Canada has contributed more than \$2.3 billion to this cause, and we are committed to a further \$1.3 billion in further debt relief. We must keep the momentum going.

The debt forgiveness plan proposed by G-8 Finance Ministers is an unprecedented multilateral effort to complete the process of debt relief for low-income countries. By freeing up fiscal space for critical investments in health and education, this initiative will help to promote growth and reduce poverty. The proposal provides additional resources for poor countries, ensures that they are treated equitably, maintains the financial capacity of the international financial institutions, and provides the proper incentives for good governance.

There remain many issues to be resolved, but we have the will to move forward. It is our hope that we can come to an agreement this weekend to push ahead with this proposal. Canada will do its share to implement this initiative.

If we want to ensure that poor countries have the fiscal flexibility to promote macroeconomic stability/growth and implement poverty reduction strategies, we also need to be sure that the more vulnerable countries do not slide back into a debt trap. In this regard, countries need to avoid unnecessary borrowing and to access financing on highly concessional terms. We therefore support the proposed Policy Support Instrument (PSI) for instances when a lending relationship with the Fund is not necessary. Such an instrument would provide a structured mechanism for regular provision of policy advice, and, just as

importantly, allow the Fund to provide the “public good” of an assessment of country policies useful for donors and markets. Finally, the strategic provision of grants is another key tool for avoiding a new build-up of unsustainable debts. We strongly support IDA’s and the African Development Fund’s grant allocation frameworks, which are based on debt sustainability considerations.

Reinvigorating the Fund

The measures already discussed are needed to improve the chances of the most vulnerable countries of achieving the Millennium Development Goals. However, there are risks in the global economy that affect all countries, including ongoing global imbalances and high and volatile oil prices. The IMF plays an important role in mitigating these risks, but changes in the international financial system since the Fund’s establishment mean it will need to adapt its governance, surveillance, lending and capacity building activities, as well as its relationship with members and stakeholders. IMF Managing Director Rodrigo de Rato has recognized this pressing need and has tabled substantive reforms. We welcome his proposed Strategic Directions.

The Fund’s central mandate continues to be relevant and the mission of the Fund—to promote global prosperity and financial stability—remains as valid as it was in 1944. We welcome the Managing Director’s conclusion that the Fund’s four broad lines of activity—surveillance, lending, capacity building, and its work to assist low-income countries—represent the right channels by which it can achieve its objectives. The key challenge for the Fund is now to move forward in the directions outlined in his report, with the objective of “re-tooling” the IMF to meet the challenges of the 21st century.

Among the many welcome aspects of his report is its clear recognition that the Fund, as a policy advisor, can only be effective when the recommendations that flow from its solid analytic work are communicated in a persuasive and influential manner. This requires that the Fund engage more broadly, so that its policy recommendations become an integral part of the public debate on reforms. For these reasons, we wholeheartedly endorse the Review’s goal of developing a communications strategy based on best practices.

The proposed strengthening of surveillance, a core function of the IMF, provides an opportunity to better influence policy development and help prevent crises. Tightening the focus of surveillance, both within and between countries, on policy areas and issues of national relevance and systemic importance for global economic and financial stability would strengthen its impact. A more selective and focused approach should

allow the Fund to tailor its advice to the constraints and opportunities within countries. An element of this is better integrating technical assistance into the surveillance process, to ensure that members have the expertise and sustained capacity to implement reforms. Taking a longer-term view of specific issues of importance to the global economy, as proposed by the Managing Director, would strengthen the Fund's contribution to global efforts to maintain international financial stability.

Further clarifying the international approach to crisis resolution will help in both crisis prevention and resolution. Today's crises (with origins in the capital account of the balance of payments) are too large for the Fund to respond to merely by providing financial assistance of increasing size. Rather, the magnitude of capital account crises, the need to avoid distorting private sector investment decisions and the inability of the Fund to act as a true lender of last resort underscore the need for lending to be guided by "*rules of the game.*" The establishment by the Fund in 2002 of a policy framework to guide decisions on exceptional access is a key step in this direction. This framework should be reviewed in order to clarify its application and strengthen its credibility.

Improving the Fund's ability to respond to crises also requires it to understand better the dynamics of capital account crises, including the behavior of private capital markets. The Fund must identify the factors that will support sustained re-access to international capital markets in a manner that places less emphasis on large-scale assistance.

The IMF serves and is accountable to its members through a governance structure based on the principle that quotas and the associated structure of voting power should aim to reflect countries' relative economic weight. However, differences in the patterns of growth among members have created a situation whereby the structure of quotas embodies in some respects a legacy of the past, not the realities of today. In order to sustain the legitimacy of the Fund as a universal and cooperative institution, a determined effort is needed to ensure that the distribution of quotas, voting power, and voice reflect developments in the global economy. While there is no need for consideration of a general quota increase at this time given the overall adequacy of the Fund's resources, a redistribution of quotas and voting power to those rapidly-growing economies, largely in Asia, whose quotas have not kept pace with their greater role in the global economy would further strengthen the legitimacy of the Fund's governance arrangements. There is an urgent need to begin a process that will achieve these objectives.

Concluding Remarks

Poverty on a global scale is falling, but the challenges of meeting the MDGs in Africa remain. This weekend we are discussing how we can make achieving the MDGs in all parts of the world a reality. The only way to do so is to work together. Developing countries and their development partners, including the private sector and civil society, need to work together to make tomorrow better for all people. Finally, as we look ahead to the risks and challenges facing the global economy, there can be no doubt about the value of a strong, effective IMF and World Bank.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PEOPLE'S
REPUBLIC OF CHINA*Jin Renqing*

Since our meeting last year, the global economy has been growing steadily following a robust performance in 2004, with world trade expanding and FDI turning around. According to the preliminary estimates of the major international financial institutions, the global economy will maintain a relatively rapid growth of 4 percent in 2005.

Taking this opportunity, we would like to express our appreciation to the Bank and Fund for their constructive role in facilitating international coordination and cooperation, promoting global economic development and reducing poverty, as well as our thanks to the hard work of the staff of the two institutions.

Despite the encouraging situation in the global economy, we should by no means overlook some downside risks, among other things, aggravating global economic imbalances, resurgence in trade protectionism, oil prices hike, persistent large deficits with the major economies, unstable exchange rates between major currencies, and emerging inflation pressure, adding more uncertainties to regional and global economy. Furthermore, unfair international economic order and the lack of external assistance remain to be the crippling factors for the developing countries in their pursuit of development.

In order to address those global destabilizing factors and create a bright prospect for human being, international community needs to

enhance dialogue and coordination on an equal basis for a win-win result. To this end, we should:

- Maintain the stable growth of the global economy through our joint efforts. Economic growth is the most effective way to improving welfare of the people in all countries of the world. We, therefore, should work together to promote a balanced and sustainable growth in the world economy by adopting effective fiscal and monetary policies and pressing ahead with institutional reforms and restructuring.
- Address the deep-rooted problems impeding global economic development through enhanced policy dialogue. The international community should act more aggressively to reform the international financial architecture, support the establishment of a multilateral trading system, and make joint efforts in stabilizing international energy markets, so as to create a benign financial, trade and energy environment for the common development around the globe, particularly in the developing countries.
- Realize the MDGs through effective partnership. Developed countries should come up with concrete plan to deliver their commitments in funding, debt relief and market access, especially in meeting the target of increasing ODA to 0.7 percent of their GNIs, and continue to explore new arrangements for development financing, so as to provide sufficient financial support to achieve the MDGs.
- Give further attention and support to the Least Developed Countries. Africa and the HIPCs are facing greater development challenges, which deserve special attention from the international community as well as additional assistance. The experience of many countries shows that constant improvements and realignments in government capacity are critical for a country to achieve long term stability and sustained growth. In this connection, government capacity building in those countries should receive special support from international aid agencies.

The Bank and Fund are shouldered with the important mission in the sphere of global governance. I would also like to take this opportunity to share with you my reflections on how the two institutions could further play their role in reducing poverty and promoting development.

First, the two institutions should continue to play their role as the major platform for global development financing, while improving and

strengthening their capacity in resources mobilization and transfer. For this end, three things should be done. One, the financial capacity should be enhanced, financing cost and costs of doing business further reduced, and flexibility and targeting to client countries improved. Two, new financing arrangements should be explored while actively pushing forward the improvement and experiment of some new financing initiatives. Three, supervision should be stepped up over the developed countries in fulfilling their ODA obligations.

Second, the two institutions also have the responsibility to guide economic globalization in the right direction by using their comparative advantages as multilateral financial institutions. In this context, they should, *inter alia*, provide global public goods to correct global imbalances; help developing countries participate in the international rule-making through multilateral coordination and technical assistance; promote balanced, orderly flow of production factors such as capital, technology and labor; perform symmetric monitoring of the global economic development; and facilitate the international financial architecture reform, South-South cooperation, and regional cooperation to stabilize global economic development.

Third, the two institutions should strengthen Middle Income Countries strategy to maintain the integrity of their development functions. Only if the developmental needs of the developing countries of different developmental stages are satisfied, can the two institutions effectively perform their functions of promoting global balance and sustainable development,

Fourth, the two institutions should contribute to enriching the database of global development by constantly distilling their experience and innovating their development philosophies, supporting the ownership of their member countries, and promoting the diversification of development models. The two institutions should adhere to a scientific attitude of finding truth from practice, testing truth with practice, and develop truth in practice, while abandoning the dogmatist mentality, and giving full respect to ownership and diversity of client countries.

Fifth, the two institutions should reform their own governance structure, increasing participation of developing countries in decision making. In doing so, the increasing strength of developing countries as a whole should be reflected, and the views of all member countries expressed in a balanced way, to ensure that the policies of the two institutions will be in the interest of the vast developing countries as well as the world at large. At the same time, the two institutions should also stick to their development mission and professionalism, and resist any attempt or practice to politicize their businesses.

Since last Annual Meetings, the Chinese government has adopted a series of macroeconomic measures in response to new conditions and problems in economic and social development. The government has pursued prudent fiscal and monetary policies, brought under control some destabilizing and unhealthy factors, and maintained relatively rapid economic and social development. In the first half of 2005, GDP increased to US\$814.6 billion, up 9.5 percent over the same period of last year. Personal income continued to increase rapidly, and domestic consumption accelerated, while CPI is well contained with a modest increase of 2.3 percent. Total volume of export and import reached US\$645 billion, up by 23 percent over the same period of last year. By the end of June, foreign exchange reserve reached US\$711 billion.

The economies of Hong Kong, China and Macao, China also continue to perform well. The GDP of Hong Kong registered a real growth of 8.1 percent in 2004, and the economic recovery became more pronounced in 2005. The GDP of Macao grew by 8.6 percent and 8.2 percent respectively for the first two quarters of 2005. The central government will continue to promote economic cooperation between the mainland and Hong Kong and Macao and promote common prosperity, in accordance with the basic state policies of *One Country and Two Systems*, *Hong Kong People Administering Hong Kong*, *Macao People Administering Macao*, and a high degree of autonomy.

The Chinese government aims to achieve comprehensive, harmonious and sustainable development and establish a harmonious socialist society, guided by the scientific development view and relying mainly on its own efforts to reform and innovate. Our objective for the first 20 years of this century is to quadruple the GDP to US\$4 trillion by 2020, and increase the GDP per capita to US\$3000. This would mean quadrupling of size of domestic market and, and it will bring unprecedented opportunities for all other countries.

With China's economic development and its growing contribution to the world economy, China's economic policies have attracted a lot of attention, especially regarding the exchange rate policy. I would like to take this opportunity emphasize that, the Chinese government has been consistently pursuing an independent and responsible policy approach in its exchange rate regime. On July 21, the Chinese government made an important step forward in reforming its exchange rate regime, moving to a market-based managed floating exchange rate regime with reference to a basket of currencies. The objective was to establish a managed floating exchange rate regime based on market supply and demand, and maintain the RMB exchange rate basically stable at an adaptive and equilibrium level. The reform was carried out in an independent, controllable and progressive way. The reformed exchange rate regime and more flexible

RMB exchange rate have strengthened the government's ability to manage the macro-economy and improved the prospect of rapid, sustained and balanced growth.

China will continue to increase its support to other developing countries as our overall national strength improves. At the High-level Panel on Financing for Development of the UN Summit on September 14, President Hu Jintao announced a number of measures to provide more help to other developing countries, including according zero tariff treatment, debt relief, providing US\$10 billion concessional of loans, public health cooperation, and training personnel of various professions, etc.

As a member of international community, China is willing to participate in international cooperation and develop economic cooperation with other countries based on the principle of equal treatment and mutual benefits so as to achieve common prosperity. China will continue to provide assistance to other developing countries to the extent possible and help them overcome difficulties and strengthen capacity for country-driven development.

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

Ivan Suker

It is a great privilege to address the 2005 Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund here in Washington, D.C., only one and a half weeks after an agreement on a more effective multilateral system was reached in New York. Looking forward to the action needed to fulfill our aim, the role of Bretton Woods institutions will continue to be a cornerstone of prosperous global economy. 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 Mr. Rato for his dedicated service to the Fund. Also, I would like to welcome once again Mr. Wolfowitz as the President of the Bank with the wish that his leadership will be aimed at reaching the Millennium Development Goals on a global level through promotion of sustainable

development supported by individual policy designs. I wish them both much success and wisdom in steering the institutions in years to come.

Allow me first to cover major economic developments related to Croatia and Croatia's relations with the Fund and the Bank. After that, I intend to reflect on a couple of policy issues relevant for the Bank and Fund business.

To start with the Croatia's achievements, I cannot resist mentioning that since this Government took office in January 2004, it has faced a number of difficult and important challenges. By now it has achieved a number of critical successes already. First among these has been significant progress towards Croatia's accession to the European Union, while close relations have been maintained with the international financial and other institutions with regards to the progress of the reform program and political well-being respectively. To this end, Croatia expects negotiations with the European Union to commence before the end of this year.

In turning to economic developments, there is a little doubt that the accession process will help us to preserve reform momentum and maintain sound economic policies. Against this background, the main objective of the current policy stance, supported by the stand-by arrangement (SBA), is to narrow the savings-investment gap in order to reduce external vulnerabilities that stem from sizable external debt and current account deficit. Strong fiscal consolidation is seen as a main vehicle here. Having said that, this year's budget is only part of a multi-year fiscal framework, which aims at reducing the budget deficit to 3 percent by the year 2008 (from 6.2 percent of GDP in 2003).

I want to stress that Croatia continues to have open and fruitful discussions with the Fund and Bank staff. Last year, the Fund approved a 20-month precautionary SBA, which supported Government's policies designed to limit the vulnerability arising from the high current account deficit and external debt. Soon thereafter, the Bank endorsed the Country Assistance Strategy for Croatia, where the Bank envisaged a strategy aiming at fiscal consolidation and reform. I am pleased to note that Fund's Board approved recently the first review under the SBA, and across the street, the Board approved PAL. These not only give good indication of Government's effort in the area of macroeconomic policies and institutional reforms, but also put Croatia in the base-case scenario. Moreover, for the first time since its membership Croatia has been looking forward to a high-case scenario lending by the Bank. Croatia has every intention to continue on the path of reforms on which the country is now fully engaged: it aims to accelerate privatization and reduce the subsidies to corporate sector, reform the judiciary and public administration, reduce the cost of doing business, improve public

expenditure management as well as financial performance of social sectors and railways.

In turning to my second point—Croatia’s standpoint towards Fund and Bank business—I first welcome the recent move of the Bank to improve its lending policies through an open process of consultation with borrowers. Second, I support the direction through which the Bank has strengthened some decentralized offices in order to make them able to represent the Bank at whole, including the IFC and the MIGA. An important advancement in this direction has been noted in Croatia. Third, there is still need to strengthen cooperation among all institutions and departments of the Bank group, as it is of utmost importance for an improved effectiveness of the Bank as a whole. I am concerned for obvious lacks of internal communication between some of headquarter departments with country offices, which could have been seen at the time of the recent Bank publication of Doing Business 2006. Although on different occasions it had been signaled that there would be a perception risk if the high profile reforms that have been implemented in the course of this year would not be taken sufficiently into account, the report has been published ranking Croatia on the basis of outdated facts even for the preceding year and without recognizing reforms undertaken right with support of the Bank team and Croatia bank office itself. I find this unacceptable and I urge management to put on a record a corrected data for Croatia. Having said this, I reiterate the objections that our chair on the Board expressed on a number of occasions about the overall ranking method as such.

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

STATEMENT BY THE GOVERNOR OF THE BANK FOR CYPRUS

Michael Sarris

It is an honour to submit a statement to the 2005 Annual meetings of the Governors of the International Monetary Fund and the World Bank Group.

Global economic growth will reach 4 percent in 2005. The adverse impact of higher oil prices is mainly behind the modest deceleration of

growth this year. However, despite a solid performance significant regional divergences are emerging, with strong growth in North America and Asia and weaker performances in the EU and Japan, and in Africa. These divergences—exacerbated in many instances by domestic macroeconomic policies and by a lack of progress in implementing structural reforms—are contributing to a further widening of global imbalances. Low levels of investment in growth-enhancing activities and the lack of reforms of labour and product markets, together with ageing populations, are also contributing to lower long-term growth.

The main challenge for governments is to follow polices, both domestically and in concert with other countries, which are conducive to growth in the short and long term, and which will help to gradually eliminate global imbalances. An abrupt unwinding of the large current account deficits could trigger financial crises in emerging markets, but also in more advanced economies, and could set back the global economic recovery.

To this end, Cyprus supports the EU's emphasis on sound fiscal policies and the sustainability of public finances in the long term, and the promotion of structural reforms.

The economy of Cyprus continued to perform well in 2005. GDP is forecast to expand by around 4 percent and inflation is set to accelerate slightly to 2½ percent.

The Government of the Republic of Cyprus intends to rigorously implement its fiscal consolidation plan as set out in its Convergence Programme of 2004. Accordingly, the budget deficit will fall to below 3 percent of GDP in 2005 and 1¾ percent in 2006. Structural reforms will also be pursued vigorously. Achievement of these goals will also enable Cyprus to adopt the Euro by 2008. The Government of the Republic of Cyprus is working for a just, and viable, solution of the Cyprus problem, and for reunification of the island so that all Cypriots may enjoy the benefits of EU membership, and prospective Euro adoption. Nonetheless, an economically viable solution is key for the long-term economic success of the island, also in light of the rules inside the European Monetary Union. The Government of the Republic of Cyprus will work toward the reunification of the island, and will support all efforts towards that end.

Cyprus welcomes the IMF Managing Director's Report on the Fund's Medium Term Strategy. Globalization has brought important benefits to many countries, but has also increased the need for more effective surveillance of the world economy. Hence, the Fund ought to play an especially important role in promoting macroeconomic and financial stability, and supporting sustainable growth. To this end, the Fund must continue to undertake in a transparent and objective fashion,

with the collaboration of the World Bank, its surveillance and to increase its focus on external vulnerability, global imbalances, debt sustainability, with special emphasis on how to achieve the UN Millennium Development Goals.

Cyprus supports efforts to achieve the Millennium Development Goals not only by accelerating debt relief to the poorest countries, but also through providing financial and technical assistance to help implement national poverty reduction programs, and improve governance. In this regard, Cyprus aims at raising significantly its share of ODA/GNI by 2015. A successful conclusion of the Doha Development Agenda will also have a great impact on world growth and on reducing poverty.

Cyprus is strongly committed in strengthening the international fight against money laundering and the financing of terrorism—in particular through reinforcing mutual co-operation and improving legal frameworks and procedures for freezing all financial assets and property of terrorist organizations, —and supports efforts by the IMF and the World Bank to achieve this goal.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF
ESTONIA*

Aivar Soerd

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. Let me also thank, in the name of the Baltic States, the U.S. authorities for once again hosting the Annual Meetings here in Washington D.C.

The Baltic States have made remarkable progress in both building up state institutions after regaining independence, as well as in creating an economic climate that supports development. The north-eastern corner of Europe, with the Baltic countries, is one of the most dynamic parts of the European Union. If we look at the developments achieved over the last decade, the Baltic States have had the highest average growth rates after Ireland. Development has been especially favorable for us since becoming members of the EU—economic growth has accelerated and unemployment has quickly declined.

Our recent success has its roots in our economic policies. The Baltic States have small and open economies. We have experienced the value of strong institutions and sound policies, as well as the necessary push for development that can be provided by outside assistance, in our case mostly from the European Union, but also from other good partners. As we have seen the dividends of good policies and valuable outside assistance, the Baltic States are on the way from being aid recipient countries to becoming donors and slowly but steadily increasing our aid commitments.

In the current year, as it has often been called the year of development, full attention has been given to global development problems. Let me emphasize the importance of the Millennium Development Goals in our joint mission towards socially, ecologically and economically sustainable global development. These goals are achievable, but only if we all strengthen our efforts. We, the Baltic countries, consider the role of the Bank extremely important in this process, and particularly so in two areas—enhancing the effectiveness of global development work and increasing cooperation between different actors on both international and country levels.

We welcome the Bank's sustained efforts in strengthening of national governance, combating corruption and helping client countries to implement policy reforms, as these are some of the most significant prerequisites for development and reduction of poverty. In order to ensure real ownership of reforms and development programs by governments, the Bank also has an important role in helping national authorities to strengthen their administrative capacity. The latter is in our view critical for achieving true country ownership as it is envisaged by the PRSP framework.

Finally, having seen what a difference in economic development opening up a country's economy can make, I would like to emphasize the importance that we give to the principle of free trade. While we acknowledge that the WTO is the institution charged with moving trade negotiations forward, the World Bank also has an important role in helping developing countries to truly reap the benefits of open markets.

We should also bear in mind that the Bank has an important role to play in middle income countries, especially given the number of the poor living there. It is however critical for the Bank to offer competitive and sufficiently sophisticated products for especially the upper middle-income countries in order to remain a truly valuable partner. There is an important role also for the technical advice that the Bank can still provide in these countries, taking into account lessons from other governments that have already gone through the reform process. In this regard, I would like to point out the positive track record and significant transition

experience that the Baltic countries have obtained and that we are more than happy to share with others.

To conclude, let me welcome Mr. Wolfowitz as the new President of the World Bank Group and wish him every success in carrying on with the important mission of global development. We hope to give our best possible contribution to the Bank's mission together with the Nordic countries in our constituency, as well as with all other fellow shareholders of this institution.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR FIJI

Savenaca Narube

It is a great privilege and honor for my delegation to participate in this year's annual meeting of the International Monetary Fund and the World Bank Group on behalf of the Government of the Fiji Islands.

May I at the outset congratulate you Mr. Chairman for your appointment to chair the joint annual meeting.

I wish to pay tribute to the outgoing President of the World Bank Group, Mr. James Wolfensohn, for his outstanding stewardship of the Bank during a period of vast global challenges. His commitment and determination to confronting the economic challenges of our generation is commendable. Indeed, his legacy is a World Bank that is firmly committed to a world free of poverty.

We warmly welcome the new President of the World Bank, Mr. Paul Wolfowitz. We assure him of our usual cooperation and support and wish him well during his tenure as the head of the institution.

We meet at a period when the global economic system continues to face new challenges. It is at times like this that a collaborative and partnership approach to addressing economic challenges is vital.

Terrorism

Recent events remind us all of our vulnerability to the threats of terrorism. These unfortunate events undermine security, freedom and peace. The associated economic and human costs are enormous. Together, we can eradicate terrorism and combat money laundering. We therefore need to harness every effort and resources needed to tackle this serious threat to our lives and economic progress.

We urge the Fund and the Bank to continue their role in the fight against terrorism. We are pleased to note the work by the Fund to help draft legislation for Countering the Financing of Terrorism. I wish to report that Fiji recently enacted a Financial Reporting Transactions Act to help curb terrorist financing and money laundering through the reporting of suspicious financial transactions. The Asia Pacific Group on Anti Money Laundering also concluded following their country assessment that Fiji generally has in place adequate preventative measures in this area.

Oil Price

The unprecedented surge in oil prices is adversely affecting small open economies like Fiji. Like other net importers of energy, our bill for oil imports is escalating and this is expected to worsen since there is no indication of oil prices falling. This exogenous shock seriously threatens the current accounts of small countries and undermines price stability. Most of these countries already face many challenges and hardships such as narrow export base, increased poverty and high debt levels. I urge the Fund and the Bank to assist developing member countries lessen the impact of the higher oil price. I join the call for the Bank and the Fund to establish a facility to help member countries deal with high oil prices. At the same time Mr. Chairman, a facility that encourages the generation of renewable energy would not only alleviate our heavy reliance on fuel imports, but also strengthen our internal and external balances.

Millennium Development Goals

Fulfilling the Millennium Development Goals presents a huge challenge even to countries with impressive growth performance. We commend the efforts by the Fund and the Bank in assisting member countries implement strategies that will help achieve the MDGs, particularly on poverty reduction. The emphasis of such strategies should be on job creation to reduce poverty in a sustainable way.

I also suggest that the convergence of goals and measures embodied in the Millennium Development Goals, the Poverty Reduction Strategy Program and other programs coordinated by the Fund and the Bank be brought together into a single nationally-driven development framework for growth and poverty reduction for members.

On the subject of debt, we commend the decision by the G-8 countries to provide debt cancellation to Heavily Indebted Poor Countries (HIPC). The initiative to cancel multilateral debt of some of the poorest and most indebted countries is of great importance. Such

gesture will help their efforts to achieve the Millennium Development Goals.

At the same time, we share the view that the provision of a full debt relief should only be made without compromising the sustainability of the Bank and the Fund, particularly the International Development Association (IDA), and its effectiveness in assisting other member countries. Uniformity of treatment is also an important issue. We encourage an amicable and quick resolution to this matter to enable this debt relief to be implemented as soon as possible.

The Bank and the Fund also need to pay due consideration to the group of countries, particularly small island states that do not benefit from the debt relief initiative. Despite our many vulnerabilities, we have avoided falling into an unsustainable debt situation by undertaking difficult and painful reforms and implementing prudent macroeconomic policies. These countries also need support and encouragement. The international community should consider extending the appropriate incentives to this group of countries that have maintained prudent debt management despite enormous economic challenges. One of the ways that this can be done is to reduce borrowing costs for this group of countries which are not eligible for concessionary facilities of the Bank. In addition, the access to blend financing by these countries can also be considered.

Doha Development Round

We call for a rapid conclusion of the Doha Development Trade Round. Achieving a successful outcome of the Doha Round requires commitment by both developed and developing countries. I agree with the G-8 leaders at the Gleneagles Summit that we need to use the lead up to the WTO Ministerial Meeting in Hong Kong S. A. R. well to prepare for a comprehensive agreement in 2006. Improved market access continues to be the greatest need of developing countries. Whilst trade liberalization under the Round will help ensure that the world economy remains on a path of steady growth, we urge that the specific needs and conditions of the developing small states be given due consideration. We encourage the Fund to explore ways of easing adjustment costs associated with trade liberalization including through Trade Integration Mechanism and capacity building.

Regional Action Plans

We support the Africa Action Plan, which aims to assist efforts of African countries to reduce poverty, and achieve the MDGs. We believe that such a Plan should be results-focused with concrete actions, and

measurable indicators and outputs, which are to ensure effective use of resources.

In our region a Pacific Plan is currently being considered by members of the Pacific Islands Forum. The primary objective of the Plan is to enhance development by greater regional integration and cooperation through trade. We look forward to the Bank and Fund's support of the implementation of the Pacific Plan.

In these action plans, we cannot stress enough the importance of an effective partnership with development partners and would like to place special emphasis on their effective monitoring and evaluation mechanisms.

Fiji's Economic Performance

I am pleased to announce that a Fund Mission, which recently concluded its visit to Fiji this year following the Article IV consultation last year, acknowledged Fiji's good economic performance since 2000 with average growth of 3.5 percent. This level of performance reflects increased investments and buoyancy in consumer confidence. The mix of monetary and fiscal policy has worked well to raise domestic demand, which has driven growth in the last four years. Our economic fundamentals remain firm with low inflation, adequate foreign exchange reserves and moderate debt level.

However, we fully agree with the Fund that the emphasis should now be on sustaining this performance into the future. Government is committed to maintaining macroeconomic stability through fiscal consolidation and appropriate monetary policy.

However, being a small open economy with a narrow resource base, the challenges of development are enormous. We face the removal of our preferential markets, the adverse effects of globalization, large variability in outputs, small productive base, low endowments of natural resources and now, high international oil prices. We therefore need support, Mr. Chairman. We need the support and assistance of the international community and in particular the two Bretton Woods institutions. As usual, our needs are concentrated in the areas of training, technical assistance, policy advice and institutional strengthening.

Governance

With the assistance of the World Bank, the Asian Development Bank and Donors, the Fiji Government is implementing measures that improve governance. These include reforming the civil service and public enterprises, building institutional capacity and developing human resources.

Fiji has agreed to participate in a joint IMF and World Bank Financial Sector Assessment Program (FSAP). This is part of our commitment to comply with international codes and standards that will strengthen financial regulation and oversight, promote transparency and accountability and enhance our resilience to exogenous shocks. However, the burden of compliance can be enormous and I reiterate our need for institutional and human resource capacity building in this important area.

Representation At Fund / Bank

The structural misalignment of representation that exists in the Fund and the Bank needs to be urgently addressed. It is critical that quota shares be reassessed to ensure adequate voice and participation by all members. In this regard, Fiji continues to support the 13th general review of the IMF quotas, which will provide the best opportunity for the membership to make progress in this regard. Similarly, the strengthening of capacities in the Executive Directors Offices of the Bank and the Fund will be a step in the right direction. I urge the Bank and the Fund to take necessary measures towards addressing these issues as soon as possible.

Technical Assistance Programs

We are grateful to the Bank and the Fund for their continuing technical assistance to Fiji in the areas of macroeconomic and financial policymaking. We have received assistance in the areas of telecommunications, public sector reforms, financial supervision, payment systems, and monetary policy. Indeed, we acknowledge that by helping to build institutional and human capacity in formulating sound economic policies, the Fund and the Bank's technical assistance contributes to the building of a strong economy and maintaining stable growth. We are satisfied with the work of the Pacific Financial Technical Assistance Centre in the region and thank the Fund and other sponsors of the Centre. We also thank the Bank's Representative Office in Sydney for their support.

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

Thierry Breton

As we conclude the strategic discussions on the future of the International Monetary Fund and the World Bank, begun more than a year ago, I would like to reaffirm what I see as a shared concern: the mandates of these two institutions must continue to be growth and financial stability on the one hand, and poverty reduction on the other.

These two missions must be carried out by the IMF and the World Bank, so as to take maximum advantage of the synergies available to the two institutions. I would like to stress this point: attempting to streamline the interventions of these two institutions should not lead us to waste useful synergies.

I would like today to concentrate on three priorities.

First, we must promote growth and financial stability.

This requires first of all better governance of the world oil market. The international financial institutions have a role to play in the face of rising oil prices. The oil market is currently an unregulated market, which, because of the poor information available, suffers from many imperfections. The IMF and World Bank have the legitimacy to intervene in this area. I applaud the increasing consideration of energy issues in the work of the Fund. More progress needs to be made, such as improvement of the conditions of oil investment and of the quality of the data disseminated by each country, through the adoption, as encouraged by the IMF, of international standards, or indeed greater integration of energy policies in country surveillance. Likewise the World Bank and the regional development banks must facilitate investment in order to increase refining capacity, which is lacking in all parts of the world, both in developed and developing countries alike. We must also deal with the consequences of the surge in oil prices, particularly for the countries most affected. The current economic environment calls for the urgent adoption, within the Poverty Reduction and Growth Facility, of a financing window for countries with serious balance of payments difficulties caused by an exogenous shock. We have delayed too long and it is now urgent that the necessary decisions be taken. We must also strengthen international financial stability. Financial stability is a public good, which benefits everyone and must be taken in hand by the

international community. The IMF has the lead role in this task, but the World Bank must also make a contribution. The Fund must develop its role as insurer, both to encourage countries to follow good policies and to protect them from the negative affects of contagion in financial crises. We are today seeing a strong demand for these insurance instruments among the emerging countries. We fully support this demand. The World Bank must also participate in this effort, particularly through its involvement in financial sector assessment programs and reports on the observance of standards and codes.

Second, we must act to achieve the Millennium Development Goals.

We must first implement the debt cancellation proposal. The proposal of the G-8 to cancel 100 percent of the debt of the heavily indebted poor countries to IDA, the IMF and the African Development Fund has raised considerable and perfectly understandable expectations. The biggest expectation concerns the additionality of the resources released by the cancellation of these debts. This is a particular concern of my country. Like the IMF and the World Bank, we are taking care to ensure that this debt cancellation does not harm the financial intervention capacity of the IFIs in the poor countries. We must then energetically implement the poverty reduction partnership. Under impetus from the World Bank in particular, and I know that President Wolfowitz attaches great importance to this strategic approach, the international community has gradually adopted intervention frameworks: poverty reduction strategy contracts, the Paris declaration, performance-based management of aid, etc. The beneficiary countries have been closely involved in these actions. Today, while much remains to be done, we know better how to aid the poor countries effectively and legitimately. We have our road map for 2015, and the Bank's Plan for Africa will be one of its key elements. Finally, we must henceforth unambiguously confirm the commitment of the IMF to the poor counters. The IMF must participate fully in the efforts to achieve the Millennium Development Objectives, as Rodrigo de Rato has underscored. In particular, it is essential that the PRGF remain the preferred instrument for the IMF's involvement in the poor countries and that it be refinanced so as to cover the demand for future loans assessed by the IMF at SDR 1 billion per year. I am convinced that the Fund must be wholeheartedly committed to the poor countries and join its efforts with those of the development banks.

Third, we need stronger governance for more legitimate institutions

I see the need today to reestablish the legitimacy of these two institutions, at a time when they seem to be challenged by some

countries. Two aspects appear important to me. First, strengthen their political governance. To that end, I suggest that the ministers, at their meeting, take concrete decisions on strategic issues instead of simply providing guidelines. And then it will be up to the Executive Board to implement them. In this regard, it is time for the IMF to establish the Council, the creation of which was decided in 1974 and included in its Articles of Agreement, but which, more than thirty years later, has yet to be established. Finally, fair representation and full participation in the decision-making process for all members of these institutions are necessary. These objectives certainly call for an increase in the volume of quotas of the IMF and a change in their distribution. This discussion must be begun today with a view to the conclusion of the thirteenth review in 2008. I will not go into detail on the various proposals, but I would like to make two comments. First, we must base our actions on facts and not on preconceived ideas. Second, we must be able to find a solution that is favorable to all and not close the door on any option at this stage. No decision can be made if it is based on opposition among countries or entire zones.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GERMANY

Axel A. Weber

I am pleased to be back in Washington for the Annual Meetings of the IMF and World Bank. I would like to thank the United States for the excellent organisation of the meetings despite the strained security situation that has again forced a shortening of the meetings. It is extremely important, in my opinion, to have enough time at this occasion to intensively discuss the urging global challenges. The IMF and the World Bank with their universal membership provide the ideal platform to come to cooperative solutions of the problems at hand. Therefore, I hope that we can return to the usual three-day format soon.

The overall outlook for the global economy is broadly positive albeit downside risks remain, in particular, the possibility of persistently high and volatile oil prices. In addition to the already forceful growth in other parts of the world, conditions are in place to improve the economic dynamism in Europe. Also, I am confident that in Germany conditions are in place for the recovery to broaden further since the implemented structural reforms contribute to an improvement of domestic demand and

employment. The broadly favorable macroeconomic environment should be resolutely used to spur fiscal consolidation. The existing global imbalances can only be reduced in cooperative efforts by member states from nearly every region of the world. In this regard, I welcome the first steps that some countries have already taken. Now it is important to continue with necessary measures.

Given the substantial developments in the global economy since the foundation of the Bretton Woods Institutions more than 60 years ago, a major issue currently under consideration is the future strategic direction of the IMF. In order to remain an effective and economically leading institution, the IMF has to be prepared for the new challenges resulting from globalization. The Fund's monetary mandate thereby guides the scope of its future tasks. Let me outline some principles of general relevance in this regard:

- First, surveillance and economic policy advice remain the Fund's key instruments for promoting macroeconomic stability.
- Second, in providing financial assistance to members with balance of payments difficulties clear access limits are fundamental. This is the only way to give adequate incentives to debtors and creditors and to preserve the Fund's credibility, predictability and financial integrity. Moving the Fund towards the role of a general risk insurer by introducing precautionary credit lines above normal access limits, however, would necessitate a significant change to the Fund's financing mechanism. Namely, such an insurance by the IMF would neither be compatible with its principle to provide financial assistance at deliberately not risk-adjusted terms nor with the current system of refinancing short-term Fund credit through risk-free official reserves.
- Third, a better division of labour with other international institutions, notably the World Bank, is indispensable.
- Finally, for countries only seeking the Fund's seal of approval for prudent policies without having a need for balance of payments financing, non-financial policy support instruments would provide a useful signalling tool. I therefore welcome the proposed Policy Support Instrument for low-income countries.

As regards low-income countries more needs to be done to achieve the Millennium Development Goals, also in the developing countries themselves. Therefore, I welcome the significant progress that has recently been achieved in our efforts to overcome the extreme poverty in low-income member countries: The G-8 debt proposal provides an

unprecedented opportunity to complete the process of debt relief for Heavily Indebted Poor Countries, to strengthen their capacity to respond to external shocks, and to free up resources these countries need for poverty reduction. I call upon all shareholders to support the proposal. The debt relief should be subject to clear criteria and conditionality. It has to be fully financed, based on a fair burden sharing, without weakening the financial position of the International Financial Institutions. In any case, a new lend-and-forgive-cycle must be avoided in the future. Nevertheless, further lending under the Poverty Reduction and Growth Facility may be required, in particular for low-income countries suffering from exogenous shocks.

In order to retain the IMF's legitimacy every member country should be adequately represented in the Fund. But I note that there are currently significant differences between actual and calculated quotas for a number of member states in nearly every region of the world that call for correction. As quota shares not only define a member's voice in the Executive Board but also its financial responsibilities vis-à-vis the Fund, the core criterion for quota determination should remain the relative economic strength. I am convinced that we will come to a fair and feasible solution that respects the interests of all members.

STATEMENT BY THE GOVERNOR OF THE BANK FOR GREECE

George Alogoskoufis

The global expansion remains on track, with world growth projected to remain above 4 percent in both 2005 and 2006. Long-term rates are unusually low worldwide and credit spreads are tight. However, downside risks to the global outlook do exist. The high and volatile oil prices pose a significant risk to the sustainability of the global expansion. In addition, growth disparities between major regions have widened, as the expansion continues to be led by the United States and China while growth projections for the Euro-area have been revised downwards. These developments underscore the need for a cooperative approach to resolving global imbalances, including more ambitious efforts to remove impediments to long-term growth in Europe.

Greece's economic growth was exceptionally strong last year, underpinned by low interest rates and strong construction activity associated with the Olympic Games. Labor market conditions improved

during 2004, as the unemployment rate dropped by almost a full percentage point to 10.4 percent in the first quarter of 2005. Inflation, however, remained above the Euro-area average, thus gradually eroding competitiveness. Growth is expected to remain robust, at 3.6 percent in 2005 and rise slightly in 2006, despite the high oil prices and weak economic activity in the Euro zone. This robust growth performance, well above the Euro-area average, is driven by private consumption and investment, exports and tourism. Structural reforms in product and labor markets underlie this performance.

Fiscal consolidation remains one of the government's key priorities. The fiscal audit launched in March 2004 resulted in upward revisions of the general government deficit and debt for the period 1997–2004. These revisions have led to an increase in transparency that provides a solid basis for assessing the fiscal stance. Significant progress has been achieved in 2005, with the deficit of the general government set to decline from above 6 percent of GDP in 2004 to 3.6 percent in 2005. The Greek government is committed to correcting the excessive deficit by end-2006 through expenditure restraint in the public sector, measures to contain borrowing by public enterprises and entities, a broadening of the tax base and systematic efforts to tackle tax evasion. The target for 2006 is to further reduce the deficit to 2.8 percent of GDP.

In parallel with fiscal consolidation, the Greek government is implementing an ambitious agenda of structural reforms, to help increase private investment, employment and potential growth. This agenda includes an acceleration of the privatization process, a new framework for PPPs, and reforms to increase flexibility in the labour market and in retail shopping hours. We are also pursuing efforts to improve the competitiveness of the Greek economy by promoting competition, reducing administrative barriers, and cutting corporate taxes while improving tax administration.

The key to strong economic performance in an environment of intense global competition is downsizing the state sector, building strong institutions, removing obstacles to the efficient allocation of resources and tackling poverty. The pursuit of these objectives is greatly facilitated by international and regional policy coordination. The Fund's lending facilities and global, regional and country surveillance, as well as the Bank's country programs and lending policies, are instrumental in the pursuit of these objectives. We welcome the recent review of the Fund's medium-term strategy, to streamline surveillance and increase focus on the most pressing macroeconomic issues that arise from globalization. We also welcome the Bank's initiatives to reduce global poverty, and strongly support the

Bank's continuing presence in Southeastern Europe. We fully endorse the attainment of the Millennium Development Goals by 2015 and the recent G-8 initiative for debt cancellation of eligible countries.

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

P. Chidambaram

The Global Economy and Financial Markets—Outlook and Risks

The global expansion, albeit a bit moderate, continues to remain buoyant and well diversified. However, the balance of risk to the economic outlook, I am afraid, is primarily on the downside: Global current account imbalances remain stubborn, oil prices continue to rise, and protectionist tendencies are becoming stronger in advanced nations. Given the leading role that developing economies can potentially play in the current phase of global expansion, their success in maintaining macroeconomic stability, will determine the future pace of global expansion. A simultaneous realization of these risks can reverse the current benign conditions in global financial markets. But the sustained escalation of global energy prices will have a serious impact on price stability and welfare implications for a large number of oil-importing developing countries. In many of them, particularly those from developing Asian economies, growth will be seriously impaired by spiraling energy prices. Combating high energy prices and reducing the damaging impact of such prices on growth prospects remain a top priority for most emerging market economies.

Growth of global trade is expected to decelerate from 9.8 percent in 2004 to 7 percent in 2005. It is imperative to maintain the buoyant growth of global trade, and this is unlikely to occur unless negotiations in critical areas like agriculture and services reach a fruitful conclusion. I would urge all member countries to step up efforts for securing meaningful outcomes from the forthcoming multilateral trade negotiations at Hong Kong.

Indian Economy

The Indian economy grew by almost 7 percent in the last financial year and continues to be in a resilient mode. First quarter growth in

April-June 2005 has been estimated at 7.1 percent (see CMIE report). I am pleased to note that the recent World Economic Outlook has also revised the projection for India's growth to 7.1 percent for 2005, up by 0.3 percentage points from the last time. Despite unprecedented oil price increases, and revision of domestic retail prices, inflationary pressures have remained subdued. Domestic industry has been vibrant with the manufacturing sector growing at double-digit rates in recent months. The external sector continues to remain a major source of strength for the economy with foreign exchange reserves at comfortable levels. Maintaining inflation expectations in the current environment of high oil prices continues to be a priority for macro-stability. Fiscal consolidation remains high on the agenda for the Government. Infrastructure development is the primary focus of our developmental expenditure.

Debt Relief

We welcome the recent initiatives taken by the IFIs to support low income countries with regard to operationalization of the G-8 proposal for cancellation of the outstanding debt stock of HIPC countries. However, granting eligibility only to HIPCs would breach the uniformity of treatment required under the Fund's Articles of Agreement. I would urge the Fund to heed the call of many members that the use of Fund resources should, consistent with the Articles of Agreement, ensure uniformity of treatment by broadening the coverage of the G-8 proposal to include all PRGF-eligible low income countries.

Another important issue is that the cost of debt cancellation should be financed on a sound basis. The capacity of the IFIs to provide concessional financial assistance to its members must continue to be preserved. On the Fund side, the soundness of the General Resources Account should be maintained without additional burden on the borrowers. On the Bank side, it is essential to ensure that no IDA recipient country is worse off following debt cancellation. In the event replenishment is not to the extent of debt cancelled, reduced reflows will deplete the envelope of IDA. This may also reduce fresh allocation to other IDA recipient countries, thereby adversely affecting their poverty reduction and MDG oriented efforts. Donors should therefore fully compensate IDA by way of binding commitments beyond IDA-14 framework on an agreed burden sharing basis.

The IFIs would need credible assurances that countries benefiting from debt cancellation follow sound policies and maintain governance standards to preserve macroeconomic stability.

We are happy with the progress in the Enhanced HIPC initiative and under the PRS process. The Poverty Reduction Strategy Papers (PRSPs)

have enabled countries in producing effective poverty-reduction strategies with significantly improved country ownership through a broad consultative process.

Trade

After the failure of the Cancun Ministerial the forthcoming Hong Kong Ministerial Conference has become an important milestone for resolving all pending issues and providing a catalytic thrust to the unfinished agenda of the Doha round. In an eloquent compliment to the development promise of trade, the Global Monitoring Report (GMR) 2005 has estimated that freeing all merchandise trade and abolishing all trade distorting agricultural subsidies can boost global welfare annually by up to US\$280 billion by 2015, with more than a third of the fresh gains accruing to developing countries. On the other hand, failure to ensure an ambitious and development oriented outcome can be counterproductive for the welfare of developing countries and their progress in achieving the MDGs.

Aid Financing and Aid Effectiveness

Efforts by the Bank and other agencies for harmonizing aid and improving aid quality have our full support. The time has also come to consider preparation of Harmonized Country Aid Strategies over the medium term within a given set of parameters and constraints vis-à-vis the bilateral donors and multilateral agencies working in a particular country. The reduction of transaction costs and doing away with tied aid will enhance the efficiency of aid and transparency.

We look forward to all the donor nations honoring the commitment made at the Monterrey Conference for scaling up aid and achieving the targets set out for financing the MDGs. The recent consensus arrived at the UN Millennium Conference calling upon the developed countries to scale up their assistance to 0.5 percent of their GNI by 2010 needs to be adhered to. Following these comforting words, we would like to see action. The financing and achievement of MDGs are closely linked and we hope that a consensus on the suggested innovative financing mechanisms is achieved soon.

Infrastructure

We welcome the signs of sustained revival in Bank financing of infrastructure investments and the increased presence of infrastructure in the Bank's portfolio. However, the huge investment needs of the developing world call for concerted efforts for enhancing all forms of

investments, including private-sector financing and public-private partnerships.

Voice and Participation of Developing and Transition countries

Mr. Chairman, a number of proposals have been mooted in recent years to strengthen the voice and representation of developing countries. We welcome the fresh impetus on this issue. While we appreciate the enormous complexities involved, the current state of impasse reflects the reluctance of the major shareholders to give up their present disproportionate strength. The real issue is therefore of political will. The momentum for the change has to come from the capitals, and it would be necessary to recalculate quotas on the basis of changed formulae with economically rational weights.

STATEMENT BY THE GOVERNOR OF THE BANK FOR INDONESIA

Jusuf Anwar

On behalf of the government and people of the Republic of Indonesia, let me convey our heartfelt sympathy and prayers to the people of Louisiana, Mississippi, and Texas. We understand all too well of your suffering. Our own tragedy in Aceh and the hurricanes of the Gulf Coast remind us once again how humble we are in the face of nature and the generosity people and nations are capable of.

It is also my privilege to congratulate and welcome a dear friend of Indonesia, Mr. Paul Wolfowitz to your new post as President of the World Bank. We are certain the Bank will benefit from your experience working with developing countries and we look forward to our association with you.

Before I address specific Bank issues, let me share a few thoughts about the 2005 World Summit. The Government of Indonesia is absolutely committed to achieving the Millennium Development Goals. All of our economic and financial policies must be judged by the extent to which they contribute to the rapid and permanent reduction in poverty.

In the face of continuing global risks and opportunities, the Fund continues to play an important role that focuses on strengthening crisis prevention and resolution, and so we look forward to understanding better how this role might be made even more effective.

I would like to thank the Bank and all of our development partners for the tremendous staff support and financial assistance, including the debt moratorium, during the tsunami. I would also like to highlight three Bank related issues: debt relief and the importance of IDA's financial viability; fund replenishment; and equal treatment for developing countries.

First, IDA Financial Viability. We understand that proposed Debt Relief will use IDA funds. The total cost to IDA is a substantial share of IDA's balance sheet and, inevitably, a drain on IDA resources. In our view, IDA is one of the key resources available for least developed countries and so its financial viability is critical. We strongly recommend that IDA replenishment be concluded prior to Debt Relief implementation, which requires us to move forward the IDA replenishment schedule.

Second, allocating IDA Funds. We propose that IDA funds be targeted more effectively in fighting poverty. To do this, allocations should not be limited to IDA-only countries but should include IDA-eligible countries. IDA eligible countries continue to encounter pockets of very serious poverty and limiting resource eligibility impedes efforts to combat it and achieve global MDGs. Efforts are also needed to lower borrowing costs and diversify products to better match developing countries needs, especially through new "client friendly" financial products. I request the Bank's Management to seek ways to enhance the use of IDA for poverty reduction especially through basic infrastructure.

Third, Uniformity of Treatment. We expect programs to be extended to eligible countries based on clear and relevant criteria and that its management should resist pressures to apply different standards in different regions.

I see that conditionality forms part of this year's progress report. As a Borrowing Country member, we have often found that conditionality is too rigid and we appreciate the new Development Policy Loans that provide greater flexibility and ownership. To this end, I share the view of the progress report on Conditionality and congratulate you on the substance it presents.

Now, let me turn to a few key developments in Indonesia. This year saw the continuation of a democratic transition in Indonesia. Our President, Mr. Soesilo Bambang Yudhoyono, was directly elected and began his term in office with a pledge to combat corruption and required the cabinet to take the same pledge. The task is not going to be easy but there have been a number of reforms including those in my own ministry that create improved incentives and a better framework. More importantly, there has been a rapid increase in number of high profile cases in the courts that have sent a strong signal to the market.

We are relatively pleased with our economic growth rate achieving 5.9 percent in the first semester of 2005 including over 13 percent growth in investment. These are the best numbers since the crisis, and we hope to build on this momentum.

Near term policy direction remains committed to macro stability and the recent turmoil in the exchange and bond market demonstrates just how important this remains. To quarantine a rapid depreciation in the Rupiah, we have had to raise interest rates. Even more imperative, is the government's commitment to reduce domestic fuel subsidies as part of a broad strategy to bring prices to international levels, diversify energy sources, and increase production.

Longer term, the government remains committed to fiscal sustainability with budget deficits below 1 percent of GDP. To achieve this, fiscal policy will focus on tax and custom reforms, more efficient spending, and reallocating poorly targeted fuel subsidies to better-focused programs aimed towards achieving MDGs.

We are now finishing our first year of major budget and institutional reforms at the Ministry of Finance. These reforms are aimed at improving budget, treasury, and in subsequent stages, revenue processes for improving governance and reducing corruption. As with any major reforms, we have had our share of teething problems. Initiating and working through our new processes were compounded by the drain on resources as we responded to the crisis in Aceh. The 2006 budget is already in a much stronger position than this past year's, giving us ample time to reap the rewards gained from more efficient and prioritized spending and improved governance.

We continue with accelerating our fiscal reforms with this year's launching of a major tax reform package. Amended laws on general provision of tax, income tax, VAT, customs-excise is ready to be discussed with our parliament, and a new regional tax code will soon follow. A common theme of these laws is our commitment to making our tax environment more business friendly through stream-lining procedures and lower tariffs. And, we are equally concerned with broadening the tax base and equity through improving law enforcement and combating smuggling with zero tolerance.

Bank Indonesia, our Central Bank, has also pushed ahead with a number of reforms this year. In addition to tightening monetary policy, BI has enacted a number of complementary regulations designed to reduce excess liquidity and limit the ability to obtain financing for foreign exchange transactions without underlying transactions. In the financial sector, supervision standards are being raised to international levels for improving transparency and corporate governance. Finally, and perhaps most importantly, on September 22, we established the country's

Deposit Insurance Agency, a critical step in phasing out the government's blanket guarantee scheme.

Finally, let us strengthen our cooperation and efforts in achieving our overarching mission in combating poverty.

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

Davoud Danesh Ja'fari

"In the name of God the Compassioned the Merciful"

At the outset, on behalf of the people and the government of the Islamic Republic of Iran, I wish to express my deepest sorrow and regret on the tragic event of Hurricane Katrina. Let me hereby express my heartfelt condolences to the family of victims of this sad event.

I should avail the opportunity to welcome and congratulate Mr. Wolfowitz for his election as the World Bank Group President. In fact this critical responsibility acquire more focus on poverty reduction, economic development of member countries with the special attention to environmental standards, good governance, transparency, and accountability. There is no doubt that the framework of the corporate policies of the institution would assist the World Bank management in paving the ground for accomplishing the Bank ultimate mission and assisting the developing countries to achieve Millennium Development Goals.

Let me also express my highest gratitude for Mr. Wolfensohn relentless efforts during his ten year term in the office in fighting global poverty and assisting the world's poor to forge better lives. In fact under his wise leadership some considerable achievements and reforms were implemented to help the Bank to accomplish its mission. He put more emphasize on some major areas including corruption, debt relief, the environment and gender. He also made the developing countries more engaged in the decision-making process and activities of the Bank during his tenure as the World Bank President. I wish him all success and hope that these significant approaches and results will be more attended and strengthened.

Although the world economy has witnessed high average GDP growth during the past recent years, as evidence of economic improvement in most developing countries, still the poor nations that

desperately need new job and business opportunities are falling even further behind the developed countries. Therefore, enacting more efficient and tailored macroeconomic and social policies along with applying structural and regulatory reforms is required by all nations especially the developing countries to ensure the sustainable growth.

It seems that despite the availability of the incentives and stability in the macroeconomic condition, there are still some major barriers and obstacles in the area of investment climate and strengthening the private sector as the key factors for economic development. This is a field in which the international financial institutions such as the World Bank can play an important role by rendering more targeted technical and financial assistance as well as improving the accessibility of developing countries to the global market. There is no doubt that promotion of the private sector in member countries will have a large impact on sustained development and poverty reduction in these countries. In this context the role of IFC as an important member of the World Bank Group is significant. Particularly the MENA region seeking domestic and foreign investment in the region's private sector which is with no doubt the driving force for growth and development. Therefore, I once again, urge the more serious and active presence of the IFC in the region.

I would like to take this opportunity to touch another important issue concerning the cooperation between the Bank and the borrower countries on the projects financed by the World Bank. The articles of agreement of the Bank make specific arrangement to ensure appropriate utilization of the loan and transparency and efficiency in the project implementation process. Although these criteria and guidelines are somehow envisaged in the member countries internal rules and regulations for project procurement, there are still major obstacles in regard with effective and timely disbursement and implementation of World Bank financed projects. Therefore in order to tackle the problem, conducting a diagnosis study for concerned member countries is required to identify the bottlenecks in public procurement regime, legal and regulatory framework and procedures and mechanisms on one hand, and extending efforts to show flexibility in the Bank's procurement guidelines as far as possible on the other hand.

I would like to point out two issues which have recently been discussed among World Bank members:

The positive impact of trade and market access for goods and services supplied by developing countries on the employment, welfare, and growth of the economies are apparent. For years the developed countries insisted that the developing countries should lift tariff and non-tariff barriers to trade in order to help their countries as well as economies of partner countries growth faster to the benefit of all parties.

Unfortunately we observe that the developed economies have not completely implemented what they have preached for many years. High levels of tariff especially on the agricultural products in developed countries are great impediment to access the market for the products of developing countries which adversely affect the economic situation and aggregate poverty in many developing countries especially African countries. Therefore we urge the developed countries to eradicate the barriers to the export of the developing country's products. This will be a vital policy reform towards sustainable poverty reduction.

We also generally welcome the new initiatives to enhance debt relief for HIPCs. Any mechanism that reduce the debt burden of heavily indebted developing countries and help them get out of debt spiral worth supporting. However this new initiatives should be implemented in a way that ensure additional financial resources of IDA and other international institutions. It is also vital to take appropriate measures in order not to jeopardize the long term sustainability of IDA as the most important and effective vehicle of development aid to low income developing countries.

Now let me bring to your kind attention the latest developments in my country. The Islamic Republic of Iran has pursued the economic and social and reform strategies within the framework of the country's Development Plans. In this regard a package of reform policies were implemented in the context of the third 5 year development plan during the period of 2000/04 and many considerable and significant results have been achieved.

The Islamic Republic of Iran has the second largest population in MENA region. Most of them are young with increasing expectations of a better life and future. There are also a large number of well-educated women seeking opportunities to partake in different areas of economic and social activities. Despite significant progress in the country's activities for poverty reduction and human development, creating enough job opportunity to meet the new flows into labor market along with extensive reduction of unemployment is required. In order to overcome this problem, high and sustainable economic growth with enough employment opportunities should be ensured. We strongly believe that economic development can not be achieved unless, attractive investment climate and broader participation of private sector in the economy is provided and promoted. In the same line the strategic policies deduced from the article 44 of the constitution implying the boundaries and areas of performance of state-owned, cooperative, and private entities were elaborated and specified by the government. In these new introduced policies, the ground is paved for more private sector involvement in different economic and financial activities, especially in those areas that previously was monopolized by the Government. Therefore the

legislative framework for contribution of the private sector in different areas of activity such as heavy industry, banking, insurance, power supply, communications, and transportation sector is provided.

Greater transparency in the macroeconomic regime, 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 market, reducing the non-tariff trade barriers, adopting smart and targeted subsidies, attracting foreign investments and protecting private sector investment, establishing private commercial banks to pave the ground for privatization of state-owned banks and developing an effective social security system are the evidence to the Government of Iran's commitment to implement structural reforms within the framework of the third five year Development Plan. These employed reforms and programs together with strong macroeconomic performance, have caused an average growth rate of around 5.5 percent during the period of the third development plan, which is the one the highest in the region. In addition the unemployment rate is dropping continuously reaching 10.3 percent last year.

By reaching the end of the third development plan in 2004, the fourth- five year development plan was ratified six months ago. In fact this Plan in compliance with the objectives set by Twenty Year Economic Vision Document of the country, draw the guidelines and specifies the framework for the new government policies and approaches. Achieving the continuous increasing and sustainable economic growth, providing the ground for the competitiveness of goods and services in local and foreign market, promoting non-oil exports, extending efforts for shifting the growth structure toward the knowledge economy are some of the major highlights of the economic approach of the fourth five year development plan.

I would like to emphasize that while the new government is very much committed, to the said 20 years Economic Vision Document and the Development Plan, one of the most important priority of the government is the issue of expansion of Equity in the society by economic and social means, by providing for example, equal job opportunities, education, health and social activities, in order to reduce the Gini Index. Furthermore, anticorruption campaign will also be implemented more forcefully.

At the end I should express my appreciation to the World Bank management and staff for their extraordinary work and commitment. There is no doubt that in case of my country with a growing portfolio, the dedication and relentless efforts of the Bank's management and staff have played a crucial and significant role. In fact we consider the World Bank

as an important center for synthesis of expertise, views and experiences in a global scale to illuminate the development gateway.

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

Brian Cowen

A new President brings the opportunity to reinvigorate the policies and activities of the Bank. For Paul Wolfowitz this is his first annual meeting as President of the World Bank. I wish him every success and look forward to working with him in relation to the prime objectives of the Bank.

Tsunami

It is almost 9 months to the day since we witnessed the almost unimaginable effects of the Tsunami. Its sheer magnitude spurred the International Community to react in a way and at a speed which was exceptional by normal standards. This action resulted in significant progress in the early months. We should be encouraged by the benefits which such a speedy response conferred on the people affected and be prepared to learn from this experience.

G-8 proposal on multilateral debt relief

The recent announcement by the G-8 Finance Ministers that they will finance 100 percent cancellation of World Bank, African Development Bank and IMF debt owed by a group of the world's poorest countries is a most welcome development. This agreement represents very significant progress towards solving the so far intractable problem of third world debt.

Ireland was one of the first countries to support debt cancellation. Our official policy, adopted in 2002, called for 100 percent debt cancellation for all HIPC's.

The success of a debt relief or debt cancellation scheme can be measured by how much it increases the money available to the beneficiary Government for poverty reduction and advancing towards the Millennium Development Goals. Additionality is therefore, an essential requirement.

We also, believe that a country's requirement to repay debt must not prevent it from maintaining an adequate level of expenditure on services and investments, without which growth and development are impossible. I am very glad that the G-8 countries have come to the same conclusion.

Our objective must be to achieve long term debt sustainability while ensuring adequate resourcing of the Millennium Development Goals. This will require significant increases in grant ODA, particularly by the larger economies. The increasing flow of oil revenue will help some states to extend and expand their overseas development aid budgets. This they should now do.

Ireland is a strong supporter of the IDA over the years. This year Ireland has significantly increased its contribution to the IDA 14 Replenishment. Debt relief will impact on the operations of IDA and we need to protect it.

European proposals for Development finance

The UN Summit in New York earlier in the month focused again on the need for additional finances to achieve the Millennium Development Goals.

In the context of steadily increasing ODA, Ireland considers the most appropriate mechanism is to provide direct grants.

In May this year Ireland together with other EU states agreed a further package which set an intermediate collective target of 0.56 percent ODA/GNI by 2010 as an interim stage to achieving 0.7 percent by 2015.

Ireland has gone even further. In the three years 2005–2007, we will spend almost €2 billion on ODA, so that by 2007 it will have reached 0.5 percent of GNI. And it will continue to increase thereafter. At the UN Summit we recommitted Ireland to reaching the UN target of 0.7 percent. This will be achieved in 2012, some three years earlier than the agreed EU target date of 2015. Given current economic projections, this will mean a tripling of Ireland's ODA above current levels. This commitment is very demanding. But my Government believes that it is achievable.

Trade

While ODA and debt relief will significantly assist poor countries, trade is the key to underpinning growth. All countries, 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.

Governance and economic policies

Recipient countries too, must play their part. Good governance and sound economic policies are the central planks of economic and social reconstruction that are necessary for less developed countries to emerge from poverty. Therefore, initiatives to build capacity in developing countries deserve our full support.

Conclusion

Good progress has been made but we need to redouble our efforts to provide the significant but necessary finance to address the needs identified in the Millennium Development Goals.

STATEMENT BY THE GOVERNOR OF THE BANK FOR ISRAEL

Stanley Fischer

Mr. Chairman, distinguished Governors, Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund, Mr. Paul Wolfowitz, President of the World Bank Group, delegation members, colleagues and former colleagues, ladies and gentleman:

It is a special pleasure for me to be here today as Governor of the Bank of Israel and to address you as Governor for Israel.

I would like to make brief comments on three issues: first, the Israeli economy; second, the debt relief proposal; and third, the Fund's Medium Term Strategy paper. The limited time available will not allow me to cover other important topics, including the global economy and the impacts on it of the increases in the price of oil, as well as the potential roles of the Bank and the Fund in improving access to microfinance.

The Israeli economy

Following the deepest recession in the country's history, the Israeli economy has for the last eight quarters been growing at an average annual rate of more than 4 percent. Inflation is close to its target of 2 percent per annum. The balance of payments is in a small surplus, and foreign direct investment and financial inflows are likely to reach record levels this year. Controls on capital flows have been removed progressively over the last fifteen years, and the capital account is

essentially totally liberalized. The exchange rate floats freely and the Bank of Israel has not intervened in the foreign exchange markets since 1997. Nonetheless—or is it “accordingly”?—the exchange rate of the shekel against the dollar and against the relevant basket of foreign currencies has displayed an impressive stability despite an at times difficult security situation.

For someone whose intensive involvement with the Israeli economy began during the hyperinflationary crises of the early 1980s, this situation represents an extraordinary achievement. That is not to say that the situation is perfect: the government debt ratio remains too high and needs to be reduced; government spending exceeds half of GDP and needs to be further reduced; unemployment at around 9 percent, although declining, is also too high; and more needs to be done to improve the standard of living of the poorest members of the population.

The achievements of the Israeli economy are due in part to improved economic policies based on the understanding that the only way to sustainable growth, particularly for a small economy, is to pursue market-based policies and to embrace the possibilities that globalization offers. The pace of reforms has accelerated impressively over the last three years, and I believe that the reform process will continue and strengthen. At present we are near completion of a new and modern central bank law that will clearly define the independence of the Bank of Israel, while increasing its accountability and transparency. These policies and reforms are essential to growth. No less so is the dynamism and technical sophistication of the private sector, which continues its integration into the global economy as Israeli companies seek markets and production bases abroad.

The problems of the economy can only be solved with continuing growth and with continuing policy discipline, which contributes to the continuation of growth. They are also more likely to be solved in an environment in which the prospects for peace with our neighbors continue to improve.

The G-8 Debt Relief Proposal

I would like to make only two points regarding the G-8 proposal to augment debt relief to the heavily indebted poor countries. First, it is very important that the proposal leads to an increase in net capital inflows to the countries receiving debt relief, and does not do so at the expense of other countries that need economic assistance. That is to say that donor countries need to increase their own provision of aid, and should not rely mainly on financing by the Bank and the Fund that will

deplete these institutions' capacity—particularly that of the Bank—to provide assistance in the future.

Second, it remains true that in many countries aid needs to be used more effectively than it has been in the past. Problems of governance and of institution-building will continue to need special and increased attention as the level of aid builds up. The donors too can make an important contribution by coordinating their aid through the international agencies. The typical situation in which a recipient country has to manage numerous aid projects in coordination with tens of different governments and agencies is both inefficient and also unnecessary.

The Fund's Medium-Term Strategy Paper

The strategy report is focused and significant. Allow me to make five brief comments.

First, the report rightly emphasizes the role of surveillance. Surveillance matters because it helps member governments improve their policies as a result of the exchange of views and analysis with the staff and within the Board. But it matters no less because it informs a wider public, and in this regard I applaud the desire of the Fund to broaden its outreach in member countries. However, the current delivery schedule of Article IV reports is far too slow, an anachronism of the era before the email and the internet, and it means that those reports have little impact on the private sector. There is no good reason why Article IV reports should not appear within a month of the conclusion staff's visit to the country. It would also be desirable for the Fund to increase its use of interim reports.

Second, the strategy report discusses adding to the Fund's publications an annual report on the macroeconomics of globalization. Globalization is not a separate topic that deserves a separate report, but rather provides the context in which economies operate. Its impact needs to be analyzed and taken into account in the Fund's existing publications, the WEO and the Global Financial Stability Report. Adding a third report would not increase the overall quality of the Fund's surveillance; rather it would likely reduce the scope, depth, and impact of the existing reports.

Third, despite the failure of the Contingent Credit Line facility, I would like to support the continuing effort to find a way to provide a precautionary line of defense for members with sound policies who are vulnerable to contagion effects from external financial disturbances.

Fourth, I continue to believe that orderly capital account liberalization should be a goal of the Fund's policies. To be sure, that does not mean instant liberalization, nor does it mean liberalization pursued in a perverse way, for instance by opening first to short term

flows. But it does mean that in this area too, integration into the global economy can contribute to the efficient operation of the domestic economy. And in many countries, including mine, it has contributed to the efficiency and growth of the economy.

Fifth, I would like to support some reallocation of quotas, to recognize the changing role of countries in the global economy and in its management. As we all know, this is an area in which the easy solution is for the sum of the quotas to exceed 100 percent of the total. But I am confident that with persistence and creativity, progress can be made—not least under the guidance of a veteran of many EU negotiations. Since taking up my new job I have frequently heard the Israeli saying: “Your success will be our success.” In the case of the Bretton Woods twins, we wish you success in the years ahead, for we know that “Your success will be the whole world’s success.”

STATEMENT BY THE GOVERNOR OF THE BANK AND FUND FOR JAPAN

Sadakazu Tanigaki

Let me begin my remarks with a sincere welcome to Mr. Wolfowitz, who is here for the first time after assuming the position of President of the World Bank. I hope that, under his strong leadership, the World Bank will continue to be effective, efficient, and relevant to the economic development of developing countries.

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

World Economy

I welcome the continued expansion of the global economy in an increasingly integrated world. I hope to see this momentum sustained, while I note that oil price developments remain a major risk that warrants vigilance over time. In this regard, I would like to underscore the importance of closely monitoring developments in Asian countries that have high oil dependency and are increasingly gaining significance in the world economy.

While global imbalances, particularly the sustainability of the U.S. current account deficit, do not appear to present an imminent risk to the

global economy, a further widening of that deficit might add uncertainty to the global economy in the longer run. Against this background, advanced countries should vigorously implement structural reforms, including fiscal consolidation, in order to strengthen a foundation conducive to long-term growth. At the same time, emerging market and developing countries should further enhance their efforts toward resilience against shocks.

I welcome the recent steps taken by China and Malaysia toward increased flexibility in their foreign exchange regimes. These reforms should increase the latitude of economic policies and enhance the flexibility of their economies to absorb shocks, thereby contributing to the growth and stability of the global economy.

In order to further strengthen the WTO-centered multilateral trade system, each country should make decisive strides toward the success of the Hong Kong Ministerial Conference in December.

Japan's Economy

Japan's economy has steadily strengthened its foundation through structural reforms, as seen in the substantial decline in major banks' nonperforming loan ratios. Improvement in the corporate sector has been spreading to the household sector, and the economic recovery supported by domestic private demand is expected to continue.

Continuous efforts to accelerate and strengthen structural reforms are called for to raise productivity, which is needed to respond to the unprecedented rapid pace of aging of our population, and to meet the growing challenges of globalization. In particular, fiscal consolidation remains the top priority on the government's policy agenda, and steady implementation of fiscal structural reform efforts will continue, with a view toward achieving a primary surplus for the combined central and local governments in the early 2010s.

Regarding monetary policy, the Bank of Japan will maintain its quantitative easing policy in accordance with the current commitment based on the consumer price index and will support the private sector's activities from the monetary front.

The Strategic Direction of the IMF

Since a Strategic Review of International Financial Institutions (IFIs) was proposed last year on the occasion of the 60th anniversary of the Bretton Woods Institutions, the IMF's future direction has been discussed in various fora. I applaud the Managing Director's leadership in presenting us with a succinct and well-balanced report on the IMF's medium-term strategy. "Globalization," which is proposed as the

organizing principle of the IMF's medium-term strategy, has brought about enormous and rapid changes in the world economy. In order to appropriately cope with those new changes, and to continue to function as one of the key IFIs, it is important for the IMF to focus its discussions on the roles it truly has to play, and to undertake necessary reforms in an effective manner. In this context, I believe the following three issues are of particular importance.

Prevention and Resolution of International Financial Crises

The first issue is the prevention and resolution of international financial crises. Globalization has provided both opportunities and challenges to every country in the world, and supporting members' efforts to respond to its challenges has become one of the major roles of the IMF.

The experience of financial crises since the 1990s has taught us how important it is in a globalized economy to prevent capital account crises, and to appropriately manage and resolve them once they have occurred. In recent years, increased access to expanding international capital flows is being observed in three large emerging regions, namely Latin America, Central and Eastern Europe, and Asia. Ample international funds are currently flowing smoothly, thanks to unprecedented low interest rates. However, this benign environment could be reversed at any time. Therefore, it is important to adapt the IMF's precautionary arrangements to a preventive framework that would enable member countries with sound policies to cope more effectively with possible capital account crises. I strongly encourage resumption of the discussions on precautionary arrangements with exceptional access, so that the IMF could respond effectively and efficiently to massive financing needs should a capital account crisis occur for any member country.

In view of the increasing importance of capital flows in the current environment, there is a growing need to deepen our understanding of capital movements and to enrich the analysis of the financial sector and capital markets. In order to better fulfill this function, it is paramount for the IMF to review its work in this area, including its organizational structure.

Review of IMF Governance

The second issue is the review of the IMF's governance. Over the past 60 years, thanks to the free trade regime and the international financial order that have been sustained by GATT/WTO and the Bretton Woods institutions, many member countries have realized sustainable economic growth and advanced their level of development. These

countries are now expected to play increasingly important roles in the global economy. These emerging economies, which used to be beneficiaries of financing from the Bretton Woods institutions, are now expected to play a more active role and assume greater responsibilities in the global community, including the role of providers of funds. For these countries to play this larger role, their will and responsibilities need to be better reflected in the decision-making process of our institutions. Hence, a review of IMF governance has become one of the urgent problems that needs to be addressed.

It is important to recognize that the current distribution of IMF quotas represents another form of unsustainable global imbalance. Many emerging market economies, including those in Asia, are markedly underrepresented in terms of their current economic strength and relative positions in the global economy. A quota distribution that does not reflect a country's current economic size and the scale of its balance of payments needs results in distortions and unfairness in determining countries' access limit to IMF resources. A more balanced quota distribution is also important from the viewpoint of ensuring a better regional balance in the composition of the Executive Board. Japan, as a member of Asian countries, maintains a strong interest in these points.

Since the issue of quotas is crucial in order to secure the IMF's political legitimacy, discussions on this issue should be undertaken in a prompt manner. Japan strongly supports the views expressed in the medium-term strategy that the resolution of the quota issue is beneficial to every IMF member. I fervently hope that a broad consensus on the principles of how to redistribute quotas can be reached in time for the next Annual Meetings.

The Role of the IMF in low-income countries

The third issue is the IMF's role in low-income countries. In these countries, capacity building in the area of fiscal and monetary policies, the financial sector, and debt management is essential to garner, manage, and utilize increased aid inflows in an effective manner, while maintaining macroeconomic stability. The IMF's support in the areas of its core expertise is expected to play a complementary role vis-à-vis the longer-term support to structural reforms extended by multilateral development banks, such as the World Bank. I welcome the progress being made by the IMF on enhancing its toolkit to support low-income countries. I will watch closely with great interest what roles the Policy Support Instrument and a second window under the Poverty Reduction and Growth Facility for sudden exogenous shocks will be able to play.

The Role of the IMF in Asia

Next, I would like to offer our views on the role of the IMF in Asia. In parallel with the rapid growth in the region, significant progress has been made in regional cooperation, including financial cooperation, in Asia. Nevertheless, the IMF should continue to play an important role in this region, including by establishing a new relationship that is not limited to conventional financial support.

Japan has been actively promoting regional financial cooperation, mainly through the ASEAN+3 Finance Ministers' process, including efforts to strengthen regional economic surveillance and policy dialogue, to promote the Chiang Mai Initiative (CMI), and to make progress in the Asian Bond Markets Initiative (ABMI). These initiatives aim at preventing and resolving financial crises, and are expected to serve as a regional self-help and support mechanism against crises and to supplement the existing global insurance provided by the IMF.

More recently, the ASEAN+3 Finance Ministers agreed in May 2005, on (i) measures to strengthen the CMI (known as the "CMI Second Stage") such as integration and enhancement of the regional economic surveillance into the CMI framework and a significant increase in the size of swaps, (ii) initiation of discussions on the CMI's future, including transformation of the current network of bilateral swap arrangements into a single financial arrangement, and (iii) adoption of the ABMI Roadmap that features an exploration of the possible issuance of an Asian currency-basket. Clearly, regional financial cooperation in East Asia has been elevated to the next level.

In the current globalized economy, sharing the lessons of one region with another is becoming increasingly important. The IMF is expected to play a pivotal role in this exercise, by analyzing and discussing desirable monetary and exchange rate regimes in this region through its surveillance function, and by establishing preventive frameworks to deal with rapid capital movements.

The swiftly evolving developments in Asia require the IMF to maintain continuous dialogue with Asian member countries, deepen mutual understanding, and pursue its expected roles in the region. In this regard, the useful and encouraging discussion that took place at the "High-Level Seminar on Asian Financial Integration," co-hosted by the IMF and the Monetary Authority of Singapore in that country earlier this month, has nourished our hope for the future relationship between the IMF and Asia. I hope this dialogue will gather further momentum in the period ahead.

Current Status of Development Issues

Next, I would like to state my thoughts on development issues. Five years have passed since the Millennium Development Goals (MDGs) were agreed upon, and both developed and developing countries have further reinforced their efforts on the development agenda. Japan is determined to make the most of efforts to progress toward the MDGs and has thus committed to increase ODA volume by US\$10 billion in aggregate over the next five years. Japan also intends to double ODA to Africa in the next three years, where progress toward the MDGs is at risk, and has announced its action plan to implement the Paris Declaration to improve aid effectiveness. To make steady progress toward the MDGs, I believe the following three points are particularly important.

First, we need to support developing countries in achieving sustainable growth. Sustainable economic growth is imperative to achieving poverty reduction. From this viewpoint, I appreciate that the World Bank attaches great importance to improvement of the investment climate and infrastructure development. With regard to infrastructure development in particular, we need to give more priority to addressing the emerging challenges we are facing, such as relevant institutional reforms, improvement in service quality, and environmental impact, rather than focusing on lending volume. Continuous dialogue with stakeholders is also necessary.

Second, we need to strengthen our focus on each country's different circumstances, while securing ownership of developing countries. Donors should align their assistance with the priority that is embodied in the developing country's own development strategy, such as the Poverty Reduction Strategy Paper (PRSP). For that purpose, the PRSP needs to be more specifically linked with the Mid-Term Expenditure Framework (MTEF) and budget process in developing countries, and needs to clearly prioritize their policies.

Third, it is important to provide additional resources commensurate with the improvement of developing countries' absorptive capacity. We should also recognize that it takes some time for capacity building efforts to produce their expected outcomes and for these outcomes to become truly owned by developing countries.

Last but not least, it is crucial to deepen the academic dialogue in the development field in order to implement development effectiveness. From this point of view, Japan will host the Annual Bank Conference on Development Economics (ABCDE) next spring for the first time in East Asia. ABCDE intends to make an essential contribution to development

polices and provide opportunities to discuss interdisciplinary development.

Supporting Africa

There is no doubt that in Africa, where progress toward the MDGs is at risk, developing countries must strive to construct stable governments and economies and to strengthen governance, while developed countries must certainly make further efforts to assist these efforts by developing countries. Japan has committed to double ODA to Africa in the next three years. And I welcome the Bank's Africa Action Plan that focuses on capacity building and growth.

Japan also believes that to reduce poverty through sustained growth, we should deliver aid in such a way that it leads to wealth creation through private sector development. We have to bear in mind the notion that it is more important for countries to grab hold of a fishing rod than to be given fish. From this viewpoint, Japan plans to provide the following support to Africa.

First, we will provide more than US\$1 billion assistance over the next five years to implement the Enhanced Private-Sector Assistance for Africa (EPSA for Africa), which is a comprehensive initiative with the African Development Bank to promote private sector growth in Africa. To expedite the delivery of EPSA in the future, support from other donors is indispensable. I hope that all countries concerned will share the purpose of this initiative and participate.

Second, we will initially contribute US\$2 million to the Private Enterprise Partnership for Africa (PEP-Africa), the initiative IFC took this year to promote private sector development in Africa.

Third, we intend to make an initial contribution of US\$1 million to launch a new facility at MIGA. This new facility intends to promote private investment in Africa, by supporting small- and medium-sized enterprises that meet MIGA's environmental and social standards.

Fourth, as a major donor in the agricultural sector, we will reinforce our support toward achievement of the Green Revolution and better livelihood in rural areas, through development and diffusion of NERICA (New Rice for Africa), education, and infrastructure build-up. As about 70 percent of Africa's population lives in rural areas, agricultural development and improvement of rural livelihood is imperative for socio-economic stability. We expect that African countries will strengthen their efforts in the agricultural sector in accordance with the "Declaration on Agriculture and Food Security in Africa," and hope that donors will reinforce support for their efforts.

Debt relief

On debt relief for Heavily Indebted Poor Countries (HIPC), I am pleased that the G-8 debt cancellation proposal, in which Japan participated, is being discussed at this year's Annual Meetings. It aims to provide debt relief to HIPCs that have reached the completion point, leading to 100 percent cancellation of their debt owed to the IMF, IDA, and the African Development Fund (AfDF). I hope that this proposal will be implemented with the support of other members.

The G-8 debt cancellation proposal does not stand alone in addressing the issue of debt sustainability in low-income countries. Progress has recently been made on this issue, as IDA has launched a new "traffic light" system from the beginning of the IDA 14 period. The enhanced HIPC Initiative, to which Japan has made the largest contribution as an official bilateral creditor, continues to be effective, while we have to maintain our efforts to encourage non Paris Club and private creditors to participate in the Initiative.

As financial institutions, the World Bank and the IMF must fully take into account the importance of fostering a credit culture in the medium- and long-term perspective in order to achieve sustainable growth in low-income countries and prevent moral hazards associated with uncontrolled expansion of debt relief. In addition, so as to ensure that debt relief would further accelerate low-income countries' efforts to achieve economic growth and poverty reduction and that all the resources provided are used for those goals, I expect the World Bank and the IMF to report to us on improvements on transparency and the drive against corruption in all areas.

Conclusion

Since the establishment of the World Bank and the IMF sixty years ago, the world economy has changed dramatically. In response to these drastic changes, both institutions need to articulate their respective roles and to vigorously review their core activities, including crisis prevention, crisis resolution, and support to low-income countries. I would like to conclude my remarks by extending my best wishes to both of these institutions on the successful reviews of their work.

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

Duck-Soo Han

It is my honor to represent the Korean government at the 60th Annual Meeting of the IMF and the World Bank. I am confident that President Wolfowitz and Managing Director de Rato will provide solid leadership to the two pillars of the international financial system. Let me also take this opportunity to extend my sincere condolence to the victims of the recent hurricanes and their families and loved ones.

Changes in the Global Economy

The world economy today is on a path of stable development. However, as I look around, I see challenges that we must address to keep us on that path. I think of these challenges as ‘The Four Imbalances’. The first of these is the ‘Global Imbalance’. IMF rightly points out that the deepening global imbalance could raise the specter of protectionism. Worse, a sudden readjustment could put the global economy under a significant strain. The second imbalance is the widening of ‘Income Gap among countries’. We should take careful note of the recent World Bank report, which claims that global efforts in achieving the Millennium Development Goals are lagging, as poverty is growing more serious in some countries. Third, we should recognize that ‘Imbalances between the demand and supply of goods and assets’ may become an impediment to achieving global economic development and financial stability. The recent unexpected oil price spike and the potential for a bubble in some real estate markets could end up as a significant shock to the world economy. Finally, we should take heed of the ‘Generation Imbalance’ sparked by the phenomenon of the aging of population. This presents a serious challenge for future generations, and could drag down the potential growth and financial soundness of a number of countries around the world.

IMF Reform

Notwithstanding the incredible success of the Bretton Woods Institutions over the past sixty years in promoting the stability and development of the global economy, the four imbalances that I have just highlighted present challenges for which the existing system requires more proactive provision. In this light, I highly welcome the timely

presentation of the Mid-Term Strategy as IMF's self-reform effort in response to the changing economic environments. Especially, I would stress that governance reform should remain our top priority, in order for the IMF to successfully focus its expertise on the stability and prosperity of the global economy, earning credits from member countries. Since the IMF was founded 60 years ago, the number of IMF members has risen more than fivefold, from 35 countries to 184, yet the quota system still represents the economic landscape of 60 years ago. Although Asian countries' influence over the global economy and finance is constantly increasing, the current quota fails to properly reflect their economic development. While I welcome reform efforts from the IMF itself, I hope the reallocation of quotas will be carried out in the nearest future, and at the latest, by the end of the 13th Quota General Review.

Development Issue

Let me comment on the debt relief initiatives being driven by the G-8 and International Financial Institutions. Indeed, Korea genuinely welcomes debt relief efforts and the recent G-8's commitment to secure the financial resources. We would like to ask G-8 countries to keep playing a leading role in reaching consensus on the detailed implementation of debt relief. Korea is ready to follow suit in G-8's efforts for the effective implementation of debt relief and further to achieve Millennium Development Goals.

North Korea and Closing

Before closing, let me briefly touch upon the recent progress in the Korean Peninsula. As you may know, the protracted Six-Party Talks on the North Korean nuclear program have recently adopted a joint statement in Beijing. It provides the basis for considerably resolving the nuclear issue including North Korea's commitment to return to the international surveillance system. I believe the successful implementation of these objectives and principles in the statement will allow us to pay more attention to achieving economic stability and prosperity in the Korean Peninsula and Northeast Asia. I hope such prominent international organizations like the IMF and World Bank will increase their interests on such progress and its implications. This year marks the 60th anniversary of the foundation of Bretton Woods Institutions and 50th anniversary of Korea's admittance. Oriental philosophy has it that 60 years mean a completion of one life-cycle and a start to a new life-cycle. Standing on the ground of mutual trust between the IMF, World Bank and member countries, we shall take this opportunity to forge ahead and briskly start our next take-off!

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

Chansy Phosikham

It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic at the 2005 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.

I would also like to take this opportunity to express my congratulations to President Wolfowitz for being elected as a new President of the World Bank Group. I believe that the Bank under Mr. President's leadership will further enhance its role in supporting the poverty reduction of all regions in the world.

The people and the Government of the Lao PDR are delighted and proud to see the successful conclusion of the financial close of The Nam Theun 2 Hydroelectric Project, one of the highest priority projects in the Lao PDR. This project has received strong and close support of the World Bank from a very early stage. The World Bank has also provided a grant of US\$20 million for the project's equity investment of the Government as well as the partial risk guaranty for the project.

The Nam Theun 2 Hydroelectric Power Project will play an important role in supporting the poverty reduction, improving the country's development indexes as well as other development goals of the Lao PDR. This project has been thoroughly planned, through which we have learned a great deal on the capacity building for project planning, project management, conducting the consultation, and encouraging the participation of all stakeholders in the preparation process as well as enhancing coordination with the donors.

The Nam Theun 2 Hydroelectric Project will be a first-class model in environmental protection, cross-border cooperation, and cooperation between the public and private sector. In addition, the project has also contributed to the Government's efforts in poverty reduction, capacity building, and the effective use of natural resources.

I would like to take this opportunity to inform the meeting on the Lao PDR's economic performance for the first six months of the fiscal year 2004–2005; our macroeconomic was stable, inflation has been reduced to an average of 6.5 percent, the exchange rate was stable, and there has also been an increase in private domestic and foreign investment from US\$533 million in 2004 to an estimated US\$1.249 million in 2005. The economic growth for 2005 is estimated to be about 7.4 percent, this growth will be partly contributed by the start of the construction of the Nam Theun 2 Hydro-electric Project.

The Government will continue to pursue the appropriate fiscal policies with the aim of increasing revenue collection and strengthening expenditure controls in order to maintain the stability of the Lao economy. We also aim to limit the inflation rate to a single digit, stabilizing the exchange rate in order to make the investment climate more favorable for ensuring that economic growth achieves its target of a higher rate than previous year. In realizing these goals, the Government will intensify its efforts to achieve all the targets outlined in the revised budget of fiscal 04–05, as approved by the National Assembly.

In addition, we have revised tax and customs laws, arbitration law, and anti-corruption law. The Government has engaged in improving the tax and customs collection mechanism, particularly from large tax payers, as well as strengthening the public expenditure management. We are currently working closely with the World Bank, the International Monetary Fund, and other international financial institutions on the Public Expenditure Management Strengthening Program, the Public Expenditure Review, and the implementation of the actions under the Poverty Reduction Support Credit.

We highly value the support from the international community including the bi-lateral and multi-lateral organizations, the international financial institutions, including the World Bank and the IMF. This support is very important for the socio-economic development of our country. In 2005, the World Bank has adjusted its policy on Laos from extending credit to giving grant aid in support of the development of the Lao PDR. The support for this year has included three Grant Aid projects in the amount of US\$29.5 million, and there are also a number of projects in the preparation and negotiation stages.

We would like to take this opportunity to urge the World Bank Group to continue giving the same importance and support to the socio-economic development and poverty reduction efforts of the poor countries of our region as the Bank does with other regions of the world. The continued same level of support will be an important factor in assisting the poor countries of this region to achieve their Millennium Development Goals.

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 AND THE FUND FOR
MALAYSIA

Zeti Akhtar Aziz

As we strengthen our global relationships, there needs to be greater engagement with the entire spectrum of member countries. If we are to achieve a more balanced global growth, greater stability in the global financial system and significant progress in the fight against poverty, there needs to be greater appreciation and understanding of the global issues from the perspective of the emerging and developing economies.

In the current environment, the risks to global growth have increased, presenting us with an even more challenging environment to achieve these goals. Should the trend of higher oil and asset prices, and rising interest rates continue, their combined effect could diminish the near-term global growth prospects. In this environment, appropriate policies are vital to ensure that any moderation in growth does not evolve into a fundamental economic slowdown. While countries have strengthened their resilience, international cooperation becomes important in addressing these issues. At the national level, widespread reform efforts have intensified. These have been reinforced by regional initiatives. Of equal importance are reforms at the international level. It is the nature of the leadership that is exercised at the international level, and the actions initiated, that will determine the effectiveness and relevance of the role of the international financial institutions in the global economy.

In Asia, significant progress has been made at the regional level in strengthening the underlying economic structures and fundamentals. The economies in Asia continue to be among the fastest growing in the world, and thus contributing to the rebalancing of global growth and stability. In addition to promoting domestic sources of growth, economies in Asia have also enhanced regional economic and financial cooperation, including measures to strengthen regional surveillance and financial support mechanisms, and to deepen the regional capital market. The

greater economic and financial integration in Asia has been a mutually reinforcing force in strengthening growth in the regional economies. Intra-regional trade and investment flows in Asia have continued to increase significantly in recent years. Progress has also been made in the further deregulation and liberalization of the economic and financial sector, thereby increasing the potential for the Asian economies to contribute to global growth and stability.

Malaysia's own performance has been favorable, with continued steady growth being experienced. The Malaysian economy has continued to shift to new areas of comparative advantage, to new areas of growth, with the private sector being the main driver of growth. Resources have continued to shift towards the services sector, towards strengthening linkages in the manufacturing sector, and to the resource-based industries and the agricultural sector. This has contributed to a well-diversified economic structure and has increased the resilience of the economy to external developments. The financial sector has also seen significant transformation. The restructuring, consolidation, and internal rationalization of the banking sector is now virtually completed. Governance and risk management practices have also been improved while structural enhancements have been made in the capital market, significantly enhancing its role in the financial system. A comprehensive and robust Islamic financial system now also operates in parallel with the domestic, conventional financial system.

Against the background of strengthened economic fundamentals and financial system, Malaysia has taken the opportunity to sequentially deregulate and liberalize the financial system. This includes the introduction of a new interest rate framework that is market-driven, the liberalization of foreign exchange administration rules to promote greater efficiency and enhance risk management in foreign exchange transactions, and the introduction of new foreign players into our financial system. In July this year, Malaysia adopted a managed float for the Ringgit exchange rate to better position Malaysia to respond to structural changes in the global and regional environment. Under this arrangement, the Ringgit is monitored against a basket of currencies of Malaysia's major trading partners.

In this world of greater uncertainty, there has been significant focus on the issue of surveillance and risks and vulnerabilities. Experience has shown that surveillance has improved policy performance as well as the ability to take pre-emptive action to contain the impact of disruptive and destabilizing developments. These efforts, however, need to be balanced by efforts to enhance the capacity of countries not only to manage the risks and vulnerabilities, but also to sustain their own capacity to support growth and development. Capacity building involves helping countries to

help themselves. It requires enhancing the institutional capacity of the country. Support in putting in place the necessary institutional structures, arrangements and systems would increase the potential for the sustainability of the development process.

Strengthening these foundations are vital to the deregulation and liberalization process. They represent the pre-conditions to any reform agenda. In this regard, capital account liberalization needs to be managed in accordance with the country's own institutional capabilities and implementation capacity. Supporting financial infrastructures, sound and strong financial institutions, developed financial markets, and a more market-driven environment are key to the success of the liberalization process.

On the support for the low-income and poorer countries, the uneven progress made in meeting the Millennium Development Goals is of deep concern. The debt relief proposal of the G-8 to assist the Heavily Indebted Poor Countries (HIPC) is a welcome step. Debt cancellation, however, addresses the symptoms and not the cause of poverty. Experience has shown only a few countries have graduated from the debt relief program under the HIPC Initiative. Many still continue to be burdened with unsustainable levels of debt.

It is important to recognize that the task of assisting the lower-income countries does not stop short at providing financial assistance. Development of education and health is an important part of the Millennium Development Goals. The IFIs also need to assume a greater role in encouraging the developed nations to invest and create job opportunities in the Heavily-Indebted Poor Countries and other poor nations as a long-term plan to assist low-income countries to achieve the Millennium Development Goals.

Finally, we share the view that the legitimacy, credibility and effectiveness of the Fund and the Bank hinges on the degree to which its representation reflects the relative significance of its respective membership. The 13th General Review of Quotas represents an important opportunity to ensure that all members, especially the developing and emerging economies, have an adequate representation in the institutions that is consistent with their relative positions in the world economy. It is important for voices from the constituency of the emerging and developing world to not only be heard but to be listened to. We look forward to the commitment of the international community in preserving the fundamental, core principle of equality in the governance structure of the Bretton Woods Institutions. This greater engagement within the international community will contribute to increasing the prospects for a greater shared global economic prosperity.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MALTA

Tonio Fenech

It is a pleasure and an honor for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I take this opportunity to thank the United States Government and the Washington Authorities for hosting these meetings and providing the necessary organizational facilities to ensure that these proceed smoothly and successfully. This is the first Annual Meeting addressed by the new president of the World Bank Group, Mr. Paul Wolfowitz. I congratulate him on his appointment and wish him success in the challenging tasks ahead. On behalf of my country I would also like to express our solidarity with the people of the United States for the damage and loss of life endured as a consequence of the natural disasters that hit their country.

This year's meetings take place against an international economic background characterized by growing uncertainty as a result of the surge in oil prices. There is no doubt that high and rising oil prices will have a significant impact on consumption and growth in the major economies in the months ahead, but the countries that will be affected most will be emerging markets and other oil importing developing countries. The persistence of large global current account imbalances, with their destabilizing effects on long-term interest rates and exchange rates, are also a matter of concern. A sudden rise in long-term interest rates could also dampen growth prospects as household wealth is affected negatively through a decline in asset prices, particularly property prices.

The implications of these projected scenarios is that growth would be more subdued from levels forecasted earlier this year. The weakening trend in manufacturing output in a number of countries during the first half of the year appears to have been arrested and activity in this sector is expected to strengthen later in the year. World trade is also expected to recover due to relatively strong import demand in particular regions such as the U.S., Canada and the OPEC countries.

A hostile economic environment augments the problems faced by small open economies such as Malta. Following membership of the European Union in May last year, my country has adopted a totally liberalized trade and capital regime and implemented a program of reforms to strengthen the market infrastructure. The aim of these policies

is to enable the economy to take full advantage arising from European Union membership. However, as a result of these more open policies, the Maltese economy is more exposed to developments overseas. At present these include depressed demand for our exports as well as a persistently rising oil importation bill. In addition, over the summer months Malta has had to face a regular influx of illegal immigrants from the North African coast. Providing food and accommodation for these large numbers of immigrants has placed a significant burden on the island's physical infrastructure and on its financial resources at a time when the Government is pursuing a policy of fiscal consolidation.

Malta continues to recognize the benefits of regional integration and through membership of the European Union it has access to the vast single market of the European hinterland. To take further advantage of the opportunities that are offered by this market we have taken the first steps that will lead to full participation in Economic and Monetary Union (EMU) and the adoption of the single currency, the euro. Thus in early May 2005 Malta joined the Exchange Rate Mechanism II (ERM II) thus pegging its currency fully to the euro. To emphasize our commitment to the fixed exchange rate policy that has delivered price stability to our country over many years, we have unilaterally committed ourselves to keeping the currency fixed in terms of the euro, at the central parity rate.

Our adherence to a fixed exchange rate policy and our efforts to align our economy closely with that of our European partners underpins our macroeconomic policies, implying the need for more fiscal discipline following the expansionary stance of recent years. In line with our medium-term fiscal program, we are reducing the fiscal deficit substantially so that from a deficit/ GDP ratio of 5.2 percent in 2004 we expect to register one of below 4 percent this year and under 3 percent in 2006. We expect to achieve our targets through, amongst others, better control of recurrent expenditure, and the implementation of structural reforms.

On Fund and Bank matters we would like to express our strong support for the important work that these two institutions undertake in the international economy. Our commitment to the Bretton Woods institutions was further underlined recently by our decision to join the International Finance Corporation (IFC).

Malta also welcomes the increased attention being attached to the development of small states. We believe that small states face peculiar realities and specificities to which the Bank and Fund can assist through their specialized competences. Moreover, closer collaboration amongst small states can be facilitated through the creation of a global network of small states.

We recognize that the role of both the Fund and the Bank should be reviewed and reassessed from time to time to ensure that they adapt to the new challenges of globalization. We, therefore, note with interest the Report of the Managing Director on the Fund's Medium Term Strategy. The report offers a critical assessment of the Fund, particularly of its internal workings and governance. It puts forward positive proposals to redefine the Fund's role and to make it more effective in its primary task of ensuring a stable international monetary system. In this regard we strongly support an enhancement of the Fund's commitment to monetary and financial stability through more effective surveillance of members at the global, regional and country level. We are convinced that the Report should not only be discussed and debated, but should be the basis for the implementation of those reforms that are so necessary to give the Fund strategic direction.

Malta actively supports initiatives which promote economic development and poverty reduction in low income countries. Consequently, we favor a continued involvement of the IMF in low income countries. The Fund's role in this regard should be to complement that of the World Bank Group, which is primarily responsible for development issues and for combating poverty and improving the living standards of people in the developing world. Thus besides contributing expertise in the macroeconomic field, the Fund should continue to offer structural lending and other financial assistance to these countries. This should also be the case when natural disasters disrupt the social and economic life of such countries.

While we note that considerable progress has been achieved in the eradication of poverty and hunger, a lot still remains to be done if the Millennium Development Goals are to be achieved within the planned time frame. Here it is satisfying to note that the G-8 in its recent Summit agreed to increase total official development assistance to Africa and to cancel the multilateral debt of some of the poorest and most indebted countries. These decisions will certainly provide further thrust to development initiatives aimed at assisting entire populations to achieve economic growth and social advancement. This notwithstanding, there is a need for additional resources to finance development aid and in this regard developed countries have to strengthen their efforts to achieve the internationally agreed target of 0.7 percent ODA/GNI. Even though my country's resources are severely limited, we will strive to achieve the target of 0.17 percent set by the EU for Member States that joined the EU after 2002. Finally I am pleased to say that in order to demonstrate our solidarity with developing countries that are endeavoring to rebuild their economies in the face of tremendous challenges, my government has decided to cancel all official claims against Iraq.

I would like to conclude by expressing our appreciation to the Board, management, and staff of the Fund and the Bank for their continued support and fruitful co-operation. Once again I wish them success in their daunting tasks of promoting global financial stability and reducing poverty in the developing countries. I feel confident that both institutions have the resources and strong leadership to make the changes necessary to be able to face these challenges successfully.

STATEMENT BY GOVERNOR OF THE BANK FOR THE REPUBLIC OF THE
MARSHALL ISLANDS*

Jefferson Barton

On the occasion of the Fifty-Ninth (59th) Annual Meetings of the International Monetary Fund (the Fund) and the World Bank Group (the Bank), I am honored to address this eminent group on behalf of the Pacific constituency- comprising of, Kiribati, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the Republic of Palau, Samoa, the Solomon Islands, and Vanuatu. May I take this opportunity to express our deepest sympathy to the U.S. Government and its people on the tragic events that have been brought by Hurricanes Katrina and Rita.

I wish to extend our congratulations to you, Mr. President, on your election and in taking over leadership of the World Bank Group. We are confident that your leadership will bring about an innovative platform that will deliver best results from the Bank's strategic operations in the developing countries, in complement to the invaluable work of the Fund.

With the recent acceleration of growth in 2004, the world's developing regions are now growing faster than their average growth rates of the 1980's and 1990's. The economic surge has been fueled in large part by the ongoing economic boom in China as well as increased economic activities taking place in Japan and the United States. However, economic growth this year and 2006 is expected to moderately slow down due to deceleration in growth in a number of developed countries, increasing oil prices, and anticipated increase in interest rates that will slow investment growth.

The extent of the slowdown should be eased by the strong momentum of the impact of both the Bank and the Fund's vigorous work in many developing countries. The far-reaching structural reforms carried

out in these countries that include efforts to rationalize public expenditures, reduce current account deficits and pay down debts, would enable them to withstand the debilitating impacts of these exogenous shocks, one of which is the continuing increase in the price of oil that is impacting not only these countries but is also adversely affecting the rest of the world economy.

The economic success of many developing countries in the past year has been achieved so far; however, the favorable prospects for the next two years are still short of equipping these countries to fully achieve the Millennium Development Goals (MDGs) by 2015. Many of them would still need to continue to improve macroeconomic management of their economies, maintain structural flexibility and foster an investment climate that is conducive to both economic growth and development, which are prerequisites for attainment of the MDGs.

Equally important is the need to reduce trade barriers, and at the same time, step up development assistance for the developing countries to enable them to achieve rapid and sustained per capita growth of 3.5 percent per year between 2006 and 2015. As a matter of fact, without such growth, many developing countries would not be able to reduce extreme poverty by half by 2015. It is therefore incumbent on the developed world, including the two Breton Wood Institutions, to help out these countries.

For Sub-Saharan Africa, our Pacific Member Countries welcome the recent G-8 debt relief proposal (and the donors' progressing towards the target of dedicating 0.7 percent of GNI to ODA) that will primarily benefit the Sub-Saharan African region and would urge the most effective use of the freed up resources along with other bilateral aids to revitalize infrastructure and improve health and education services in order to achieve the MDGs.

We are pleased with the efforts of the developed countries in helping out this region of the world and we would like to encourage them to continue to lead in this effort, especially by further opening up their agricultural markets and continuing to reduce distortionary agricultural subsidies.

The global economic boom has been slow to take hold among the seven Pacific Island Countries in our constituency, largely due to our very "given" nature of our island economies. Our region's economic aspirations are stifled by our own remoteness and isolation from major markets, tensions emanating from the confluence of colonial systems, susceptibility to natural disasters, narrow resource base, heavy dependence on foreign aid, and inadequacy of human capital. All of these have substantially explained why our small island economies have been

stagnant for so long and have not kept pace with an increasing population which averages 3 percent per year.

The key to moving our island economies forward will be through improving our macroeconomic management through appropriate public policies, adequate institutional capacity, and a robust private sector. These, we believe, will definitely lead our small economies to achieve sustainable development and long-term growth.

We welcome the Bank's well-crafted Pacific Strategy. We believe that such strategy will assist the PICs, to strengthen our public service delivery, improve our private sector, and increase employment.

We agree that the blend of Bank engagement measures proposed in the strategy, from technical assistance and high-quality policy advice to gap-filling financing, are appropriate to the social and economic context of our island economies. We believe that the strategy, in conjunction with and in taking into consideration our unique challenges, will deliver better results and will lead to better reforms of our small and fragile economies. However, the real success will only come about if there is a strong partnership between the Bank, the islands, and all other donor partners such as the Fund.

Our Pacific Island member countries have already laid the foundations that will be necessary in delivering results within the context of anticipated Bank assistance to the PICs. Considerable progress has been made in enhancing our capacity and strengthening our economic management, including a wide array of legislative and administrative actions taken to strengthen our institutional capacity.

However, there still remains a greater challenge to build on those foundations to deliver improved outcomes of better institutions, policies, and performance that will generate economic growth and employment, at both the national as well as the regional levels. The new Bank Strategy, especially in view of its country-specific, is timely and appropriate to equip the Pacific Constituency Members in addressing such challenge.

We welcome the G-8 Plan of Action on Climate Change and we encourage the Bank to increase investment aimed at tackling climate change, increase support for small vulnerable island state through increasing financial support to the Global Environmental Facility (GEF). This is a global issue that requires not only the Bank, but also requires a more broad and concerted effort on the developed as well as the developing countries.

Within the context of our development goals, ranging from economic growth to security, our leaders have endorsed a strategic framework called the "Pacific Plan" which consists of a few key principles aiming at enhancing regional cooperation and integration.

The Pacific Plan has a timeframe of ten years, and, being a regional development manifesto for all the island countries in the Pacific, such plan provides an opportunity for the Bank and the Fund to engage better with the Island member countries, and with the Pacific Islands Forum, to support regional cooperation and integration.

We are encouraged by the World Bank Group's recent increased commitment towards improving relationship with the Pacific island member countries and their key development partners. We welcome this initiative to work alongside the Bank, the Fund and our other development partners to harmonize donor assistance, and enhance our development efforts.

Given infrastructure's vital contributions to growth, poverty reduction and achievement of the MDGs, the Pacific Constituency welcome the Annual Meetings' renewed focus on infrastructure with an assessment on the progress that had been made to tackle infrastructure challenges and the pending challenges on the optimal levels of infrastructure investment that will ensure sustained growth. As you rightfully referred to in your excellent speech yesterday, it is with infrastructure that all other development goals and objectives such as the MDGs, will easily be achieved.

The Pacific Constituency has enjoyed donor funding for infrastructure development, but access to basic public services still remains limited and service provision is, therefore, inadequate. Inadequate allocations for infrastructure maintenance have led to poor infrastructure in our countries, and many times scarce resources are put towards operating and maintaining infrastructures that have little or no economic return. Indeed, this must change.

In view of The Infrastructure Action Plan of 2003, we are pleased to note that total Bank lending for infrastructure in FY05 has reached over \$7.4 billion, making up 33 percent of the Bank's total portfolio. We are also pleased to note that not only the lending volume has increased but lending quality has also remained high.

The Bank's business in this sector also involves a number of non-lending services, and we are cognizant of the Bank's utilization of such services in its new Pacific Strategy. The Bank plans to work with our constituency members to initiate innovative public partnerships and draw lessons from other appropriate regional and national infrastructure projects to help the Pacific island member countries put in place, necessary reforms to enhance coordination, accountability and capacity in infrastructure management.

There is consensus that those who use aid towards poverty reduction programs are effectively utilizing aid. When countries fight poverty through sustainable development, with good performing

institutions in place and practice sound economic management in fiscal and monetary terms, aid is being put to good use. Good governance, rigorous budgetary processes, and investment-friendly climate also play a role in a country's effective use of aid.

Our Pacific constituency members have had our share of both progress and challenges in these trends, and we are continually committed to developing our small economies with the inflows of aid.

Donors have a significant role to play in ensuring that aid is effectively used. Their policies and procedures must reinforce such trends. It is within that context that we welcome the Bank reports on 'Aid Effectiveness' and 'Aid Financing and Conditionality'.

Finally, I would like to express our deep and sincere appreciation to the staff and management of the Bank and the Fund for their tireless efforts in promoting the needs of our Constituency. We very much appreciate your continuous support and assistance. On our part, we are ready to exert our share in developing our countries and working with you as we venture further into this new millennium.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE REPUBLIC OF
MOZAMBIQUE*

Manuel Chang

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 take this opportunity to thank the American authorities for their hospitality. I would also like to congratulate Mr. Paul Wolfowitz on his appointment as President of the World Bank and we wish him great success in this challenging task. We look forward to a constructive and mutually beneficial partnership under your leadership. I would also like to acknowledge the continued engagement of Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund with African countries.

This year's annual meetings take place in the context of renewed focus of the international community on achieving the Millennium Development Goals, and the challenges posed by crippling debt and effectiveness of aid, with Africa at the center stage of the international development agenda. Poverty remains widespread in Africa, and based on the current growth rates and actions, it is unlikely that our countries

will meet most of the MDGs by year 2015. However, as demonstrated by some of our countries, progress can be accelerated if the international community delivers on its promises of substantial additional resources to support home-grown policies and programs, including in the governance area.

Our countries have made significant progress in macroeconomic stabilization and structural reforms. Moreover, we recognize that poverty can only be reduced through concerted efforts for sustained growth and development. That is why we remain resolute in our commitment to the development agenda, with the focus on strengthening governance, improving the distribution of generated resources, improving investment climate and fighting poverty. To complement and support our efforts, it is crucial that the international community honors its commitment made at Monterrey to provide adequate financing. My remarks will focus on a few areas where action of the international community is urgently for African countries to make towards the MDGs.

Accelerating growth in African countries. Putting Africa on the path of high and sustained growth rates which is required to meet the Millennium Development Goals will entail paying more attention than usual to developing infrastructure, promoting trade, enhancing regional integration, and ensuring the development of the private sector. In this endeavor, it is critical that the Bretton Woods Institutions implement an ambitious action plan. At this juncture and on behalf of fellow African Governors, let me thank the Bank for the commitment shown by preparing the Africa Action Plan. We undertake to work with you, through our Executive Directors, to ensure its effective implementation.

Africa's huge infrastructure deficit requires immediate attention. The World Bank should devise innovative financing mechanisms and instruments, and ensure a better coordination of its agencies in supporting private participation in the development of infrastructure. Fund program design should allow adequate fiscal space to accommodate investment in infrastructure.

Equitable and fair global trade provides the most effective means of unleashing Africa's growth potential than any amount of aid. We wish therefore to call upon the Fund and the Bank to play a vigorous advocacy role to ensure an ambitious outcome from the Doha "Aid for Trade" agenda as rightly documented in the Commission for Africa report. On our part, African countries will continue with efforts to liberalize trade and to make concrete progress towards regional integration in line with the NEPAD action plan.

There is also need to intensify support to ensure competitive production in Africa, enhance our countries' capacity for global trade, addressing constraints at country level and dealing with challenges of

unfair trade. We urge the World Bank to design appropriate instruments to support regional institutions and programs. On its part, the Fund should step up its policy advice and technical assistance to promote regional integration and enhance capacity in the areas of negotiation as well as design and management of regional projects.

As regards private sector development, we welcome the IFC's Strategic Initiative for Africa and the sub-Saharan African component of MIGA's strategic directions approved in 2005. However, while we already note increased actions on the Continent, overall performance in supporting private sector development is still far below our expectations. The World Bank Group should set up within the IFC equity funds, to help the private sector further invest in promising sectors; it should also create a concessional non-sovereign window to support small- and medium-sized enterprises. We further urge the Bank to explore mechanisms for providing long-term financing for small and medium enterprises.

We welcome the G-8 proposal to cancel the multilateral debt of heavily indebted poor countries. We would like to stress the need for an urgent implementation of the proposal as expectations in African countries are high. It is also important to step up efforts to help HIPC countries reach the completion point and, therefore, to qualify for debt cancellation. We firmly believe that significant additional resources will be required beyond the HIPC initiative and the proposed debt cancellation, to finance programs for accelerating growth and poverty reduction. In this regard, we urge the Bank to handle issues of growth, debt sustainability, and development financing in a comprehensive and holistic manner.

We urge the Bretton Woods Institutions to move quickly to finalize the modalities for implementing the G-8 proposal, while safeguarding their capacity to extend future assistance to low-income countries. Our countries strongly believe that the concerns raised following the G-8 announcement will be answered quickly. First, conditionality should not interfere with the urgent need for debt cancellation. Second, debt cancellation for eligible countries should take place as soon as possible, preferably right after these Annual Meetings. Third, the G-8 proposal is for one-off cancellation and not a piece-meal and gradual operation, which would not generate the same growth impetus nor have the same beneficial impact on progress towards the MDGs. And fourth, the G-8 proposal underlines additionality of resources in the Bretton Woods Institutions' lending capacity. Therefore, a clear process for securing donors' commitments needs to be put in place in order to preserve their lending capacity to low-income countries.

Mr. Chairman, there is need for an expanded debt cancellation initiative. An extension of the G-8 proposal to cover non-HIPC developing countries, many of them with similar income and poverty levels as the HIPC countries, would spur their progress towards the MDGs. Therefore, consideration should be given to a more general approach to debt relief by the G-8 and other donor countries, taking into account poverty and income levels.

IMF conditionality, domestic program ownership and the IMF's signaling role. Fund-supported programs have played a critical role in assisting our countries in their move towards economic development. While some progress has been made in recent years to enhance the effectiveness of these programs, more efforts are needed, notably in streamlining conditionality, enhancing domestic program ownership, and closing the gap in the Fund's tool kit for low-income countries.

Progress in streamlining conditionality in Fund-supported programs remains short of expectations. Conditionality should not undermine or hold up donor disbursements for critical projects/programs such as HIV/AIDS programs or for a hospital project. Concerning the IMF's tool kit, some low-income countries have home-grown programs and do not need Fund resources. For these countries, we hope that the recently approved Policy Support Instrument (PSI) could serve effectively as a "seal of approval" or a signaling mechanism aimed at underscoring the credibility of individual country policy frameworks for the donor community and international financial markets.

The role of the World Bank and the IMF in capacity building. The Bretton Woods Institutions must ensure that all their technical assistance programs contribute more efficiently to human and institutional capacity development than has previously been the case. Additional funds need to be raised to extend the African Technical Assistance Centre (AFRITAC) program to other sub-regions in Africa, especially in light of the positive assessment of existing AFRITACs. We also urge the BWIs to scale up their financial support to human and institutional capacity building initiatives in Africa, such as the African Institute of Science and Technology (AIST), which is an outstanding initiative of the Nelson Mandela Institute. We call on the donor community to support this excellent initiative. On a broader note, we urge the Bretton Woods Institutions to continue to provide technical assistance free of charge as a public good to the membership.

The World Bank and the IMF are also encouraged to scale up their financial support to African capacity building organizations and initiatives such as the African Institute of Science and Technology (AIST), which is an exciting initiative of the Nelson Mandela Institute and the African Diaspora aimed at developing regional universities of

science and technology on the African continent. We call on the World Bank, the International Monetary Fund and other development partners to support this excellent initiative.

My last point relates to a need for much more attention to middle-income countries. We welcome the progress made by the World Bank in supporting middle-income countries in reversing the decline of lending to these countries in order to enable them to achieve higher growth and meet the MDGs. In this regard, we encourage the World Bank Group to continue scaling up this support and strengthen its role in middle-income countries by providing innovative, flexible, and affordable financial products.

To conclude, we are encouraged by the renewed focus of the international community on the special needs of Africa, which require special attention. Immediate actions by the international community as well as at country and regional levels are required, as the human and social cost of inaction can only increase. Commitments made in the past and more recently need to be honored by the donor community in order to obtain tangible results in Africa's efforts towards poverty reduction. We strongly urge the donor community at large to find the needed consensus as soon as possible to enable the implementation of the G-8 proposal as well as the formulation of broader efforts for debt relief and development financing.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MYANMAR

Hla Tun

It is indeed a great pleasure for me to represent Myanmar and address the 2005 Annual Meetings of the International Monetary Fund and the World Bank. First of all, Mr. Chairman, please allow me to extend my warm congratulations on your election to the Chair. I would also like to welcome the new President of the World Bank, Mr. Paul Wolfowitz.

I would like to join my fellow Governors to take this opportunity to express our appreciation to the Fund and the Bank and the Government of the United States of America for successfully convening these meetings.

I would like to offer my deepest sympathy to the Government and people of the USA for the tragic loss of lives and devastation caused by

Hurricane Katrina recently. We are truly saddened by the extent of the destruction that your country has suffered along the Mississippi River basin. Please accept our deepest condolences to those who have suffered and lost their families and loved ones.

As you are aware, the global economy is improving. However, as in previous years, risks still remain. The major one being the continued rise in oil prices, which has posed serious concerns across the emerging markets (including Asian economies) and caused many governments to cut their growth targets. Therefore, both developed and developing nations need to work closely together in order to address those issues as well as unforeseeable natural disasters, so as to achieve strong and sustainable global economic growth.

I would now like to briefly touch on some recent developments of Myanmar. In order to achieve economic growth while at the same time lift the living standards of the people, Myanmar has been implementing National Development Plans with the aim of accelerating growth and achieving equitable and sustainable development. Due to the efforts of the Government together with the ever diligent endeavors of the people, Myanmar has achieved significant growth rates with relatively low inflation in recent years.

The greatest challenge that we face today is to successfully implement the objectives of the Millennium Development Goals (MDGs). I am pleased to inform you that while implementing the national plans and programs, in line with the country's political, economical, and social objectives, Myanmar has been able to achieve significant progress in attaining some of the targets of the MDGs. Some the MDG targets have already been exceeded and some are expected to be achieved much earlier than the targeted time frame. However, there is no denying that there are still some challenges ahead and more efforts will be needed to meet some of the targets by the year 2015.

We wish the international community to know that Myanmar does not accept any form of terrorism and is continuing its efforts at combating financing of terrorism as well as fighting money laundering. We have already enacted the relevant laws and rules, such as the Control of Money Laundering Law and Rules and Mutual Assistance in Criminal Matters Law and Rules. With regard to combating financing of terrorism and money laundering, we have also strengthened our regulatory and supervisory systems consistent with international norms and standards, especially the 40+ 9 special recommendations. Myanmar has also enacted the Anti- Trafficking of Persons Law on the thirteenth of this month.

Myanmar is an active member of various international agencies as well as various regional groupings. It is also one of the Greater Mekong

Sub-region (GMS) countries striving for collective prosperity through pragmatic cooperation. Myanmar's border trade with neighboring countries has been increasing yearly. Therefore, in order to facilitate better economic cooperation and smoother trade flows, as well as border area development and expansion of cross border tourism, Myanmar is also participating in various regional projects; such as the Ayeyarwaddy, Chaophraya, Mekong Economic Strategy, and the East-West Corridor projects. To enhance trade in the region, bilateral as well as trilateral talks and negotiations have been held with respective countries (such as India, Thailand, Bangladesh) resulting in agreements to construct roads and rail network among the participating countries.

It should be noted once again that the achievements that have been attained thus far, in the economic, social, legal and infrastructure fronts, have been without foreign official development assistance from bilateral and multilateral sources but undertaken with our own resources together with the assistance of some of our friendly neighboring countries. I would like to state that we would have achieved more if our efforts have been underpinned by international support.

However, I am sad to say that what little assistance we have from the international community has been suspended. At the time when we, in order to achieve the MDGs, are giving priority to improve the social sectors, the Global Fund, which is an international financing agency designed to help the fight against HIV- AIDS, tuberculosis and malaria, terminated its assistance to Myanmar last month. Grants termination of the Global Fund is against values and principles embodied in the MDGs. It contradicts the 8th MDGs which sets out to strengthen partnership. Therefore, the international community is urged to respond positively and in the spirit of social justice to this unjust action.

At this juncture, I would like to stress that, in pursuit of our common goals of attaining sustained development, while fighting against poverty, and terrorism and money laundering, there is a need to strengthen international cooperation. The international agencies' treatment of Myanmar had been unjustified. However, Myanmar reaffirms its commitment to reinforce its national efforts to achieve the global common goals and that we intend to continue to work and cooperate closely with them. At the same time, we would like to stress that international organizations should avoid any bias that unjustly discriminate against some while favoring others.

Myanmar has been a longstanding and legitimate member of the Fund and the World Bank, but both institutions have suspended their financial assistance to Myanmar since 1987. Myanmar has been deprived of its legally entitled assistance for more than a decade. I would like to reiterate that the multilateral institutions should consider resuming their

assistance to Myanmar without any political influence. We are still looking forward to having normal relations with these institutions.

The Fund and the Bank should adhere to their principles which were clearly stated when they were founded. They should not loose tract of the fact that different countries develop differently, according to their stages of economic structure and institutional capacities. In order for them to operate their mandates effectively, members need to have adequate voice and representation in these institutions. There is need for equal partnership between developed and developing nations. As we understand, the existing representations and voting powers in these institutions are inconsistent with the increasing role of the emerging market economies in global growth. This issue of under-representation of developing countries in the decision making process should be addressed.

I would also like to point that there is lack of continuity in mission work. Especially, in the case of Myanmar, composition of consultation mission members differ yearly, which makes it difficult for the missions' side to understand and assess the true state of our economy. On our side also we have to start all over, again and again, from the very beginning. All of these lead to loss of time, energy, and understanding on both sides. Mutual trust should be enhanced by continuity of at least the mission head and therefore we call for addressing this issue accordingly.

In conclusion, I would like to state that I look forward to resuming normal relations with both the Fund and the World Bank, so as to have better cooperation and collaboration for mutual benefit. We, on our part, would continue to implement our plans for socio economic growth with stability.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

Madhukar S.J.B. Rana

It is indeed an honor and privilege for me to address the 2005 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund. On behalf of His Majesty's Government of Nepal I thank the Bank and the Fund for the excellent arrangements made for this joint meeting. Similarly, I would like to record our sincere appreciation to the government and people of the United States of America for the warmth and hospitality extended to us.

At the outset, I would like to congratulate the Bank President, Mr. Paul Wolfowitz, on his appointment. As a personality with such vast array of knowledge and experience we in the developing world, especially those representing States-in-conflict, gripped by insurgency and terrorism, are particularly hopeful that during the tenure of his leadership of the World Bank Group new development policies and strategies would be in the offing to strengthen weak States in the interest of national, regional and collective security and the global war on terrorism. We endorse the vision of President Wolfowitz that development support needs to have two themes—the need to create the conditions for robust, private-sector-led economic growth as the core element of the agenda to achieve the development goals; and the need for good governance, including capable and accountable national leadership, effective and transparent public financial management, a determined attack on corruption, and promotion of rule of law. We are also encouraged by President's statement on effective delivery and utilization of the prospective increases in aid flows. We are also inspired by the address of Mr. de Rato and look forward to participating fully in the globalization process. We are encouraged by his flexible approach to dealing with growth and economic stability.

May I also take this opportunity to express how shocked and distressed the entire Kingdom was on seeing on television the fury of the hurricane, Katrina; and on seeing and reading on its aftermath of such ghastly proportions with the death, destruction and despair. We deeply empathize with America, and the people of New Orleans, and pray to the Almighty for everlasting peace for the departed souls. We are confident that America, being America, New Orleans will rise, once again, as a historic city that is "taller and better" in the passionate words of President Bush. The fury of Mother Nature humbles us all and, in doing so, it brings us all together as one common humanity to help one another; and materially and financially—no matter how small the monetary assistance being rendered.

The global economic expansion is returning to a more sustainable pace in 2005. Soaring oil price and its volatility has, however, threatened the robust growth potential. The current oil market condition particularly hurts the most vulnerable and least developed countries, by generating the prospect for a sustained inflationary pressure in the economy. The growth of developing Asia is expected to remain robust in 2005, and is expected to continue at the same pace in 2006. As China and India are expected to grow significantly during this period, Nepal being located between these two countries is prepared to take the geographic advantage. Nepal has already initiated activities to turn itself into a transit point between these two giant economies. However, we realize

that we need to have considerable amount of resources and technology to create and upgrade the infrastructures required to become a transit economy.

The Bank-Fund PRSC/PRGF initiatives for low-income countries based on country-owned poverty reduction strategies have been extremely useful. It is our expectation that enhanced level of financial support will be extended to conflict-affected countries from additional resources made available through IDA 14th Replenishment. The conflict-affected countries not only need additional financial support in a harmonized manner, the poverty reduction strategy for these countries should also be tailored to the specific country situation. It is in this context we welcome the Paris Declaration on Aid Effectiveness and are committed to its implementation. We also would like to urge donors to step up their efforts to improve the coordination and alignment of their support on their part.

For many developing countries, trade is equally and even more important than development cooperation funding in generating the necessary resources to achieve the developmental objective. Trade is a critical engine of growth and a country like Nepal is in need of improved market access in high income markets as well as financial resources to remove supply side constraints through increased investments in trade infrastructure (roads, electricity) and trade facilitation with technology and institutions.

We welcome the debt relief proposals of the G-8 Finance Ministers in Gleneagles recently. We would like to support the initiative as we see such initiative as part of the support to low-income countries helping them achieving the MDGs. However, we are equally concerned that this initiative should not put pressure on IDA resources. We urge that if the world community really wants to help poor countries to get rid of their debt, the HIPC initiative should make the criteria flexible and accommodate all debt ridden poor countries in an inclusive manner. We, therefore, urge developed countries to contribute more funds for this initiative.

Nepal supports the quest for enhancing the voice and participation of developing and transition countries in the decision-making processes at the World Bank and the International Monetary Fund.

We also welcome the Bank's renewed focus on infrastructure financing. This, we hope, will help poor countries like Nepal to overcome deficiency in infrastructure and at the same time accelerate the pace of economic growth with balanced regional development of its macro-economy. Moreover, there is a greater need of infrastructure financing in Asia where there is enormous potential for mutually beneficial trade in energy and water resources to develop new, and

improve the existing, transport corridors and bolster the efficiency of transport and trade facilitation services.

We welcome the review of World Bank and IMF loan conditionalities with a view to simplifying them. It is imperative that conditionalities should not be used as a mechanism to exert pressure for changing domestic policies in developing countries that exacerbate political instability.

Let me briefly reflect upon the recent macroeconomic situation of Nepal. The Nepalese economy achieved a slower growth of Gross Domestic Product (GDP) at 2.0 percent in FY 2004/05 compared to 3.3 percent in FY 2003/04. Non-agricultural sector did not perform well in FY 2004/05 while agriculture sector also declined. In spite of rise in petroleum prices, the inflation remained at a moderate rate of 4.5 percent in FY 2004/05. Our growth outlook for current year is lower than what is seen elsewhere in Asia. However, we have been able to maintain macroeconomic stability by maintaining budgetary discipline and adopting prudential monetary policy.

We have been consistent in our approach to targeting our efforts to poverty reduction and achieving MDGs by 2015, which is now given additional emphasis through the implementation of His Majesty's Government's 21-point program. Nepal has made significant progress over the last 15 years in reducing poverty, improving access to education, health services and drinking water, and biodiversity conservation and alternative energy. It is a remarkable achievement considering the difficult situation in the country in recent years as the MDG report 2005 reflects. This is a reaffirmation of Nepal's commitment to reducing poverty and advancing human development.

However, despite the continued efforts and with some positive signs in the poverty reduction front, all the MDGs may not be attained by Nepal unless some concrete efforts are taken. A recently conducted Needs Assessment study has estimated that Nepal needs an additional US\$7.6 billion to achieve the MDGs by 2015. While we have to look for ways to meeting this financing gap, we should also be innovative in our approach to implementing targeted programs effectively amidst on-going conflict. The government is now increasingly involving communities and community-based-organizations in implementing development activities and for service delivery, which has been found to be effective in conflict-affected areas.

We are fully aware that rapid economic reform is extremely vital for creating conducive environment for private investment. The government has continued financial sector reform program. The emphasis of this program is cleaning up the non-performing assets of the commercial banking system and at the same time taking stringent action on large

well-connected defaulters. There has been significant progress in the privatization of state-owned enterprises, which is on the one hand helping generate extra resources for the government to finance activities related to poverty reduction and on the other hand making productive assets available to efficient private sector.

Let me reiterate that Nepal does not have adequate physical infrastructure necessary for enhanced private investment and sustainable economic growth. Since government resources are not enough, we are now promoting public-private partnerships in the creation of vital infrastructure at all levels—community, local and national.

Our poverty reduction efforts in the recent past have been encouraging. However, the fact that still about 31 percent of the population lives below absolute poverty is extremely worrying as it the core reason for insurgency and terrorism. Poverty cannot be reduced without giving people access to productive assets and income generating opportunities. We have conceived the role of Land Bank in this context which will, no doubt, bring structural changes to the rural economy through tenancy reforms.

May I take this opportunity to explain the directions of recent political developments in Nepal, which has often been wrongly reported in the international media? When the parliament was dissolved in June 2002 by the Prime Minister having majority in the Lower House of parliament, the promise made was to hold fresh elections within six months. The elections could not be held, as security situation seriously deteriorated. Between June 2002 and January 2005, there were four different Prime Ministers and none of them could hold elections as promised. The security situation did not improve and people at large desperately wanted restoration of peace and resolution of conflict. It was this popular sentiment that led His Majesty, who is also the custodian of the Constitution, to act for the improvement of security and restoration of peace.

The security situation in these past eight months has substantially improved. The government will be holding municipality elections in the near future. This is a step for the full-fledged resurrection of the elected bodies at all levels and eventually within two years from now, the parliamentary elections will be held. His Majesty has no intention of prolonging his rule. His wish is to strengthen the democratic process, but security and peace is very important at the moment. His Majesty has reiterated this pledge to the people that he wishes to reign and not rule.

Nepal is fighting terrorism and there has been some success as evident from the improvement in security situation in these recent months. This momentum needs to be strengthened by improved governance and enhanced development activities. At a time when Nepal

needs generous international support to suppress the menace of terrorism by accelerating the development activities and improving government service delivery, we are worried by the Bank's recent review of Country Assistance Strategy, which indicates reduced level of funding even as it recognizes significant achievements made in implementing reforms and development performance.

It will definitely weaken Nepal's efforts for achieving MDGs, reducing poverty and consolidating democracy. Moreover, the declined government spending would trigger the total loss of reform momentum and worsen the environment for development activities and private sector investments thus giving fresh impetus to terrorism and helping undesirable elements to take the country towards anarchy.

Therefore, I urge the World Bank to retain the present lending status and release the second tranche of Poverty Reduction Support Credit (PRSC II) to Nepal, as most of the promised actions have been successfully carried out. The government is fully committed to implementing the remaining actions. Nepal in this hour of crisis, ridden by terrorism, deserves all the support in a clear, consistent, sustained, and dependable manner if the gains made thus far by implementing PRSP and economic reform programs are to be sustained. We are thinking of next generation of reforms that will target the improvement of lives in the rural areas. This is the only way by which recurrence of conflict and armed insurgency can be totally prevented. And in our mission, we want the World Bank to be a partner.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE NETHERLANDS

Gerrit Zalm

I would like to focus on five topics. First, the challenges for the global economy. Second, multilateral debt relief. Third, domestic resource mobilisation and trade. Fourth, microfinance. And finally, the IMF strategic review.

I am encouraged by the healthy **world economic outlook**. In many countries around the globe, growth continues to be strong. The 2006 World Development Report "Equity and Development" rightly illustrates the importance of equality of opportunities for long term economic growth. I would like to highlight three specific issues with respect to the economic outlook.

First, the need to forego more damaging effects of expensive oil. So far, the world economy has weathered the oil shock well. But it is crucial that second-round effects through inflation and wages are kept at bay. It is also crucial to avoid distortionary measures. Price measures and subsidies cause distortions in energy markets and prevent the necessary adjustment. Price signals are crucial if we want markets to function properly.

Second, the continuing challenge to ensure an orderly adjustment of global external imbalances, without resorting to protectionist measures. The reform of China's exchange rate regime presents a first welcome and important step towards more exchange rate flexibility in Asia. In any case, as simulations in the WEO indicate, an orderly adjustment of global imbalances primarily needs a structural increase of private and public savings in the United States. Europe will move ahead further on the path of structural reform.

Third, the urgency to take appropriate measures to ensure medium and long term sustainability of public finances in view of the costs of ageing (both pensions and health care). The present economic momentum should be effectively used to implement budgetary consolidation in all major economic areas of the world.

Turning to **debt relief**. At the Spring meetings, the Netherlands already expressed its support for a new round of multilateral debt relief to low-income countries in order to help these countries achieve the Millennium Development Goals. To maximize the benefits of multilateral debt relief, the Netherlands consistently pointed at four key principles. First, its financing should be truly additional, making more resources available for development and protecting the financial solidity of the participating institutions. Second, a wide group of countries should be able to benefit from debt relief. Third, it should benefit countries that follow strong economic policies in order to reduce moral hazard and increase MDG effectiveness. And fourth, safeguards should be in place to break the vicious circle of lending and forgiving.

I am very pleased to note that the discussions in the last months and weeks have brought fruitful results on all four points. I therefore support the current debt relief initiative and expect it can be finalized soon.

As you know, I am a strong advocate of scaling up external assistance. Each country should live up to its commitment of at least 0.7 percent GNP of Official Development Assistance. However, there is one potential pitfall. Research tells us that more often than not external assistance crowds out domestic resource mobilization. This brings me to the third issue: the importance of increasing **domestic resource mobilization**. Domestic resource mobilization clearly outperforms external assistance in terms of predictability and ownership. It avoids aid

dependency, facilitates investment in infrastructure, and buttresses growth with equity, as indicated in the new World Development Report. So I invite recipient countries to increase their domestic resource mobilization. In addition to domestic resource mobilization, aid should be accompanied by **trade**. I therefore encourage all countries to maintain their commitment and flexibility to make significant progress in multilateral trade liberalization.

As fourth point, I would like to stress the need to make a success of the UN International Year of Microcredit. The potential benefits of **microfinance** are large, not only for poverty reduction but also for broad-based macro-economic performance. I would like to encourage the IMF and the World Bank to review data availability on microfinance. Adequate data are a valuable input to national strategies directed at increasing access to financial services for the poor. Furthermore, I encourage the IMF and World Bank to continue to address microfinance in their Financial Sector Assessment Programmes where appropriate.

On a final note, I would like to call your attention to the joint paper of Belgium, Sweden, Switzerland, and the Netherlands on the IMF Strategic Review. In this paper, we call for a renewed focus on the IMF's core areas and more effectiveness and efficiency within these areas. We also attach importance to the issue of quota and representation. Member states' quota should remain a reflection of their relative positions in the international financial system. Apart from increasing the number of basic votes, I am prepared to consider ad hoc quota increases for the most clearly underrepresented emerging economies, based on the current system of quota formulas. Let me conclude by stressing once again the value of mixed constituencies such as ours, which are so instrumental for consensus building in the Bretton Woods institutions.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEW ZEALAND

Angela Hauk-Willis

Fellow Governors and delegates, I am delighted to attend the 2005 Annual Meetings and I look forward to what promise to be valuable and productive discussions.

Firstly I would like to extend my sympathies on behalf of all New Zealanders towards those affected by the devastation inflicted on the United States by Hurricane Katrina. The offers of help from around the

world, including from New Zealand, demonstrate how instant global communications have brought the international community together. It means we are all aware and affected by suffering in other countries.

This is a very important year for development issues. Later this year our Trade Ministers will meet in Hong Kong to develop a framework for the Doha Development Round that could have enormous positive benefits for global welfare. Last week most of the world's leaders gathered in New York for the 2005 World Summit, the largest such gathering of world leaders in history.

As we mark five years since the United Nations Millennium Declaration, recent reports have warned that countries will fall short of the Millennium Development Goals, on current trends. Two fifths of the world's population still lives on less than US\$2 a day; 100 million children of primary school age are still out of school, the majority of them girls; and in some regions infant mortality rates and nutrition levels have worsened since 1990.

Africa is the region in danger of missing the goals by the widest margin and it is appropriate that the Development Committee this year should focus on an "Africa Action Plan". The World Bank and other partners should not lose sight of the needs of fragile states in all regions, including the Pacific where many small remote economies are also off track for meeting the MDGs.

There have been real improvements in human development since 1990: life expectancy in developing countries has increased by 2 years; there are 3 million fewer child deaths annually and 30 million fewer children out of school. Impressive growth rates in some countries including China and India mean that more than 130 million people have escaped extreme poverty since 1990. Both developing and developed countries have made great strides in implementing the Monterrey consensus through improvements in governance and increases in development financing. The progress we have made so far demonstrates that with a renewed global effort, we can achieve the MDGs by the 2015 deadline.

Aid and Debt Relief

The recent announcements by the G-8 to double aid to Africa and cancel the debts of Heavily Indebted Poor Countries (HIPC) will deliver significant extra resources to help achieve the MDGs.

New Zealand, for its part, is committed to working with development partners -particularly in our Asia Pacific region—to achieve the MDGs. In this year's Budget the Government announced a substantial increase in ODA volume, including a 23 percent increase this

year. This is the largest annual increase in New Zealand's ODA ever made.

New Zealand is also supportive of the G-8 debt relief proposal and we are prepared to commit resources to funding this important initiative. The proposal is particularly well designed to deliver benefits to all IDA only countries through the allocation of additional funding using the IDA performance based allocation system. Despite this, there are some inequities involved in providing assistance to HIPC countries that will leave them with less debt than equally poor—indeed sometimes even poorer—low income countries. We believe this excellent initiative should be endorsed at this meeting and that further consideration then be given to addressing the unsustainable debt burdens of other low income countries.

Governance, Aid Effectiveness and Trade

Increased levels of finance alone will not be sufficient to achieve the MDGs. Improvements in governance, trade policies, and aid effectiveness are all essential for reducing poverty.

As the United Nations Development Program noted recently, no amount of international cooperation can compensate for the actions of governments that fail to prioritize human development, fail to respect human rights, fail to tackle inequality or fail to root out corruption. The need for country ownership and commitment to reform has been recognized in the World Bank review of conditionality. We recognize that conditionality has its place and welcome the trends highlighted in the review of declining use and complexity around conditionality. However, we are concerned that the decline in conditions has been offset by increasing use of benchmarks and triggers that are also perceived as binding conditions by recipient countries. A careful balance is required. Most importantly, whichever conditions are finally agreed must have a high level of country ownership and commitment.

Under the right conditions, trade can be a powerful catalyst for human development. We support fundamental reform of the world trading system, particularly through enhanced market access, as this will provide the major benefit to developing countries, especially in agriculture. To quote the Bank, "A round that does not begin to tear down the barriers in agriculture will not be a development round." Achieving an ambitious outcome from the Doha Round requires a renewed commitment and sense of urgency from all WTO members. We also acknowledge that aid for trade is required to help developing countries take advantage of the opportunities provided by reducing trade barriers.

Alongside increases in aid volumes, New Zealand would like to see further work on aid effectiveness, to increase the value of each aid dollar while delivering more control to developing countries over their own development path. New Zealand expects that the Bank and the Fund will implement fully the Paris Declaration on Aid Effectiveness and ensure that they work in closer partnership with donors, based on country-driven priorities and plans.

As our recent OECD peer review noted, the creation of a new agency—NZAID—with a dedicated focus on poverty reduction has been an impressive success. NZAID is playing a key role in promoting the harmonization agenda in the Pacific. This has been through a range of initiatives ranging from awareness raising to piloting sector-wide approaches in the education and health sectors. At the partner country level, discussions increasingly take place between NZAID, AusAID, and partner governments on how we can all work together more effectively to enable better co-ordination and to lessen the transaction costs of aid management.

Small Pacific States

There are many challenges facing small Pacific island states—some of these are serious and immediate. The role of the World Bank and IMF in helping the Pacific nations face these challenges and tap into the dynamism of the wider region is very important. Both organisations play an important role in the region as valuable sources of expert knowledge and technical assistance which help build capabilities.

I would like to highlight a few positive developments in the Pacific region since our last annual meeting:

- *World Bank Board agreement to a new Pacific strategy that will guide operations in the region for the next five years.* We urge the Bank to remain vigilant to ensure its engagements with small state partners in the Pacific are appropriately tailored to their unique needs and acute capacity constraints.
- *New Zealand working in partnership with the Government of Tonga and the World Bank on a NZ\$14 million project to improve the quality and accessibility of education in Tonga.* New Zealand's grant commitment has meant the Tongan Government does not need to take out a large loan to support the project. This joint approach is an innovative model which could be useful in other Pacific Island countries and sectors.
- *A positive review by the IMF of its Pacific Financial Technical Assistance Centre (PFTAC).* New Zealand is pleased to be able

to work with the IMF to support the work of this centre and our recent increase in funding is a reflection of our confidence in the value that they are adding to the region.

- *Forum Economic Ministers who met in June this year in Tuvalu, one of the smallest independent countries in the world, agreed to improve the business environment in the countries of the Pacific. Using the World Bank analysis conducted as part of the Cost of Doing Business survey, Ministers from 14 countries agreed to halve the regional average cost of doing business against a range of indicators including the time and cost of starting a business, the cost of enforcing a contract and time taken to resolve bankruptcies.*
- *New Zealand, along with Australia and other members of the Pacific Islands Forum, involvement in the Regional Assistance Mission to the Solomon Islands (RAMSI). RAMSI is a comprehensive approach to security, economic reform, and delivery of services through a whole-of-government approach. A recent IMF report has highlighted the serious challenges facing the Solomon Islands in order to rebuild the economy but the first steps have been taken through the establishment of law and order and some important initial steps in the economic reform program.*

IMF Strategic Review

New Zealand welcomes the work initiated by the IMF on its focus and direction. We welcome the moves by the Fund to focus its activities on issues of core importance; improve the level of cooperation with the World Bank to avoid duplication of effort; and streamline the effectiveness of country surveillance by focusing more on country needs rather than a standardized ‘tick-box’ approach. The core mandate of the Fund continues to be based on international monetary co-operation, global prosperity and financial stability, and temporary balance of payment support. The focus should continue to be on providing confidential policy advice on macroeconomic policy frameworks and associated exchange rate and financial sector regimes. The strategic review has made progress in some areas particularly clarifying the Fund’s role in low income countries. The introduction of a non-lending IMF program and the idea of a new subsidized shocks lending window are positive developments. We look forward to further work on specifying the division of labor between the World Bank and the IMF in low income countries. We welcome the recent steps towards improved

collaboration. Some key issues still remain to be addressed over the next twelve months. The costs and trade-offs associated with the new initiatives contained in the medium term strategy will need to be considered in discussions in the context of the medium-term budget next year. Long term issues regarding financing the Fund in a future where there may be fewer balance of payments crises, will be an important part of completing the Strategic Review and the thinking about medium term budgetary issues. The thirteenth review of quota coming up next year is a key opportunity to address some of the imbalances in representation at the IMF (and subsequently the World Bank). Failure to reach agreement could have serious consequences for the legitimacy of the Fund and the commitment of some members particularly in Asia.

Options for Internal Reform of the World Bank

Over recent years the World Bank has taken on a plethora of new roles without testing whether it should continue with the old ones. The expansion of roles has been matched by a recent history of excessive and rising costs. We would like to see a strategic review exercise similar to the IMF process conducted at the World Bank to renew the mandate for the scope of activities and general direction of the Bank. New Zealand and other members of our constituency have advocated improvements in the Bank's internal processes and structures. We have been pleased to see some progress, for example, in the adoption of multi-year budgeting. Despite some recent progress, there are still serious organizational weaknesses including unclear roles, responsibilities, and accountabilities, poor incentives on individual staff members and inadequate indicators of Bank performance and feedback to decision-making.

Conclusion

New Zealand values highly its partnership and engagement with the international financial institutions. New Zealand just recently became the 171st country to sign the MIGA Convention, formally joining us further into the World Bank Group. We look forward to continuing to work together with other members to achieve our shared goals of reducing global poverty and promoting economic development. I wish to take this opportunity to extend my public thanks to John Austin, New Zealand's recent Executive Director of the World Bank for his tireless efforts on behalf of New Zealand and the rest of our constituency and the energy he has brought to his role on the World Bank Board. We look forward to working with our new Korean Executive Director, Dr Joong-Kyung Choi. Lastly I would like to

welcome new World Bank President Paul Wolfowitz to his first Annual Meeting and wish him all the best for the challenges that lie ahead.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND
FOR NORWAY*

Svein Ingvar Gjedrem

Introduction

I am honored to address the 2005 Joint Annual Meetings on behalf of the Fund Nordic-Baltic constituency consisting of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Sweden, and Norway. Let me begin by thanking the U.S. authorities for once again hosting the Annual Meetings here in Washington D.C.

Current projections for the world economy are largely positive, but short and medium-term risks are increasingly skewed to the downside. Global imbalances, high and volatile oil prices, mounting protectionist sentiments, the increasing potential for a sharp correction in financial markets—all are risks that call for particular attention by policymakers right now. Many countries also face an immediate challenge in how to rebalance economic policies without instigating economic or financial imbalances.

It is crucial that we use the favorable economic situation to also tackle the longer-term challenges of establishing more robust policy regimes to match the rapidly changing structures in a globalized world. Underlying economic vulnerabilities must be dealt with forcefully in order to lay the foundation for sustainable long-term growth.

The slow progress in trade liberalization is worrisome. It is of vital importance to strengthen the multilateral trading system. We all have a common responsibility for moving forward. Concrete progress on agriculture is particularly important for many poor countries. We urge all countries to participate constructively in the negotiations preparing the WTO Conference in December.

IMF Policies in a Changing World

Policymakers' ability to address imbalances and safeguard against emerging risks depends on high-quality analyses and thorough

understanding of the forces that drive global developments. The Fund has an important role in monitoring and describing these developments. To preserve this role, the Fund must remain vigilant and prepared to face new challenges. The ongoing review of the Fund's Medium-Term Strategy is essential in that regard.

I will briefly touch upon three key areas in the strategic review, namely; surveillance, the Fund's financing role, and crisis resolution.

First, I welcome the steps taken to maintain and improve the effectiveness of *Fund surveillance*. A particular challenge remains in ensuring that country surveillance relates to and benefits from multilateral and regional surveillance. While increased financial liberalization and more integrated markets have contributed to higher economic growth, these developments may at the same time have increased the potential for booms and busts in credit and asset markets. Further integration of these analyses into country surveillance will be of special importance.

Second, *the Fund's traditional role of providing financing* remains vital for many members, although the number of countries that potentially need such financing may decrease. While this would be a positive development, it calls, in our view, for a renewed discussion of what implications it may have for the Fund's future role as a lending institution. We believe the Fund must continue to exercise selectivity in supporting only those adjustment programs that will put members firmly on the path to external viability. The existence of robust domestic institutional frameworks, strong national ownership of programs, and a will to pursue sound economic policies are crucial to active Fund involvement. A substantive discussion of the Fund's financing role should be accompanied by a review of the financing and lending facilities, with a goal of ensuring an efficient, flexible, and transparent facility structure.

Third, in the area of *crisis resolution*, market mechanisms to facilitate debt restructuring have improved in recent years. The Fund's role in such negotiations is less prominent than it would have been within a statutory approach. Indeed, we think it would be useful to, once more, ponder if the IMF's role in crisis management could be based on agreed principles rather than ad-hoc policies. Fund policies should set the context also for market-based debt restructuring negotiations. The uneven experience with existing Fund policies—notably the exceptional access framework and the lending into arrears policy—is therefore worrying. We believe it is necessary to evaluate whether the design and implementation of the Fund's crisis resolution framework could be improved.

IMF Support for Low-Income Countries

Let me now turn to the IMF's support for low-income countries. The Nordic-Baltic constituency fully endorses the Fund's commitment to supporting low-income countries in their efforts to achieve strong, durable growth, macroeconomic stability, and sustainable debt levels. We also support the emphasis on placing the Fund's mandate in the context of international partnerships, including the Monterrey Consensus and the progress towards achieving the Millennium Development Goals (MDGs). We stress the importance of continued good cooperation with the World Bank on these issues.

We welcome the political commitment to make further progress towards the MDGs and are pleased that the global fight against poverty is on top of the international policy agenda. We welcome the renewed commitments to specific timetables made by many developed countries to raise official development assistance to the UN target of 0.7 percent of gross national income. We also welcome the recent proposal to provide debt cancellation to poor countries. We accord great importance to the clear commitment by the G-8 to provide additional resources on a fair burden sharing basis.

The Fund's contribution to the debt cancellation provides an opportunity to reflect on the institution's *financing role in low-income countries*. Clearly, the Fund should continue to provide financial resources to low-income countries under relevant programs and facilities. There is, however, a need for discussing how future Fund lending to poor countries should be provided and designed.

- First, the debt cancellation proposal accentuates the need for a review of the Fund's lending to PRGF-eligible countries.
- Second, the proposal underscores the need to reconsider how we address debt sustainability, debt servicing capacity and growth issues in low-income countries. The proposal also calls for a discussion about what is needed beyond the present HIPC Initiative.
- Third, we invite the Fund to take necessary steps to prevent that debt cancellation creates wrong incentives. The recognition that the Fund has been called on to cover the cost of debt cancellation over its own resources strengthens the case for strong safeguards in future lending operations.

Turning to *the Fund's advisory role in low-income countries*, it must continue to be centered on the institution's core expertise—macroeconomic and financial stability as a prerequisite for growth and poverty reduction. Recognizing the increased need for signaling and

donor coordination, the Fund's surveillance activities and instruments must be adapted to these requests and the changing needs of low-income countries. The Policy Support Instrument could become a valuable tool for some countries.

Finally, continued efforts in *capacity building* will be essential to help developing strong institutions for efficient implementation of Fund advice and use of financial resources. Following up on the recent debt cancellation proposal's emphasis on good governance, accountability and transparency as crucial to releasing the benefits of debt relief, the Fund must stand ready to contribute to building the necessary capacity also in these fields.

To conclude, Mr. Chairman, these are testing times—both for the world economy and for the Fund. Globalization and increased financial liberalization clearly pose both opportunities and challenges. For policymakers around the world, and for the Fund, it is therefore more important than ever to be alert, and willing and ready to adapt to changing surroundings.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NORWAY*

Hilde Frafjord Johnson

I am honoured to be addressing the 2005 Joint Annual Meetings on behalf of Denmark, Finland, Iceland, Sweden, and Norway. Let me begin by thanking the U.S. authorities for once again hosting the Annual Meetings here in Washington D.C.

One of the great heroes of our host country, Abraham Lincoln, has said that "*You cannot escape the responsibility of tomorrow by evading it today.*" It is the "responsibility of tomorrow" that must guide our actions today. I am talking about the responsibility to improve the lives of the millions who spend every day in a state of misery incomprehensible to you and me. I am talking about keeping our word, delivering on our promises, translating pledges into progress—for those who need it the most. I am talking about staying on track for the MDG deadline, now only ten short years away. We have just concluded the UN summit in New York, and we welcome the progress made. However, I think we must all agree that the outcome gave us considerably less than we had hoped for.

The Nordic-Baltic constituency fully endorses the international partnership for development, building on the Monterrey Consensus and the Millennium Development Goals (MDGs). The UN summit and our meetings this weekend clearly show that MDG progress depends on continuing and strengthening our global partnership. Sound national policies and good development strategies are crucial, but not enough. Policies and strategies must be reinforced by the successful conclusion of a development-focused Doha round, adequate levels of development assistance, and targeted debt relief.

This means we are all responsible, all equally involved—or not involved. Because the danger is this: when everybody is responsible, this can mean that nobody really is. It can mean that when 2015 comes around, we will have to look back and admit that we evaded our responsibility. It can mean that we failed to meet the most significant challenge of our generation. It is up to us to prevent this from happening—right now. We know very well what has to be done. MDG assessments show us where the problems are greatest. Africa comes last—on every count. Women and children are still the losers in the global prosperity game. This means we must intensify our efforts to give assistance where it is most desperately needed. Africa and the poorest countries must be a priority. This is not happening today. Much of global ODA is going elsewhere—to those who are better off. This must change. And we must ensure that the support we give to Africa and to the poorest is based on additionality, and that it delivers to those who need it most. The Nordic countries welcome the World Bank's Africa Action Plan.

Many of Africa's leaders are making renewed efforts to advance the continent. We applaud their initiatives and stand ready to support them. Because Africa is making progress—just not fast enough.

The picture is complicated. Armed conflicts, HIV/AIDS and governance problems are posing challenges that can seem insurmountable. Africa's leaders cannot meet these challenges without assistance. But with sound leadership on the inside, and solid support on the outside, I know that this continent—the continent where I grew up—will be able to take great strides over the next decade. The commitments of the G-8 and other donors will lead to an increase in ODA to Africa of around 25 billion dollars a year by 2010, more than double the aid for 2004.

We urge the Bank, in partnership with the Fund, to act swiftly and concertedly on the recommendations in the Africa Action Plan. Including measures to increase net transfers. Following the sound reviews of conditionality and poverty reduction strategies, as well as the discussions on aid for trade, the Bank must act quickly, so that the recommendations

of this annual meeting, and the results of the Development Committee discussions, can be put into practice at once.

The Nordic countries remain convinced that the most credible, reliable and durable approach to financing the funding gap for the MDGs would be to make faster progress in increasing aid budgets and raising ODA towards the UN target of 0.7 percent of gross national income. Therefore we welcome the renewed firm and time-bound commitment by many developed countries to reach this target. We urge those donors that have not yet done so to make concrete pledges towards this target.

In addition to providing aid, we need to better integrate low-income countries in the world economy. We must enable them to sustain and accelerate economic growth. We must ensure that trade becomes a vehicle for growth and poverty reduction. We welcome the efforts of the World Bank towards this end. The Nordic countries stand ready to deliver on the development promise of the Doha Ministerial Declaration. We are willing to make Doha a 'Round for Free' for the poorest countries. And we recognise that the link between trade and development is not automatic: developing countries need our support to overcome supply-side constraints on their participation in international markets.

The Nordic countries continue to be strong supporters of debt relief and the HIPC initiative. But it has become increasingly obvious that we need to go beyond the HIPC initiative if debt sustainability is to be achieved. The Debt Sustainability Framework is very important, as it focuses on prudent future borrowing *and* lending. In addition we need a debt relief proposal that can reduce the debt burden *now*. This is why the Nordic countries welcome and support the G-8 initiative for multilateral debt cancellation to poor countries. The fact that the global fight against poverty is now at the top of the G-8 agenda is very promising.

The Nordic countries are pleased about the statement in the G-8 proposal that donors will provide additional contributions to the IDA and the AfDF. Without this compensation, which ensures an increase in net transfers to poor countries, the proposal will undermine multilateral development co-operation and will not bring in additional resources.

We will hold the G-8 countries accountable. We will also assist wherever we can in hammering out a debt relief deal that follows the principles of the G-8 proposal. While we assume that the G-8 countries will deliver on their promises of compensation, we want to stress the need for up-front payments or binding commitments.

Let me remind everyone that the IDA was promised full compensation for the cost of HIPC. But IDA 14 ended up with a gap of around 50 million dollars, money that is desperately needed for reaching the MDGs. On a purely exceptional basis, Norway has decided to pick up this bill. The IDA should not be punished because of broken promises.

In the process of finalising the design of the multilateral debt relief, the Nordic countries will give full attention to the issue of compensation to the IDA and AfDF and the question of additionality. We believe the success of the proposal depends on the G-8 communiqué being followed to the letter—and especially in these two key areas.

We must ensure that IDA has robust financial capacity and viability, otherwise we risk undermining its role in helping developing countries reach the MDGs. We must ensure full donor compensation to the IDA for lost reflows due to debt relief. This compensation must come in addition to donors' regular contributions to the IDA. We think the World Bank idea of benchmarking would help safeguard the compensation. As already said we do of course assume that the G-8 deliver on their promises, and I can assure you that the Nordic countries will do their part.

We fully support the G-8's emphasis on good governance, accountability and transparency for securing the full benefit of debt cancellation. But further debt relief should not mean conditionality beyond what is required under the HIPC initiative and existing IDA arrangements.

The debt relief proposal could have far-reaching implications for the Bretton Woods institutions. However, if all parts of the proposal are coherently implemented, the institutions will be able to take a firmer stand in the global fight against poverty. Poverty eradication through pro-poor economic growth, social inclusion and empowerment will continue to be the overarching objective of all Bank operations. The Bank is in a unique position to combine financing with policy advice. Its global role must be safeguarded and strengthened.

Now we need to find a mechanism for monitoring the compensation to the IFIs and the follow-up of the G-8 proposal. We need a broader approach to make sure everyone brings in new money in response to new promises. Recycling will not do. We need fresh funds and firm commitments. We need to trust—but we also need to verify. We need benchmarking and tracking mechanisms. The poor are waiting for us to deliver. They do not want hot air and heady debates. They want evidence that all of us will pay what we have promised—without delay. The poor are tired of rhetoric, resolutions and reports. They want a better life, a new chance, a way out. The World Bank and the donor countries can and must help. The past year has been a good one in terms of promises and pledges. But, to quote Kofi Annan, *"Pledges are good, but cash is better."* The poor have seen too many promises come and go, leaving very little behind them. They have become accustomed to expecting little and receiving less. It is up to us to show them that the promises we made this time are different, that our commitments stand firm, that we are

shouldering the responsibility of tomorrow, together. We can, we must, and we will.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Salman Shah

It is an honor and a privilege to participate in the Annual Meetings of the Board of Governors in this “Year of Development.” I would like to express my gratitude to the Bretton Woods Institutions and the United States government for their hospitality and excellent meeting arrangements.

Since the last Annual Meetings of the World Bank and IMF in September 2004, a number of important international events including the G-8 Summit in Gleneagles in July and the UN Millennium Declaration Review Summit in New York last week have deepened consensus on key elements of the development agenda. And we have witnessed the renewed commitment of countries and multilateral institutions to write off debts, reduce poverty and pursue the achievement of the Millennium Development Goals. Donors have renewed this commitment most notably in the form of IDA14 Replenishment and the G-8 Debt Relief Plan for the poorest countries. These, and other, financing commitments are a welcome response to the considerable progress that the recipient countries have made in improving their policies, institutions and governance.

Yet, the challenge to achieve the MDGs has become more daunting as another year has gone by and 2015 has drawn closer. It is now more likely that many countries will miss the MDGs, largely because of missed opportunities for investing in pro-poor growth and human development. There simply has not been enough concessional money around in the multilateral financing system to scale up development assistance to make a real difference. What is needed is a large increase in concessional assistance and net resource transfers to poor countries. The Bank and donors have a shared responsibility to find ways and means to urgently increase the net transfers.

The G-8 Debt Relief Proposal is indeed a welcome initiative in that direction. However, it needs to be implemented in a manner so that the financial integrity, resourcefulness and future lending capacity of the IDA, IMF and AfDB are fully protected. This would require binding

commitments from donors to reimburse fully the cost of debt write off to the institutions concerned. The additional resources thus becoming available to IDA should be allocated to all IDA-eligible countries based on its existing performance based allocation system. Attaching new conditionality to these resources would have the undesirable consequences of slower utilization thus undermining the objective of increasing net transfers.

We welcome the World Bank's initiative to develop the Africa Action Plan. Funded with adequate resources, this plan offers considerable promise and potential, and a real opportunity to improve the lives of people in the world's most under developed region. We wish the African people and governments, the Bank and the donors every success in its implementation.

One of the great challenges developing country governments face is to pursue growth with equity. We believe that growth will only be sustainable if it is coupled with equity. The people have to be the drivers of growth and participants in the growth process. We in Pakistan have launched the "KHUSH HAL PAKISTAN" program to implement community driven development initiative across the country to realize the MDGs focusing on the weaker and more deprived communities. This program designed to upgrade rural and urban infrastructure improves the quality of life of the poor, also provides resources for health, education, skills development and microfinance facilities to encourage full participation of all segments of society in the development of the country. We look forward to the support of MDBs, particularly the World Bank in partnering in this initiative.

Growth and private sector development are intrinsically linked. Without market access, the potential of private sector in developing countries cannot be fully realized. It is important that private sector contribution to economic output is maximized. But it is equally important that that output also finds markets on the basis of fair competition. Agriculture subsidies, non-tariff barriers in rich countries and restrictions on the free movement of service providers deny poor countries' producers market access on fair terms. We applaud the advocacy role that the Bank is playing in promoting free and fair trade. The Bank can and does influence the policy direction in developing countries and helps them with behind-the-border reforms. In the absence of any leverage over rich countries, advocacy is the only means through which it can bridge the gap in policy and perceptions between developed and developing countries. We would urge the Bank to step up advocacy for a successful conclusion of the Doha Round.

After long years of neglect, the Bank did well to formulate the Infrastructure Action Plan in 2003. In Pakistan, the Bank has already

scaled up its assistance program including enlarged support for investment in infrastructure. We appreciate the progress that is being made in its implementation. And we note that infrastructure lending is planned to be increased by one billion dollars a year in the next few years. However, we think that it may not be sufficient to meet the growing infrastructure deficits and investment needs of developing countries. We urge further scaling up and also leveraging it to mobilize private investment through public-private partnerships (PPPs), making full use of the facilities and instruments available with IBRD, IDA, IFC and MIGA, including equity investment, guarantees and local currency loans. We believe that the Bank Group is in a good position to help recipient countries mobilize resources for infrastructure investments without undue exposure to foreign exchange risk, since infrastructure services are priced in domestic currencies. Finally, we encourage the Bank Group to increase its support for municipal infrastructure through municipal fund activities.

Finally, a word about voice and participation of developing and transition countries. This is an important part of the Monterey Consensus. We appreciate the work that has so far been done on this aspect at the Bank and the Fund. However, this work has not led in any directions where concrete actions can be implemented to achieve a real enhancement in voice of developing country shareholders. We are convinced that any measures that fall short of increasing developing countries' voting power would be inadequate to achieve the purpose. I urge fellow Bank Governors to come to an understanding on how to settle the issue of voice through voting power.

Before I close, let me update the audience on Pakistan's economy. I am happy to state that Pakistan's economy continues to gain strength. The fiscal year ending on June 30, 2005 has been an eventful one. The economy has mounted a strong recovery with a sustained improvement in prospects. The most important achievements of the year include: high real GDP growth of 8.4 percent, supported by a strong growth in large-scale manufacturing (15.6 percent), a sharp pick up in agriculture (7.5 percent), a continuing robust performance in service sector (7.9 percent), and an extra ordinary strengthening of consumer demand; a double-digit 12 percent growth in per capita income reaching \$736; investment upturn gaining a stronger footing, particularly private sector investment, which remained buoyant owing to a rare confluence of various positive developments; strong growth in consumption of energy reflecting rising level of economic activity; fiscal deficit remaining almost on target at 3.3 percent of GDP; high rates of export and import growth; sustained high level of workers' remittances at \$4. 2 billion; continued accumulation of foreign exchange reserves and a stable exchange rate; a sharp decline in

public debt (61.7 percent of GDP) and external debt burden (32.5 percent of GDP); and most importantly, the passing of the Fiscal Responsibility and Debt Limitation Act 2005 mark important milestones for the country.

Notwithstanding the significant improvements in these economic parameters, we are not complacent. We are aware of the challenges lying ahead. The main challenges include sustaining the growth momentum with macroeconomic stability; creating employment opportunities; raising the income levels of our people; and improving the country's social indicators in sync with the strength of the economy. In order to address these challenges, the Government has a clear roadmap and a workable strategy in place.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

Bart Philemon

I would like to thank the President of the World Bank Group, Managing Director of the International Monetary Fund, and the United States Government for hosting the Joint Annual Discussion and for the warm welcome that we have received. This is an excellent opportunity for all of us to share, and learn from, the wealth of experience and knowledge that organizers and participants bring to these discussions.

I would also like to thank the Fund for seeking to have the Pacific Islands Forum Secretariat attend this year. We are increasingly aware of the importance of developing and maintaining cooperation and consultation between member governments in the Pacific and these meetings are an opportunity for us to develop a shared understanding of the key issues and challenges facing our region and the world.

Papua New Guinea hosted the Melanesian Spearhead Group Summit earlier this year and next month we host the African Caribbean and Pacific Leaders' Summit and the Pacific Island Forum Meeting. These events—in our 30th year of Independence—reflect our commitment to working closely with other countries to build healthy regional economies within an integrated global economic framework.

At the time of my first address to this forum during the 2002 Annual Meetings, Papua New Guinea had gone through a protracted period of poor economic performance. Economic growth had contracted for three years in a row, external conditions had deteriorated and the exchange rate had fallen. The deficit had increased. Inflation had risen sharply and the

subsequent interest rate rises, coupled with high levels of public debt, were putting severe stress on the budget.

Papua New Guinea faced a substantial challenge to restore economic and financial stability and to put the economy back onto a solid medium-term growth path.

In the past three years we have worked hard to address those challenges and I can report that we have made some good progress.

On the political front, we have started to see some much needed political stability, which is a necessary condition for macroeconomic and financial stability and for sustained economic growth. The current government has now been in office for several years and looks set to serve out its full term.

Political stability has been enhanced by a range of measures including the introduction of Limited Preferential Voting and the enactment of the Political Parties and Integrity Act. Political stability has enabled us to introduce more policy stability. The Government is setting its fiscal policy within the range of medium-term frameworks. These frameworks—the *Medium Term Fiscal Strategy*, the *Medium Term Development Strategy* and the *Medium Term Debt Strategy*—lay out clear medium-term plans which the Government has followed in recent years, and will continue to follow.

The *Medium Term Fiscal Strategy* maps out an affordable and sustainable path of public spending and the *Medium Term Development Strategy* sets out the Government's medium-term development priorities. The *Medium Term Debt Strategy* maps out a path of debt adjustment to provide for better management of public debt and reduced exposure to risk.

These strategies have been complemented by an ambitious reform agenda. Government's broader public sector reform has been promoted under the *Strategies for Supporting Public Sector Reform 2003–2007*, and the *Public Expenditure Review and Rationalisation* process which has had solid donor support. Trade and financial services liberalisation, and a range of other reform initiatives aimed at reducing business impediments, have created a more supportive environment for private sector growth.

We have also benefited from a supportive global economy. Global economic activity has been solid and the prices of the major commodities that we export to the rest of the world have increased sharply.

Together, prudent economic and financial and economic management, and a supportive world economy, have started to produce results. There is now increased investor and consumer confidence in macroeconomic management and longer-term growth prospects for Papua New Guinea's economy.

Economic growth is now expected to reach 3.0 percent in 2005. Investment has increased, profits are up, and more jobs have been created.

Inflation has fallen to around 1 percent in 2005. Interest rates have fallen sharply. The exchange rate has stabilized and the current account is in surplus. Foreign exchange reserves have also remained high and are around near-record levels. As we move into 2006 we can have some confidence that our economy will continue to expand.

On the fiscal side, the combined effect of solid expenditure control and buoyant revenues is that the budget balance for 2005 is likely to be a substantial surplus. This follows a small surplus in the previous year. As a result of these good outcomes, the Government has been able to pay off some of its debt. Public debt as a percentage of GDP has fallen substantially over the past couple of years.

Despite these good results we are not complacent. We recognize that the macroeconomic situation is still fragile and that we can easily be derailed by adverse domestic or global shocks.

We also understand how easily it is for fiscal discipline to slip, especially when conditions look like they are improving.

We are very much aware of the daunting challenges we face in getting our economy to work well at the micro level and in improving service delivery to the community. We are aware of the risks from the HIV/AIDs pandemic and other health-related issues, and the difficulty in putting in place systems to manage these risks.

More generally, we recognize the ongoing challenge we face to grow the economy and meet our development aspirations.

Like other developing countries, we know we can not, and should not, face these challenges alone. The increased linkages between countries through trade and investment, and the commonality of interests in poverty reduction, health, security and a host of other issues means that cooperation and shared solutions to shared problems is becoming increasingly important.

We are fortunate to have the knowledge and expertise, and in many cases the financial support of our development partners around the world.

We need to ensure that we are able to make use of this support most effectively. International institutions can help to do this by ensuring that support is properly targeted and coordinated, and that it is provided in such a way that it complements institutional development and policy design.

More specifically, in Papua New Guinea's case, we need to harmonies our development efforts, meshing the development support from our partners with Papua New Guinea's core medium-term

development strategies and development priorities. National ownership, leveraged by international support, will be a potent force to sustain our momentum.

I look forward to our discussions at this meeting and the insights that participants will bring. We have much to discuss and hopefully much to learn.

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 Papua New Guinea's development effort.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Margarito B. Teves

Chairman Andre-Philippe Futa, World Bank President Paul Wolfowitz, IMF Managing Director Rodrigo Rato, honorable members of the Board of Governors, distinguished officials of the delegations of this Annual Meeting, ladies and gentlemen.

First, I would like to welcome the new President of the World Bank, Mr. Paul Wolfowitz and assure him of the Philippines' support. Let me also express my appreciation for Mr. James Wolfensohn under whose leadership the Bank radically changed the way it conducted business—emphasizing social sectors, the knowledge bank, and decentralization.

Our meeting comes on the heels of a series of high-level meetings in this “Year of Development,” most recently the United Nations 2005 World Summit in New York. These meetings have significantly built and deepened consensus on the development agenda at a time when the global economy is threatened by major risks—persistent global imbalances, high and volatile oil prices, and a possible tightening of financial market conditions. Mitigating these risks would require urgent policy coordination among systemically important countries.

The Philippines reiterates its support for the achievement of the Millennium Development Goals (MDGs). We welcome the G-8 Debt Relief Proposal as a major concrete step towards this, particularly for those eligible highly indebted poor countries (HIPC) in Africa. We look forward to its early implementation, giving due consideration to issues of additionality, fair burden sharing, and the financial sustainability of the IDA. We also welcome the Africa Action Plan developed by the Bank.

While understanding the attention given to the world's poorest countries, we would like the Bank to address more vigorously the needs of Middle Income Countries (MICs). MICs too need assistance to achieve the MDGs. As the 2004 Annual Review of Development Effectiveness (ARDE) observes, "Most MICs, even though they have pockets of poverty and large numbers of near poor, have development goals that do not center on poverty reduction." The ARDE then goes to say that "the Bank should further articulate its mission of poverty reduction and progress on the MDGs in ways that align with these visions." Clearly, the Bank must deepen its engagement with MICs.

One way to do this is to offer innovative and flexible financial products. The lending products it presently offers are not flexible enough for the needs of MICs. The Bank has no refinancing windows where MICs can qualify for more liberal re-financing terms and conditions premised on its commitment to reforms. This is particularly important for MICs with high debt service such as the Philippines. A proposed refinancing window would enable a MIC to refinance expensive debts with lower cost Bank funds. The interest savings from the refinancing would then be channeled to MDG projects. To address the risk of moral hazard and policy reversal, the Bank could incorporate a penalty rate that the MIC would have to pay, should the reforms not materialize.

We can also come up with creative ways to provide infrastructure for MICs. The MDGs cannot be achieved without growth. However, for countries to grow, they need to increase infrastructure spending. Many MICs have "fiscal space" problems that prevent them from providing the necessary public investment in pursuit of the MDGs. Under this situation, expanding public investment in infrastructure, even if economically justified, will increase fiscal stresses in MICs. Private investment is also not picking up the slack. The Bank, together with MIGA and IFC, should work together more closely to address this issue. In addition, the Bank can scale up its local currency financing for infrastructure projects.

Finally, the Bank must listen more closely to MICs. The needs of MICs are more diverse and require a more tailored approach to development assistance. We need to pay more attention to implementation issues, including the removal of policy and operational aspects that impede decentralization. The Bank needs to be ready to discuss the full range of policy options and the trade-offs involved, with due consideration to a realistic assessment of the political economy and the implementation capacity for reform.

The fates of the low-income countries and MICs are closely intertwined with the Bank. MICs provide valuable lessons to the Bank in its role as a knowledge bank. They also generate income for the Bank,

allowing it to sustain its assistance to low income countries. Both share a common interest in economic growth with equity as a way to achieve the MDGs. Both will surely benefit from a successful conclusion of the Doha Round. Indeed, the gains that can be generated from the Doha Round could readily offset the 0.7 percent GNP target of developed countries as official development assistance to developing countries.

In closing, I would like to reiterate the Philippine commitment to reaching the MDGs by 2015. We are committed to pursuing responsible reforms that will provide us with the fiscal space to achieve this. By steadfastly implementing our reform program, we hope to engender a virtuous cycle of fiscal improvement, more MDG investments, and growth.

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

Mirosław Gronicki

We welcome the International Monetary Fund's management effort to elaborate a new medium-term strategy that would better align the Fund's work and mission with the quickly changing global financial and economic situation. In order to remain relevant and be able to help all member countries deal with the challenges of globalization, the Fund must focus its work on the core responsibilities in the monetary, fiscal, and financial sector areas.

The persistence of global imbalances can be partly attributed to globalization. Global growth, although solid, masks serious regional divergences. Various factors such as oil price developments, rise in property prices, and fiscal and political tensions add to the risk of a disorderly unwinding of global imbalances. All these factors constitute a set of serious downside risks to the stability of the global economy, particularly in the medium term.

In this context, it has to be recognized that during the last years emerging economies have increasingly contributed to speeding up the growth of the global economy. They have also improved their macroeconomic stability. At the same time, however, major industrial countries have suffered from structural problems. Yet, it is the emerging economies that would suffer more from the disorderly unwinding of global imbalances. Reducing those imbalances is thus urgently needed. It

requires corrections in macroeconomic, structural and exchange rate policies. An effort to better coordinate the scale and timing of these corrections would be desirable.

Together with the Bank and other international financial institutions, the Fund should participate in helping the low-income countries face the challenges of development and better integrate with the global economy. It is of particular importance to ensure harmonious cooperation, and also a clear division of labor, between all partners participating in this process. Fund's role in the low-income countries should be focused on macroeconomic issues, including policy advice and capacity building, technical assistance, and lending to cover actual balance of payments needs. Countries that already achieved some degree of macroeconomic stability and do not need immediate financial support should mainly benefit from Fund's policy advice, including in the crucial area of building stronger institutions. We thus welcome the recent agreement on the Policy Support Instrument as an adequate tool to serve the needs of this group of countries.

We support the participation of the Fund in the new initiative to provide further multilateral debt relief to the poorest countries to help them reach the Millennium Development Goals. However, this initiative should not undermine the Fund's financial position. It should also respect the fundamental principle of uniformity of treatment and should be based on a thorough evaluation of debt sustainability and linked to adequate conditionality, at least at the entry point. A strong effort must also be made to ensure that countries benefiting from debt relief do not quickly accumulate new unsustainable debts.

Poland contributed to the HIPC Initiative by providing a grant and an interest-free deposit to support the PRGF-HIPC Trust Fund. Like other EU countries, Poland is committed to go beyond the HIPC requirements and provide 100 percent debt relief on all its official bilateral claims to the eligible HIPCs. Poland has also recently announced its intention to multiply the current level of its official development assistance (ODA) and aim at reaching 0.17 percent of GDP by 2010.

In the context of the 60th Anniversary of the Bretton Woods institutions, let me recall the very important role that the Fund and the Bank have played in supporting the economic transformation of the transition countries. Poland is one of the most successful examples. Our transformation clearly demonstrates the importance of a well-designed and well-implemented macroeconomic policy, as well as the crucial role of institution building. Our domestic reform efforts were supplemented by the support from the international financial community. This support can hardly be overestimated. The success of Poland's transition is best

demonstrated by its membership in the European Union, an almost unrestricted access to international capital markets, and strong credit ratings. The macroeconomic situation is broadly stable with annual inflation below 2 percent and a nearly balanced current account position. The ongoing efforts to further reduce the fiscal deficit should soon pave the way to Poland's entry into the euro area. From a country that in the early 1990s still relied on international assistance and debt relief, Poland transformed into a stable and dynamic economy that is now among the creditors of the Fund and is also in the process of building up support for countries with lower income levels.

However, the tasks still in front of us remain very challenging. One of the key challenges is to design an appropriate strategy for adopting the euro. Like all other new members of the EU, Poland is interested in ensuring that its euro area membership will be sustainable and beneficial for long-term growth prospects. However, as the experience of some current euro zone members shows, the adoption of the euro is most beneficial if it is underpinned by comprehensive fiscal and structural reforms. The road to the euro is also fraught with risks. For instance, interest rate convergence may stimulate credit and demand booms. Such risks fall in the area of core responsibilities of the Fund. It means that the Fund still has a role to play in providing advice on how to avoid such risks and ensure a smooth path to the euro area membership.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PORTUGAL

Fernando Teixeira dos Santos

It is a great pleasure for me to address you on this meeting. Let me start by thanking the staff of both the Bank and Fund for all the effort put in organizing this year's Annual Meetings.

First of all, I would like to stress that Portugal has started in 2005 a three year program of fiscal consolidation, based on structural reforms aiming at the core of our budgetary problem, which lies on the expenditure side. A consolidation that will rely, not on one-off and temporary measures, but on the elimination of the sources that, in the medium and long term, build up the pressure for the continuous increase of expenditures.

Since this vigorous program is being undertaken in a climate of bleak economic growth, it requires strong support from the Portuguese tax payers as well as from the international community.

The recent expression of institutional support from our European Union partners at the European Council level, in the context of the Stability and Growth Pact, is proving to be extremely important to the conduct of the program.

Portugal also has to rely on its European partners for the recovery of economic growth and convergence towards higher standards of living and social justice. Being a small open economy, Portugal's domestic economic prospects are largely determined by the external demand, namely from by the major European Union countries.

However, the recovery of economic growth in Europe is not just a question of cyclical fluctuation. It is a structural problem: improvements in Europe's competitiveness depend significantly on structural reforms aimed at increasing the flexibility of all the markets (goods, labour and financial markets).

This is a sustainable way to face the challenges of increased globalization, together with the challenges to European social cohesion. The continuous increase in productivity is the only sustainable path to create the wealth necessary to help the people and regions that are more exposed to the destructive side of globalization.

At the world level, answering positively to globalization challenges requires improvements in the governance of institutions, both national and international. We therefore welcome and support the strategic review that the current IMF leadership is promoting, with a view to better prepare the institution to the rapid economic and social changes implied by globalization.

The achievement of the Millennium Development Goals come in line with that strategic review, and Portugal is strongly committed to cooperate in order to obtain better results in fighting poverty, namely through the multilateral debt relief of those Highly Indebted Poor Countries who have reached the completion point.

In this regard, Portugal shares the view of those who consider that this G-8 initiative should be implemented without weakening the financial position of the IFIs. Mr Chairman, fellow Governors, I would like to highlight another important issue. Portugal fully supports the ongoing effort to promote the smooth functioning of global financial markets, through a systematic compliance with international standards and best practices. In this way, we are committed to continue strengthening the ability to fight against the abuse of these markets to finance terrorist acts and to launder the gains from criminal activities.

Finally, 2006 will be a particularly important year for Portugal in its relationship with the IMF, as it will evaluate Portuguese financial institutions in its Financial Sector Assessment Programme. It will provide us a great opportunity to identify enhancements in our financial system. Also, an opportunity to show how our institutions comply with the recommended standards, based on principles of independence, on a modern legal framework and strong international cooperation.

We look forward to welcoming you with the usual warmth and sympathy widely recognised as a typical Portuguese landmark.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE
FUND FOR THE RUSSIAN FEDERATION

Aleksei Kudrin

The Global Economy and Financial Markets

We welcome the continuing strong growth of the global economy but, at the same time, we note increasing uncertainty. On one hand, the relatively high growth rates in an environment of subdued inflation are evidence of the enhanced resilience of the global economy, even at a time of soaring oil prices. On the other hand, the continuation of the current trends is leading to a further deepening of global current account imbalances against a backdrop of remaining wide growth divergences across regions. One cannot help but be concerned that further development of the global economy on the basis of the prevailing patterns is increasing the risk of a disruptive adjustment.

Much that has transpired recently in the global economy and on the financial markets is difficult to explain. In a high-demand environment, long-term interest rates remain at record low levels. Exchange rates have recently been changing in the direction opposite to the one, which is necessary for a gradual easing of global imbalances. Over a number of years, accommodative monetary policy and the associated increase in liquidity have not led to higher prices of goods and services, but rather to significantly higher asset prices, including housing. The only macroeconomic indicator that is behaving in an explicable manner is the world price of oil, whose ascent reflects mostly a substantial increase in

demand in the face of limited possibilities for raising supply. Under these circumstances the price of oil is becoming the main indicator of overheating of the global economy.

Today the global economy is far less sensitive to changes in oil prices than it was during the oil crises of the 1970s and 1980s. However, further increase in oil prices could lead to a considerable deceleration of global growth. In this connection much is being said about the need for increased investment in oil exploration, extraction, and refining in order to significantly boost future supplies of petroleum products to consumers. While we do not dispute the importance of the above-mentioned measures, we note, however, that there exist substantial opportunities for stabilizing the oil market through raising its efficiency, including on the basis of increasing its transparency. Additional measures can also be adopted to reduce demand. In particular, possibilities include decreasing or eliminating subsidies for consumption of petroleum products, and increasing their taxation in countries where the level of consumption is especially high.

We welcome new IMF research on global imbalances which has allowed to make a number of interesting conclusions.

First, the greatest impact on the easing of global imbalances over the short-term may come from the depreciation of the U.S. dollar relative to Asian currencies, while over the medium-term it may come from a substantial reduction in the U.S. budget deficit. Moreover, the impact of structural reforms in Europe and Japan on adjustment of global imbalances is found to be rather limited over the entire period of analysis. Such assessments permit to rank the individual components of the cooperative strategy by their importance and thus pay more attention to those components that may have the greatest impact.

Second, the analysis of the dynamics of global savings and investments demonstrates that current account imbalances are a mirror reflection of the gaps between savings and investments across different regions. Thus, there is a correspondence between the sharp drop in savings in the U.S. beginning in the late 1990s and the trend toward decreased investments in East Asian countries (other than China) observed in the same period. Therefore, the traditional recommendation to increase U.S. savings is supplemented by a new proposal to raise investments in Asian countries (other than China) and in oil exporting countries. It is recommended that the latter, in particular, spend a larger part of their growing revenue from oil exports on increasing their investments, and that they boost expenditures in areas where social returns are high. It appears, however, that the optimum balance between saving and spending of oil revenue should be determined by the economy's absorption capacity, as well as by a clearer understanding of

the degree, to which the observed increase in oil prices is a permanent rather than a temporary phenomenon.

Returning to the issue of global imbalances, we would like to note that one obstacle to the implementation of the cooperative strategy for addressing them is associated with the need for all contributors to this strategy to accept certain short-term losses, for example, in growth rates. The voters and business communities should consent to these losses for the sake of the long-term benefits not so much for their own countries but for the global economy as a whole, which makes such a strategy difficult to implement from a political standpoint. This situation once again demonstrates the increasing tension between the growing integration of the global economy and the continuation of economic management at the national level.

The situation on the world financial markets continues to be benign in the sense that low interest rates and decreasing credit risk premia are providing a beneficial financing environment for the official sector, corporations, and households. Cheap financing, however, leads to the underestimation of risks and the accumulation of excessive debt, a situation that may subsequently turn into a financial crisis. The Fund's *Global Financial Stability Report* underscores the duality of the prevailing situation, and suggests that the same developments occurring on the financial markets simultaneously can be favorable over the short-term but also be connected with the growing vulnerability of the global economy over the medium-term. It seems to us that such an assessment of the current situation is somewhat complacent in light of the steadily growing risks of a disruptive adjustment on the financial markets.

IMF Objectives and Medium-Term Strategy

The development of the Fund's medium-term strategy continues to be one of the priorities for the institution. In this regard we welcome the IMF Managing Director's new report on this issue and endorse most of his proposals.

Globalization can be viewed as the main factor in determining the Fund's objectives for the future and may serve as a basis for the elaboration of the Fund's medium-term strategy. Globalization is associated not only with new opportunities but also new risks. Therefore, the Fund's activity should be oriented towards helping its member countries avail themselves of the new opportunities, on one hand, while preparing themselves for the new risks, on the other.

We agree that it is necessary to place more emphasis on the research of the long-term consequences of globalization. We believe that such

research would be of great value, especially if it includes alternative scenarios for the development of the international financial system.

In addition, it is necessary to conduct a deeper analysis of the financial markets, *inter alia* the financial markets of individual countries. The objective is to include sections on the development of the financial markets in the majority of Article IV reports. This will require inclusion of financial sector experts into the Fund's country missions.

We also have no objection to the proposal for a more active participation of the Fund's country missions in public discussions on economic policy in member countries. In Russia, press conferences held by the head of the Fund's mission on the outcome of economic policy consultations have already become standard practice. Such press conferences always attract great interest and are reported widely in Russia's mass media.

Finally, we support the proposal to expand research on a set of issues concerning capital account liberalization. We note that the number of countries embarking on capital account liberalization is constantly increasing. In this respect, it is very important that the Fund has the ability to provide high-quality technical assistance to such countries since the alternative for them would be to learn from their own mistakes.

Strengthening IMF Support for Low-Income Countries

We call on all Fund and Bank members to support the G-8 proposal for a full cancellation of the debt owed to international financial institutions by the countries-beneficiaries of the HIPC Initiative. For many of them this will substantially ease the burden of servicing their external debt, which will help them free up additional resources for development purposes.

We believe that the implementation of the G-8 proposal will not undermine the Fund's and Bank's overall financial integrity. At the same time, given the decline in resources that will be available to these organizations for financing low-income countries, their ability to continue their mission in those countries will depend on the donors' ability to deliver on their commitments to finance the initiative. We are prepared to work on this issue and hope that all the necessary measures will be taken to ensure adequate financing of the Fund's and Bank's operations in low-income countries.

We believe that to be eligible for debt cancellation under the G-8 proposal, countries that have reached the completion point under the HIPC Initiative should continue to fully service their debt up until the cancellation point, and avoid serious lapses in economic policy management and the quality of governance. At the same time, we think

that there is no need to introduce additional conditionality since this would complicate the implementation of the initiative.

It is unlikely that those countries that are going to benefit from debt cancellation will refrain from future borrowing from the international financial institutions. In this connection, it is important to ensure that the precedent being created will not be repeated. In order to prevent the emergence of a “lend and forgive” cycle, the Fund and the Bank should devote special attention to monitoring debt sustainability indicators in low-income countries.

Aid Financing and Aid Effectiveness

Improving the quality of aid could raise the effectiveness of development assistance even at constant aid levels. It is clear however that the existing structure of aid flows is not optimal, and its continued replication would not bring us nearer to achieving the MDGs.

At the same time we would like to caution against a simplistic view of what would constitute an improvement in the structure of aid. For example, we believe it would not be useful to equate it with an increasing share of budget support. Direct budget support is only justified when we can be sure that recipient countries have adequate capacity to use these resources effectively, in terms of both sound public resource management and maintaining reasonable macroeconomic framework. An important aspect of this decision is the distribution of aid flows between investment and consumption as well as between productive and social sectors.

We welcome the progress achieved in developing new mechanisms of aid mobilization, in particular in the area of vaccines. We are however cautious with respect to such proposals as introducing airline ticket surcharge in some countries. At the same time we would like to point out that any such proposal would be much more effective if it played the dual role of mobilizing resources for aid and rectifying structural imbalances in international trade that prevent the developing countries from taking full advantage of the international division of labor. In this context it could be useful to discuss the feasibility of linking additional voluntary contributions to development assistance to the level of agricultural subsidies in industrialized countries.

Focusing on tangible and measurable results is a major instrument of enhancing aid effectiveness. We welcome the Bank’s efforts in this area. However, given the complexity of this issue, the Bank must make sure that these efforts do not lead to additional bureaucratic procedures, delays in project preparation or any other negative developments that

could undermine the recent trend of containing the costs of doing business with international development institutions.

As regards the problem of donor coordination, we believe that the best way of overcoming it would be to channel an increased share of external aid through multilateral agencies, such as IDA.

PRGF programs continue to be the backbone of IMF assistance to the poorest countries. At the same time we hope that over the time more and more of these countries will be able to do without IMF financing, and with this view we support the new Policy Support Instrument.

Strengthening the Development Partnership and Financing for Achieving the MDGs: an Africa Action Plan

We welcome the fact that the international community is paying increasing attention to the task of development in Africa, and we also share the general concern that Africa is off track to achieve the Millennium Development goals. In this connection we strongly support World Bank's Africa Action Plan that forms an integral part of recent international initiatives to spur development in this region.

We note with much satisfaction the recent shift of emphasis towards greater reliance on economic growth as the main engine of lifting these countries out of poverty, a change in attitude that Russia has been advocating for some time. We believe it is time to identify development paradigms that could realistically put Africa on a better growth trajectory. Successful examples in South-East Asia and Latin America suggest that such paradigms should be based on building a socially oriented industrial society with massive job creation. Needless to say, increased labor productivity should be the cornerstone of this model. In this respect it is particularly instructive to reflect that labor productivity in Africa has been falling for the last 50 years.

Against this background we particularly welcome the renewal of attention to investments in infrastructure, a topic that has been neglected by the multinational institutions for too long. We are happy to see that the Plan envisages doubling infrastructure investment in Africa, which can form an important step on the road towards self-reliant growth. In practical terms this would mean investing up to 20 billion dollars a year in African infrastructure projects, up from the current level of about 10 billion a year. We hope that the bulk of the promised increase in aid to Africa will go towards improving the continent's productive potential, because otherwise we risk wasting this historic opportunity.

Infrastructure and the World Bank

We are particularly gratified to see World Bank's efforts in the area of infrastructure financing. It seems that only recently the primacy of infrastructure financing for development seemed debatable; yet today, this idea once again enjoys global support. One important example of this shift is that Africa Action Plan gives priority to infrastructure financing.

The Bank could make important progress in the area of infrastructure financing by focusing its efforts on developing mechanism for sub-sovereign support without the sovereign guarantee. Clearly, instruments of such support should be used sparingly, only where institutional and macroeconomic conditions are adequate. This sub-sovereign support could be particularly useful for large countries in their efforts to improve fiscal federalism, and could fit well with the ongoing global trend towards urbanization and growing role of major urban conglomerations in sustaining economic growth.

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

Andrej Bajuk

It is a great pleasure to address the 2005 Annual Meetings. No doubt, these are important times for the Bretton Woods Institutions and for the countries we represent. The global economic growth remains robust and the financial systems have strengthened. Nevertheless, large current account imbalances are a serious source of concern, and higher oil prices represent a danger. Impressive progress has been achieved in the past decades in the reduction of global poverty. But, there are far too many people that have not enough to eat, have no access to safe drinking water, and cannot afford sending their children to school. Against this background, the calls for increased global policy coordination and solidarity are most warranted because they are both ambitious and fair. We face important tasks ahead.

As Harold James's historical research¹ reveals, it was in the same setting of challenge and responsibility when in March 1946, in the General Oglethorpe Hotel in Savannah, Georgia, the Board of Governors of the Fund and the World Bank met for the first time in order to set in motion the institutions inaugurated in July 1944. Fred Vinson, the U.S. Secretary of the Treasury, was chairing the meeting when Lord Keynes as the Governor for the United Kingdom started his opening remarks with a warning: I hope that . . . there is no malicious fairy, no Carabosse, whom Vinson has overlooked and forgotten to ask to the party. For if so the courses which that bad fairy will pronounce will, I feel sure, run as follows: 'You two brats shall grow up politicians; your every thought and act shall have an *arrière-pensée*; everything you determine shall not be for its own sake or on its own merits, but because of something else.'

There are two points I want to make with this reference. First, the multilateral framework put in place in mid-40's turned out to be far more successful than the Governors gathering in Savannah would have thought possible, but yet there is still a long way to go. In almost 60 years since they met, the global growth has been dramatic. The experience and knowledge about how best to adopt the right policies to secure economic stability and to reduce poverty have deepened. Life of hundreds of millions of people has improved significantly. Nevertheless, a too large part of this world is still in dire straits. Many countries have grown little or not at all because they have stayed on the sidelines while the others have been moving ahead. They all deserve a chance. They need help in bringing to life the targets set in their poverty reduction strategies, and they need resources to support their economic policies. For all these reasons, the initiatives to secure additional aid flows and to forgive debt are warmly welcome.

The second point I want to make is that no matter what is at stake, it is of utmost importance to stick to the legal and economic rules and principles designed by the creators of our two institutions. These rules and principles remain valid. They should be respected even though the economic reality has changed a lot since they were written. We live in times of increasing mutual interdependence. More than ever before, we need the international framework as set up in Bretton Woods, New Hampshire and in Savannah, Georgia. Concerted effort should be made to preserve its mandate and integrity.

¹James, Harold. *International Monetary Cooperation Since Bretton Woods*. Washington, D. C. : International Monetary Fund and New York, Oxford: Oxford University Press, 1996.

Two important questions follow from the discussions over the past few months. How to both forgive the multilateral debt of poorest countries and to safeguard the long term financial capacity of IDA and the International Monetary Fund? How to secure legally binding commitment that the donors' compensation to IDA for the debt foregone will be paid from the additional development aid budgets? Despite the progress achieved so far, we should not forget that nothing is agreed until everything is agreed upon.

Solving these two questions is a task that we should all feel obliged to undertake. It presents us with great challenge and imposes immense responsibility. We should be able to handle both because I am confident that the Fred Vinson of our time invited everybody. Success will not escape us if, and only if, all invited share the same burden in a commensurate way.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK FOR SPAIN

David Vegara Figueras

World Economic Outlook

Global imbalances The global economy is growing at an acceptable rate, and this is excellent news. However, this does not mean that we should become complacent. Over the past few months the principal global imbalances have grown, especially as relates to the current account balance and fiscal balances in certain areas. For those imbalances to be overcome, there must be an adjustment of real exchange rates, growth in savings to mitigate the impact of the current account and public deficits, and structural reforms to revive potential growth in the areas where it has been the least impressive.

Importance of coordination But beyond this analysis, which is broadly shared, it is essential for that adjustment to occur in an orderly and coordinated fashion in all the areas involved. Steps must be taken to avoid having the adjustment address only, or primarily, exchange imbalances. Indeed, all of our countries must responsibly assume our obligations as global actors.

Spanish economy Accordingly, neither can Spain ignore that need. Although the Spanish economy is currently enjoying a phase of sound

growth, the priority of the government's economic policy is to secure that growth as much as possible in the future, by specially nurturing the decisive factor in long-term growth, productivity. In taking up this challenge, we will contribute gradually to the elimination of the current account deficit, and in this regard, I feel certain that the measures we have been taking to bolster the various markets, our budgetary emphasis on R&D in infrastructures, as well as the strengthening and modernization of the legislation on competition or future social pacts with respect to labor, **we will make great strides** in the most appropriate direction.

Strategic review

Congratulations for the review. Turning to the work of the Fund, I would like to congratulate the Managing Director and his team for designing the medium-term strategy. Furthermore, heartened by the successes achieved in the implementation of proposals, we believe it is possible to continue working in that direction over the coming months.

Surveillance We found the emphasis placed on strengthening the IMF's surveillance activities particularly useful. We therefore agree that the review of the procedures for capital account liberalization, the study of the suitability of exchange regimes, and the soundness of financial systems, as well as analysis of the macroeconomic and social implications of globalization should constitute essential parts of the surveillance exercise. Also, we feel that the empowerment of the Fund as a forum for the coordination of economic policies should play a highly positive role in this context.

Insurance Regarding crisis prevention, we feel certain that the implementation of prudent economic policies is key to success. But at the same time, the existence of signs of contagion tell us that we must introduce new instruments that can lead to greater security or guarantees for the implementation of a country's economic policies. It seems to us that such instruments should make it possible, where appropriate, to provide exceptional access to Fund resources, even though their availability should be subject to the fulfillment of certain macroeconomic policy requirements. That said, for such a development to be possible, it would be necessary to formulate a new credible and foreseeable framework for exceptional access.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND
FOR SRI LANKA

Sarath Leelananda Bandara Amunugama

May I begin by extending my sympathies to all those people and governments which have had to face natural as well as man-made disasters in the recent past. My country too has suffered from both types of ravages and we identify sincerely with those countries in their sorrow.

Mr. Chairman, we meet at a time when the world economy is relatively benign. Nevertheless, global imbalances and risks remain. If global growth is to be sustained and imbalances are to be reduced without causing dangerous instability in markets, concerted and co-operative efforts are needed from the global community. A major cause of concern is the high and rising price of oil in international markets. We stress the importance of all players in the petroleum sector, i. e. producers, suppliers and consumers, working together to maintain oil prices at a reasonable level. The Fund too has an important role to play in this regard. We urge that an oil facility to assist low income countries affected by the surge in prices be operationalized soon. This could be in the form of a modification of the CFF.

We believe that the International Monetary Fund and the World Bank both have important roles to play in strengthening and sustaining the world economy. The efforts being made by these institutions to assist low income countries to reach the Millennium Development Goals are extremely important. The Fund's Medium Term Strategy, with its focus on addressing the challenges of globalization, is very welcome. We welcome also the Fund's continued involvement in supporting low-income countries. We encourage the broadening of the recent G-8 initiative on further debt relief for HIPCs to include other low-income countries that are similarly disadvantaged due to debt.

Mr. Chairman, let me now speak of my own country. Sri Lanka has graduated from being a low income country, to the lower end of middle income status. We have now reached a per capita income of US\$1, 040. My country was badly affected by the Tsunami. With the assistance of the international community, we were able to undertake successfully the initial relief work. We are now engaged in the more arduous and longer-term activity of reconstruction and rehabilitation. We are deeply appreciative of the many pledges of assistance that were made and are now being converted into firm commitments. Despite the impact of the tsunami, we expect our economy to grow by over 5. 5 percent in 2005,

with agriculture, industry and services all registering robust growth. Our export sector has been performing well despite challenges associated with the end of the Multi Fibre Agreement. Tourism is recovering from the effects of the tsunami. The surge in oil prices has become a major drawback because we are heavily dependent on imports for our energy needs. This is affecting the pace of economic growth, inflation and the balance of payments. We stress, once again, the importance of activating a medium-term financing arrangement to assist low income countries severely affected by the recent sharp rise in oil prices so that open and liberal trade and exchange systems in these countries can be sustained.

Another aspect that I would like to emphasize is that the Bretton Woods institutions should reward the countries that have, with proper policies and management, emerged from low income to middle income status. While we welcome and strongly support the emphasis on LICs, it should not be forgotten that these middle income countries too need special attention and support.

Our government is committed to prudent macro economic policies promoting economic growth that would be pro-poor and will deliver equitable growth. We are taking measures to ensure that the disadvantaged segments of our population would benefit from this growth. The private and public sectors are working together to speed up economic prosperity in our country. Our current focus is on the development of infrastructure facilities, particularly in key areas such as Power, Roads and Transport systems, Ports and developing of institutions catering to the needs of the rural and SMI sectors. We are making efforts to achieve the Millennium Development Goals in areas where we need to make further progress, even though Sri Lanka has a good record in human development. Over the years, my country has achieved considerable success in human development. Our Human Development Indicators bear witness to these achievements.

Meanwhile, there are signs of good fortune for Sri Lanka. The preliminary findings of a seismic survey recently conducted in the Gulf of Mannar, west of Sri Lanka, has revealed the presence of a world class petroleum system offshore. This indicates a potential for high quality hydro carbon deposits. This prospect is expected to be further defined by additional 2D seismic surveys in December. International licensing is scheduled for the first quarter in 2006.

In conclusion, Mr. Chairman, let me thank the Fund and the Bank for the continued assistance extended to Sri Lanka and assure you of our cooperation in the days to come.

STATEMENT BY THE GOVERNOR OF THE BANK FOR
ST. KITTS AND NEVIS*

Denzil Douglas

It is a great honor for me to speak on behalf of the Member States of the Caribbean Community (CARICOM), namely Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, Trinidad and Tobago and my own country St Kitts and Nevis. 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 excellent arrangements made for these meetings.

We are meeting at a time, when the attention of the international community as a whole is on poverty reduction. Global partnership has strengthened and the focus is on achieving the Millennium Development Goals (MDGs). The current global environment, which despite the risk of higher oil prices and continued building up of global current account imbalances, provides an ideal opportunity for development partners to make firm commitments to reach the MDGs before the deadline of 2015. Global economic growth is projected to moderate at a more sustainable level of 4.3 percent after reaching 5.1 percent in 2004.

Within this picture, it is important to note that the world economy is still not resilient to economic and financial crisis. In this regard, it is important that more attention be accorded to global linkages and regional systemic issues, given that countries are much more integrated than before. As the Caribbean economies become more closely integrated with each other and into the global economy, we would welcome the prospect of a Caribbean Regional Economic Outlook as part of the Fund's regional surveillance activities. This Regional Outlook would be consistent with those produced for Sub-Sahara Africa as well as Asia and the Pacific regions.

We welcome the progress made on the establishment of a Policy Support Instrument for low income countries by the Fund. This instrument can play a crucial role in countries that may not need the Fund's financial support, but may want the Fund to support and monitor their policies. Intensified forms of surveillance have played an important role in middle income countries, as is currently the case for Jamaica. We therefore look forward to these instruments continuing to play their valuable role in policy support and signaling.

Achieving a significant reduction in the proportion of people living in extreme poverty in the world remains a formidable challenge. A strong commitment is needed by all of us—developing countries and donors alike. Developing countries will have to continue with their reform efforts to improve the processes conducive to growth and poverty reduction. In particular, developing countries will have to intensify their governance reform, invest in people and infrastructure, and mobilize the private sector to unleash entrepreneurship.

The Bank and Fund, along with other donors will have to scale up their efforts in assisting developing countries and in particular those in the Caribbean to establish strong foundations for their sustainable development. Clearly, this means increased and more effective financial aid. First, ODA should be increased and made more predictable. The EU has adopted a timetable for realizing the ODA targets. This is a highly commendable step and we urge all donors to follow suit.

Second, debt cancellation and reduction should be extended and deepened. We welcome the commitment of the G-8 countries to write off the debts of the heavily indebted poor countries at the IMF, IDA, and Africa Development Fund (AfDF). It is vital that this debt relief arrangement is unconditionally supported by the international community and implemented relatively quickly so that additional resources are available for poverty-reducing expenditure. We also hope that this initiative will be extended to other multilateral institutions and other countries, including some in Caricom, with excessive and unsustainable debt. For instance, St. Kitts and Nevis, the smallest state in the Western Hemisphere that carries debt in excess of 175 percent of GDP is a special case deserving special consideration. We have been struck by mammoth hurricanes, we have been deprived of our sugar industry by the forces of trade liberalization. Yet we do not have access to the soft resources of multilateral institutions, and the rules of the game of international economic relations seem too inflexible to deal with the special needs of our tiny island state.

Third, there should be new sources of funds that are more stable and predictable to finance the development agenda of developing countries. In this regard, innovative financing mechanisms should be explored and promoted as additional to increased ODA.

A successful conclusion to the Doha Development Round is crucial in achieving the MDGs and for sustainable development. In this context, the WTO Ministerial Conference in Hong Kong in December 2005 is an opportunity not to be missed. We recognize that trade reform is a highly political issue and therefore, there must be compromise and realistic efforts on all sides so that trade can be truly leveraged for sustainable growth and poverty reduction. It is, however, imperative that the special

needs of weak and vulnerable countries, as they relate to the special and differential treatment provisions, should be fully reflected in the outcome of the negotiations.

We welcome the continued support by the Bank and Fund in their advocacy for a good pro-poor deal as well as financial and technical assistance to support developing countries in their efforts to maximize the possible gains from trade openness. However, we would like to point out that for developing countries to reap the benefits of trade liberalization and to meet the challenge of integrating in the multilateral trading system; they have to incur huge adjustment costs. In this regard, trade related assistance and investment; especially in infrastructure and human capital are urgently required to help vulnerable developing countries in trade-based economic adjustment and to help create real opportunities for development.

The timing of the World Bank's position on climate change is appropriate in light of the effects of the high levels of carbon dioxide emission and pollution as well as the huge differences in approach to the problem by developing, emerging, and developed countries. The United Nations Framework Convention on Climate change has identified small island states, such as ours in the Caribbean, as among the most vulnerable to anticipated impact from climate change and the resultant significant effect on sustainable development. We believe that the World Bank can play a major coordinating role in having the key stakeholders resolve to agree on a comprehensive framework to tackle climate change. Such a framework would obviously have to include not only technological improvement but rapid improvement of alternative energy sources, given the impact of high oil prices on the global economy in general and on developing countries in particular.

High and volatile energy prices have strained economic growth of oil importing countries, such as those in the Caribbean, not only destroying economic opportunities but also exacerbating the challenges for economic management and diversification of their export sector. We can no longer be complacent about energy matters. We agree with the Bank's position on investment in the extractive industries and notes that increased access to affordable energy is crucial for poverty reduction and sustainable growth in developing countries. We are pleased that the Bank will scale up its support for renewable energy and hope that this will be done urgently and within the context of sustainable energy supplies that are efficient, affordable and accessible.

The 2002 Monterrey Consensus encouraged the Bank and Fund to find pragmatic ways of enhancing the voice and participation of developing and transition countries in the work and decision making of these institutions so as to address the development needs and concerns of

these countries. We recognize the progress achieved so far in strengthening capacity at both the Bank and Fund and the need for a consensual approach to effectively increase voice. We are aware of the many options available to increase voice and would encourage the directors and governors of the Bretton Woods Institutions (BWIs) and other concerned parties to discuss all these options with an open mind so that the voice of developing and transition countries can be advanced in an efficient and effective manner.

We note the range of country situations that the Bank is engaged in is very large and therefore a major challenge is how to manage several different client segment approaches within the Bank. We also believe that differentiation is critical to developing effective strategies for growth and poverty reduction among the Bank's clients. We encourage the continuing active participation of the World Bank in the Small States Forum whose Agenda is set out in the Commonwealth/World Bank Joint Task Force Report of 2000. This year's Forum focused on a review of the Small States Agenda. The background study document for the review clearly points out that the vulnerabilities of small states outlined in 2000 are not only still relevant but have become more acute and additional vulnerabilities have emerged in some of our Caribbean countries.

The huge economic and human losses caused by hurricanes and floods in many of our countries clearly reflect our vulnerability as well as our inability to deal both economically and financially with the devastation. It is obvious that countries in the Caribbean region will not only need increased access to ODA to supplement our domestic resources for achieving the MDGs and growth, but also for post disaster reconstruction, disaster prevention and mitigation of future cost. We urge the BWIs to continue their efforts in exploring further options for increasing access to grants and new financing modalities. In addition, the BWIs should also take the lead in deepening coordination with development partners on a comprehensive risk management initiative to promote best practices in reducing disaster risk and future costs.

We accept responsibility for our own development and are committed to strategic re-positioning for accelerating growth and poverty reduction with special emphasis on continued strengthening of our financial systems. The region, as usual, will continue to work with the international financial institutions and the donor community to improve the welfare of our people.

Finally, we would like to take this opportunity to wish the new President of the World Bank, Mr. Paul Wolfowitz every success in fulfilling the mission of the Bank.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SWITZERLAND

Jean-Pierre Roth

Chairman, President Wolfowitz, Managing Director de Rato, Honorable Governors and distinguished Delegates. It is an honor to address you here today.

Let me start by warmly welcoming Mr. Wolfowitz as President of the World Bank. I do not have to underscore the multiple challenges the international community currently faces. I am convinced that the Bank, as a global institution, must play a crucial role in dealing with global challenges. We look forward to working closely with you. The recently adopted strategic directions and the wide reform agenda provide an excellent basis to focus and strengthen the activities of the Bank.

Assessing strategic directions was also very much at the top of the IMF's agenda in the past year. I thank the Managing Director for taking the initiative last year to undertake a review of the Fund's activities. For an institution confronted with expanding membership demands against the background of a continuously evolving international environment, it is crucial to periodically assess its mandate. Therefore, I welcome the Managing Director's outlining the Fund's priorities in his recent statement. I am convinced that this medium-term strategy will allow the Fund to regain a better focus in its main areas of activities.

Both institutions continue to play a key role in ensuring that all members of the Bretton Woods Institutions can derive the maximum benefits from a globalizing world. The increasing interlinkages between the various global challenges demand an ever closer cooperation between multilateral institutions. The best foundation for effective cooperation is clearly defined core mandates. In my view, the recent strategic reviews of the Bank's and the Fund's activities have contributed importantly to a better focus of the two institutions' goals. I am confident that you, Mr. Wolfowitz and Mr. de Rato, will strive to further strengthen the cooperation between your institutions. This will be particularly important in the context of the international community's efforts to meet the Millennium Development Goals (MDGs).

A key factor for achieving the MDGs is sound economic policies in member countries. Significant progress has been made over the past year, given the relatively benign global economic conditions. I am pleased that the world economy has continued to expand at a strong pace. The downside risks discussed last year did not materialize. So far, most

countries have coped well with the continued rise in oil prices. It is encouraging to note that inflation remains subdued and that global interest rates have not significantly risen from their historically low levels. Most countries have used these circumstances to improve fiscal positions, to implement structural reforms, and to reduce external debt levels.

However, this should not give rise to complacency. The continuing favorable global outlook should be seen as an opportunity to further reduce vulnerabilities. Particular attention is necessary to global macroeconomic imbalances. These have not diminished and remain a challenge for individual countries and the Fund. As a truly global forum, the Fund must play a coordinating role in addressing these imbalances.

I welcome the Fund's ongoing efforts to sharpen the focus of its surveillance activities. Effective macroeconomic surveillance remains the Fund's pivotal activity in addressing imbalances at the global, regional, and country levels. Further improving the linkages between country and regional surveillance is essential to capture spillover effects and ensure policy consistency. The Fund also has a key role to play in capital account issues. I welcome the pragmatic approach outlined in the Fund's medium-term strategy. The Fund must bring together its vast experience on capital account liberalization to provide the best advice possible for managing the process under country-specific circumstances.

Providing members with temporary financial assistance remains an important role of the Fund. However, resources are limited and this should be signaled more clearly and consistently. In my view, past experience has exposed some weaknesses in the pricing of different instruments of Fund credit. Inconsistent use of the various instruments has also raised questions and increased uncertainty. These issues have contributed to unduly frequent exceptional access as well as to prolonged use of Fund resources. I look forward to a resolution of these issues, so that the provision of financial resources can take place in a clear framework both for members and for market participants.

Over the past year, the Fund has put great efforts in better defining its role in low-income countries. This is timely, given its contribution to the global efforts to achieve the MDGs. The Fund's overarching goal remains the promotion of macroeconomic and financial stability through policy advice, capacity building, and financial assistance. I welcome the important work that has been undertaken to adapt the Fund's instruments to the specific needs of low-income countries. In particular, the evolving non-financial Policy Support Instrument will provide an important signaling instrument for countries with strong economic policies. However, its signal will only be credible, if the instrument truly embodies a sound and credible set of policies.

Looking forward, I think there is scope to better define the Fund's role in the global development partnership. The large demands of low-income countries and development partners have frequently raised unrealistic expectations vis-à-vis the Fund. More clarity on what the Fund can effectively do would make it a more reliable actor, and allow for a clearer division of labor with other partners. I would expect a shift of Fund activities from financing to surveillance and capacity building.

I welcome the initiative for further multilateral debt relief. This initiative is of particular importance to many of the poorest countries, as it should reduce their heavy debt burdens and free resources for human development and sustainable economic growth. The success of debt relief in truly contributing towards poverty alleviation and meeting the MDGs will critically depend on finding appropriate solutions to several key implementation challenges and securing funding for the initiative. In this regard, I very much commend Bank and IMF staffs for bringing the various legal, financial, and operational issues to the fore as this allows to make well-informed decisions that are in accordance with the rules and principles of the institutions concerned.

Switzerland emphasizes the importance of safeguarding the IDA's, the ADF's and the IMF's long-term financial integrity, the respect of fundamental institutional principles as well as preserving IDA's and ADF's nature as loan-making facilities. For the IDA and the ADF, this calls for clear rules to monitor additionality of debt relief resources for the IDA 14 period and beyond. It is crucial to ensure the effectiveness of debt relief, as the donor community and recipient countries are accountable to their citizens and tax payers. Therefore, the debt relief proposal should be implemented through a sufficiently strong framework of performance and poverty reduction. We are strongly committed to continuing working with all other shareholders and Bank and Fund staff to arrive at a debt relief scheme that is sound, comprehensive, and based on a broad consensus and fair burden sharing.

I acknowledge the progress in the area of aid financing. While I remain convinced that increasing official development assistance through ordinary budgetary means is the simplest and most effective way, I am still open to examine initial experiences with new mechanisms by those countries that have chosen to go ahead.

Harmonization and alignment are key for enhancing aid effectiveness. The High Level Paris declaration on alignment and harmonization is a valuable achievement in this regard and its implementation requires our full attention. I note that this is coherent with the key findings of the World Bank's reviews of the Poverty Reduction Strategy approach as well as of Conditionality, which I strongly endorse.

The welcome improvements in governance, growth, and human development observed in several African countries need to be sustained and spread to the many countries still lagging behind. Therefore, the special focus on Africa is timely and important. At the same time, this should not deter us from maintaining and enhancing development efforts in other regions. The World Bank's Action Plan for Africa is well-structured and builds on lessons learned as well as on analytical and practical efforts by other key actors. I particularly support the focus on results, growth, and building partnerships. The likely scaling up of aid to Africa represents a unique chance to make big strides towards the MDGs. At the same time, this poses important challenges for the governments and the IFIs, including the need to mitigate possible negative macro- and micro-economic effects, such as Dutch disease, overcome human and institutional capacity constraints as well as reduce aid dependency.

I would like to underscore the importance of bringing the Doha Round to an ambitious success and signal the urgency to reach a political commitment at the Hong Kong Ministerial in the collective interest of strengthening the multilateral trading system. A failure would be an enormous setback, especially for developing countries, and I firmly believe that trade is key to ensure long-term growth. Not only of agriculture, but also non-agricultural and services market access for developing countries are significant. A positive outcome requires action from both developed and developing countries, including emerging economy countries.

I thank the Bank for its valuable analytical and practical contributions, including its efforts to help mainstream trade into poverty reduction strategies and fostering more complete follow-up by governments and donors as well as its contribution in the process of enhancing the Integrated Framework. In this context, I recall the challenges and enormous needs which many developing countries continue to face in the area of infrastructure. Orienting infrastructure development towards sustainable and environmentally clean technologies should be given special attention.

The poorest countries and poorest people pay a disproportionate price in natural disasters. The awareness about the very likely links between some natural disasters and climate change as well as the strong relation between environmental problems and poverty has to be increased. Concerted action is urgently required, not only at the global scale, but also at the regional, national, and the local level, by governments and private business. Along with this there are a number of actions which the World Bank Group and other multilateral organizations can take to address climate change within their own operations and

policies. I look forward to a more substantive discussion of this topic at the next Development Committee meeting.

In conclusion, I would like to underscore the importance of a well-balanced participation of all members in the Bank's and the Fund's decision making. This is important for the institutions' effective functioning. Switzerland is ready to work towards a solution that ensures an adequate representation across the membership. Representation must continue to reflect the position of countries in the international financial system, and their contribution to financial stability. A consensus on an adjustment of quotas could also include an increase in basic votes to strengthen the representation of low-income countries.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Thanong Bidaya

It is my great honor for me to express my appreciation to the World Bank/IMF and the United States for their warm hospitality in the 2005 World Bank/IMF Annual Meetings in Washington D.C. I would also like to join my fellow governors in extending my warm welcome to Mr. Paul Wolfowitz on your appointment as the new President of the World Bank. I believe that you will use your vast knowledge and experience to lead the Bank in fulfilling the dream of "a world free of poverty" during your tenure.

Rising oil price and volatile short-term capital movements as well as natural disasters have detrimental impacts on the world economy. There is a definite need for collective actions to moderate these shocks before their impacts will destabilize the prospect of world economic growth and stability in the near term. Despite these impacts, Thailand has proven to be resilient in weathering these man-made and natural disasters. Last year, Thai economic growth reached 6.1 percent. This year, despite continuously rising oil price and the tragic natural disasters of Tsunami, Thai economic growth will remain positive and vibrant at least at 4 percent. Inflation will be contained at around 4 percent despite the cost push, while our foreign reserves remain high, above three times higher than our short-term external debts. We will continue to be vigilant to ensure sustainable growth with strong economic stability.

The Thai government is firmly committed to a balanced sustainable growth for both economic and social development objectives. Today, we

are proud to have successfully reached most of the MDGs' target well ahead of schedule. The targets for reducing poverty and hunger, achieving universal primary education, promoting gender equality, as well as combating HIV/AIDS and malaria remain high priority although most target have already been achieved. We will aim higher to establish a new set of "MDG-Plus targets," which are more ambitious, but attainable, than those agreed internationally. Prime Minister Thaksin Shinawatra's government has also set a policy target to eradicate poverty by the year 2009.

As a successful middle income country in achieving development goals, Thailand is in a new mode able to contribute positively to the Global Partnership for Development. By taking an expanded role in sub-regional development, Thailand is actively sharing with other countries in the Greater Mekong Sub-region our own experience and know how from first-hand experience in the fight to reduce poverty. In addition, we are actively engaged with our neighbors to improve and facilitate transport linkages within the sub-region. We have established a new agency, Thailand's Neighboring Countries Economic Development Cooperation Agency (NEDA), to continue this thrust in a meaningful way. Thailand is now ready to fully cooperate, where possible, with international organizations, particularly the Bretton Woods Institutions, in extending our support to assist socio-economic development programs in other developing countries in the region and beyond.

On matters relating to the World Bank, we appreciate the important roles played by the World Bank in supporting our committed reforms in the areas of human and social capital, competitiveness, poverty, and environment. However, in relation to the World Bank's policy in general, we feel that the direction of the Bank placed emphasis on only one region although all regions face similar challenges in reaching the MDGs. As a multinational institution, we would like the Bank to be more balanced by giving equal emphasis to problems facing every region.

Thailand would also like to commend the IMF for making continuous efforts to strengthen its roles in the international capital markets. Nevertheless, we would like to caution the Fund against moving into areas that are not the Fund's core mandate, so as to keep the Fund focused on its policies to ensure the effectiveness of its surveillance mandate. In addition, on capacity building, it has been our experience that longer-term technical assistance is much needed. However, the introduction of user fees for services would be a great disservice to the Fund, as it would deter member countries to participate in benchmarking exercises.

Last but not least, we would like to draw attention on the Board of Governors concerning the relationship between the Bretton Woods

Institutions and their members. At the heart of the issue is the reform to ensure that the **voices** of all countries and regions are equitably represented to reflect their role in the world economy. The voting shares of developing countries need to be adjusted to reflect their true weight in the world, and the rights of minority shareholders have to be protected. These reforms are long overdue. To retain its credibility and mutual trust from their members, the Board of Governors and management should strongly press for these changes; otherwise, how could these Institutions preach member countries on governance issues.

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

Siosiua T. T. 'Utoikamanu

It is indeed an honor for me to address the Board of Governors of the International Monetary Fund and the World Bank Group on behalf of the Government of the Kingdom of Tonga at the 2005 Annual meetings.

At the outset, I wish to express my government's sympathy and condolences to the Government and the people of the United States who have suffered from recent hurricanes in the Gulf Coast.

I would like to congratulate Mr. Paul Wolfowitz on his appointment as president of the World Bank Group. I also take this opportunity to thank his predecessor Mr. James Wolfensohn for sterling performance in guiding the World Bank Group during his tenure in office.

World economic growth has been on an upward trajectory over the last three years, with strong growth projected again this year. At the same time, global imbalances and high and rising oil prices remain an important downside risk. Despite the increase in oil prices, growth in developed countries and major Asian countries has been robust stemming from sound macroeconomic policies.

The issue of debt relief approved by the G-8 in Gleneagles is an important milestone for developing countries but will still require prudent implementation to protect the financial integrity of the multilateral institutions without diverting aid flows from other essential activities.

At the same time, we support the call for the international community to give further attention to the unsustainable debts of other poor countries excluded from the HIPC process, as well as those that

have continued to service their debts. Special attention should also be focused on small and vulnerable countries facing growing debt burdens, and to domestic debt which is imposing a significant fiscal burden on some poor countries.

The Heads of State and Heads of Government at the conclusion of the historic High Level Summit in New York on the 16th September 2005 reaffirmed their commitment to achieving the Millennium Development Goals by the 2015. The Financing of Development Meeting held prior to the Summit also reaffirmed the commitments by the developed countries to achieving the 0.7 percent target of GNP for ODA by 2015.

Tonga has incorporated appropriate policy measures to put it on track to meeting the MDGs by 2015. The recent UN Human Development Report 2005 ranked Tonga at 54 among 177 countries.

Tonga supports efforts to reach a mutually acceptable resolution to the outstanding issues to the Doha Round during the forthcoming Hong Kong conference on international trade.

In order to support international efforts to combat money laundering and the financing of terrorism, Tonga has joined the Asian Pacific Group on Money Laundering as the 29th member in May 2005.

Turning to domestic issues, Tonga's economy has responded to prudent fiscal and monetary policy measures as evidence by GDP growth of 2.5 percent in 2004/2005. Preliminary projections indicated that GDP would grow by 2.9 percent in 2005. Inflation fell from an average of over 10 percent in 2004 to 8 percent in July 2005 and the fiscal balance improved to a surplus of 0.1 percent of GDP in 2004/2005 after several years of deficits. At the same time, the Kingdom's external reserves improved significantly to above the minimum threshold of three months of import cover after having being under downward pressure for several years due to rapid expansion of Government spending on supporting certain public enterprises and the public service.

After having achieved these steady improvements in macroeconomic conditions, the Kingdom now faces serious challenges to maintaining these positive developments.

In September 2005, a significant increase in public service remuneration, which was not previously budgeted for, was approved. Preliminary estimates suggest that there is a high probability that this will exerting pressure on the fiscal and external sector balances and inflationary forces which will have a destabilizing impact on the domestic economy. The Government has decided to reprioritize its spending and its fiscal and monetary policy settings in order to mitigate the adverse imbalances brought about by the new policy development. The fiscal pressure is projected to worsen in 2006/07 as a large portion of the approved pay structure will be backdated to July 1, 2005.

Therefore, the government plans to implement a comprehensive package of measures to regain macroeconomic stability over the medium term by accelerating its reform program in areas such as corporatization and privatization of Government activities. Given this recent development, urgent technical and financial support will be required from the Fund and the Bank as well as Tonga's other development partners.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the Kingdom and people of Tonga. We look forward to a continued close working relationship with the Fund and the Bank in the future. May I conclude by wishing the Bank and the Fund continued success in resolving the many difficult challenges that lie ahead.

STATEMENT BY THE GOVERNOR OF THE FUND FOR TUNISIA*

Taoufik Baccar

Mr. Chairman, André-Philippe Futa, it is a privilege for me to deliver the Joint Arab group speech for this year's Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund. Please allow me at the outset, on behalf of all the Arab Governors, to congratulate Mr. Paul Wolfowitz on his appointment as President of the World Bank and to express our support for his endeavors to achieve the Bank's objectives, and also to thank Mr. Rodrigo de Rato for his continued attention to the challenges facing our region. I also wish to express my deep sorrow and sympathy to the American people for the tragic aftermaths resulted from Hurricane Katrina.

Mr. Chairman, it is comforting in respect of the status of the global economy to note that this year's growth rates are expected to stay at a more sustainable level in an environment of low inflation, with most regions of the world, including the Arab region, enjoying healthy growth rates. We regret, however, the absence of tangible progress to address external payments balances and fiscal deficits of major industrial countries. It is therefore, as we see it, a reason for IMF to work more effectively to promote global financial stability.

We also note that the rise in oil prices, so far, has not caused a slowdown in global economic growth, demonstrating increased resilience of the global economy in dealing with such increase. Nevertheless, we

stress the fact that curbing volatility of oil prices is in the best interest of all countries, which entails joint efforts to enhance investments in crude oil production sector as well as refinery capacity in order to increase oil supply and meet growing demand. Moreover, we call for enhancing dialogue and collaboration mechanisms between producers and consumers, and for improving information gathering mechanisms. In this regard, we note the importance of strengthening the Global Energy Forum. On their part, oil-exporting countries in the Arab region have substantially increased their oil production and put in place investment plans to expand production capacity. Moreover, we urge the International Financial Institutions (IFIs) to promote appropriate mechanisms to address difficulties faced by oil-importing developing countries.

Mr. Chairman, we reaffirm our strong support for the strategies and decisions agreed in Monterrey, Doha, and Johannesburg, which set out a framework for fighting poverty and achieving the Millennium Development Goals (MDGs) as agreed by world leaders. We note, however, with concern that most developing countries, despite implementing deep economic and structural reforms, will not be able to meet the MDGs. We, therefore, call on the industrial donor countries to reaffirm their commitment to achieving these goals, and to scale up their efforts to reach the goal of an ODA/GDI ratio of 0.7 percent. We also urge the international community to increase technical assistance and to improve coordination of the same. We also affirm that Arab countries are committed to meeting the MDGs and reaching the set goals. We also support the proposal of the State of Qatar to host the First Follow-up Conference of the International Conference on Financing for Development, as provided for in the Monterrey Consensus in 2007.

We urge international organizations engaging in development to devote more attention to eliminating the digital divide and the flagrant inequality between developed and developing countries in control and ownership of knowledge as well as information and communication technologies. In this respect, the World Summit on the Information Society to be held in Tunis in November 2005 constitutes a great opportunity to adopt concrete actions in order to appropriately help developing countries.

We reaffirm our strong support for expanding developing country participation in decision-making processes and increasing their voice in international financial organizations. We believe that this will, in turn, enhance the legitimacy of such organizations, thereby increasing the efficacy of their respective recommendations and capabilities.

We also reaffirm our commitment to multilateral trade liberalization in the context of the World Trade Organization and regret that no progress has been made on this issue, so far. In this regard, we express

hope for a successful completion of the Doha round, notably in liberalization of agricultural produce trade. We also urge the Bretton Woods institutions (BWIs) to address trade-related vulnerabilities in developing countries, especially with regard to the impact of the phasing out of quotas under the Multi Fiber Agreement. We welcome the introduction of the Trade Integration Mechanism by IMF to deal with this issue and call for further progress on adapting the Fund's instruments to deal with balance of payments deficits due to exogenous shocks.

The Arab countries of our region attach particular importance to global capital flows and their projected growth in coming years. We deem it necessary for IMF to have a clear and effective role in this regard in order to support developing countries, address volatility of capital flows, and reform its precautionary mechanisms. We believe this will require IMF to upgrade its expertise in this regard and address its shrinking capital base.

With regard to the IMF's role in low-income countries (LICs), in our view, its surveillance role, programs and analyses need be tailored to particular circumstances of each of these countries, taking into consideration their debt burdens as well as their own potentials to meet their financial and technical requirements.

This takes me, Mr. Chairman, to addressing the G-8 debt relief initiative for HIPC countries. We hope that this initiative can contribute effectively to economic growth in those countries. We also hope that it should not be linked to further conditionality and should help such countries meet their MDGs. We hope that the Bank and IMF will play a constructive role in designing an operational framework for implementing this initiative, in such a way that will not adversely affect these institutions' future ability to provide financial resources for development. In this regard, we reaffirm that countries embracing this initiative should provide the two institutions with the necessary resources to deliver their share of additional debt relief for HIPCs. We also call for expanding this initiative to include a wider group of heavily indebted countries in order to reduce their debt burdens and minimize pressures over their limited financial resources.

Mr. Chairman, there was noticeable overall improvement in the performance of Arab economies last year, driven by several factors, notably: structural reforms in many of these countries, sound financial policies, as well as higher oil revenues. It has been noted that oil-exporting countries better used their oil revenues to strengthen their fiscal and financial positions and to achieve higher growth rates, with positive spillover to other countries in the region.

The main challenge facing our region is the creation of sufficient employment opportunities for a burgeoning and youthful labor force. In

this regard, most Arab countries have implemented significant reforms, including: improvement of the investment climate, trade liberalization, promotion of small enterprises, and protection of property rights. We recognize that there is still a need for further reform to enhance economic growth in order to absorb the rising labor force in the region and to further diversify the region's sources of income. We are, in indeed, proceeding in this direction.

We note the various initiatives and programs launched by international and regional organizations and groupings in support of reforms in our region. Of particular importance are the International Finance Corporation's Private Enterprise Partnership Facility (PEP-MENA), the Euro-Mediterranean Partnership and Investment Initiative, and the Task Force for Developing Investment in Cooperation with Arab Businessmen and their Counterparts in Industrial Countries. We expect the Bank and IMF to support successful implementation of such initiatives and projects.

We applaud the Bank's initiative to streamline and simplify its lending procedures, which will have positive impact on reducing the cost of doing business. We are confident that the Bank's increasing reliance on countries' rules and procedures with regard to project implementation will have a positive impact on the level and quality of Bank's operations in Arab countries. However, we urge the World Bank's management to continue to explore other innovative ways to reduce the cost of doing business.

We welcome last year's pickup of activity in our region, and we also welcome its new strategy to increase its business in our region. However, we believe that this institution's involvement in the region is still shy of the level required to promote small- and medium- size enterprises and to attract foreign direct investment. It is our hope that new initiatives will help address some of these vulnerabilities. We also urge IFC to give particular attention to public-private partnership projects in infrastructure, local currency lending, and the creation of equity funds.

We see regional integration as essential to fostering regional trade, sharing best practices, and harmonizing approaches and strategies. In this regard, we welcome the achievements made in the Pan-Arab Free Trade Area, which came into effect at the beginning of this year. It is our hope that the World Bank will develop appropriate mechanisms and instruments to finance regional integration programs and enhance our regional institutions' capacity. We also call for further cooperation and coordination between international and regional institutions and funds operating in the Arab region, notably in activities that foster regional integration. In this regard, we welcome the IMF's support for the Trade

Facilitation Seminar in the Maghreb Region, to be held in Algiers in November 2005.

We commend the valuable assistance that the Bank and the Fund have provided as part of Iraq's economic stability and reconstruction efforts, and we urge both institutions as well as other donors to continue such efforts and doubling their contributions. The active role of our two institutions in Palestine has also been commendable and we look forward to heightened efforts to alleviate the dire conditions of the Palestinian people living under occupation. We also call for utilizing the opportunity afforded by the current favorable conditions, especially after the Israeli withdrawal from Gaza Strip, to revive the peace process and end Israeli occupation of the occupied Palestinian territories, till the establishment of an independent Palestinian state. We also welcome the Bank and the Fund's re-engagement with the Sudan and consideration of future re-engagement with Somalia.

We reiterate our urgent call for the Fund and the Bank to ensure sufficient representation of nationals from our region at all levels of both Institutions, particularly at the senior management level, as the current ratio remains very low compared to ratios of other regions.

In conclusion, Mr. Chairman, we extend our deepest gratitude for your chairmanship of the annual meetings this year, and we look forward to greater cooperation and involvement between Arab countries of our region and Bretton Woods Institutions with a view to accelerating economic development in our countries and to assist developing countries in their efforts to meet MDGs.

STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKEY

Ali Babacan

I would like to begin by welcoming Mr. Wolfowitz and wish him success in his position as President of the World Bank Group.

I am glad to see that the global economic outlook is still favorable and the global financial system remains resilient. Despite this positive picture, however, there are some global imbalances that we need to address in the medium term. We also need to examine carefully the factors that have contributed to the emergence of these imbalances. The economic policies should target an increase in savings in the United

States, growth enhancing structural reforms in the euro area and more flexible exchange rate policies and financial market reforms in Asia.

We are encouraged by China's initial policy move towards exchange rate flexibility, which would help not only in facilitating macroeconomic management in China but also to the unwinding of global imbalances. We believe that the Chinese authorities would strengthen their policy with more exchange rate flexibility and continued reforms of the financial sector.

The high and volatile oil price remains a matter of concern that could slow the global economy. Given the fact that oil prices will remain high in the foreseeable future, countries need to pursue prudent policies by reducing fiscal deficits, easing exchange rate rigidities and enhancing structural reforms in order to make their economies more resilient.

The world economy is now much larger than it was at the time of the last quota increase. Therefore, the Fund needs to adjust itself and its policy tools by ensuring that aggregate quotas are adequate and fairly distributed. This would allow all member countries to have appropriate voice in the Fund, which would enhance the Fund's legitimacy and effectiveness. Unfortunately, the support necessary for a general quota increase does not seem to exist at this moment. Therefore, it is worth exploring ways to redistribute quotas outside of a general quota increase. The imbalances in the current distribution of quotas are clearly unsustainable, and they should be addressed urgently through ad-hoc quota increases.

This brings me to the issue of Fund's strategic direction. The integration of capital markets has increased the size, speed, and reach of shocks across mature and emerging-market countries. Fund policies should be designed to meet the macroeconomic challenges that lie ahead. In particular, it is important to tackle the global payments imbalances, respond to capital account crises, and help all members, especially low-income countries.

We are encouraged by the international community's continued commitment to the MDGs. We welcome the result-oriented approach of the Africa Action Plan and the G-8 Debt Relief proposal. The number of poor in Africa has doubled from 150 million to 300 million during the last two decades, which justifies the need for increased support to Africa. However, we would like to point to the fact that development challenges in some other regions of the world, such as Central Asia, are also pressing. We urge the international development community to put more emphasis also on the economic and social development of the Central Asian countries.

Let me now turn to the G-8 Debt Cancellation Proposal, which has been very positively received by the international community. Debt relief

would definitely help reduce poverty and achieve sustainable high growth in low-income countries. However, its impact would be marginal and temporary if it is not accompanied by responsible and coherent policies designed to achieve the Millennium Development Goals (MDGs). Countries should not become complacent and should continue with appropriate policies.

As for the debt relief effort, I would like to emphasize that the work on the modalities and financing of the G-8 proposal should pay due attention to its implications on IMF and World Bank finances, equal treatment of all members, and fair burden sharing among countries. In particular; with respect to cancellation of debt to the IMF, I would like to point to the risk that the burden of debt cancellation could be shifted to the emerging markets via the surcharge mechanism. With respect to cancellation of debt to IDA, we should develop mechanisms that would ensure that the compensation for IDA is additional to the existing commitments and IDA's capacity to assist poor countries in the future is not jeopardized.

We note that despite all the endeavors of the international development community, progress towards attainment of MDGs has been slow and uneven. Considering the fact that 70 percent of the developing world's poor live in middle-income countries, we believe that the international development community should develop a new approach, focusing more on the poor people of middle-income countries, in order to accelerate progress toward the MDGs in these countries.

The MDGs agenda rightly places emphasis on reducing poverty in all its dimensions. We believe that, economic growth accompanied by job creation should be the main driver of poverty reduction. In this respect, I would like to stress the crucial role of the World Bank Group in the sustainable development of the economies of developing countries. The Bank Group's invaluable global expertise and experience should be disseminated more effectively. Its role will be instrumental in analyzing impediments to job creating growth, and helping developing countries formulate their own growth strategies based on best practices.

The World Bank Group can also assist developing countries by lowering non-financial and financial costs, such as reducing its lending rates and increasing fee waivers. The cost of borrowing can be lowered through the use of country systems in Bank operations and procurement. Use of local currency financing is also important for developing countries, as it eliminates the potential currency mismatch between revenues and debt service, and helps to improve local financial markets.

We welcome the Bank's intention to improve the conditionality it attaches to its loans. The Bank's reaffirmation that it will not take a prescriptive approach to reform is another step in the right direction. One

of the important lessons learned from past experience is that the “one size fits all” approach to conditionality does not work, and that programs should be country owned and country led. Therefore, the Bank Group, should be more careful in the design of conditionality: conditions should be customized to country specific circumstances, required actions should be within the Government’s control, and maximum flexibility should be ensured to accommodate changing circumstances. With respect to sustaining adequate level of fiduciary standards, we would like to reiterate our support for an ongoing simplification agenda.

I would like to highlight the central role of infrastructure in the development agenda to promote growth and achieve MDGs. Investment needs are enormous in all regions. Therefore, we welcome the Bank Group’s intention to scale up infrastructure lending by taking into consideration the lessons learned from past infrastructure programs.

Let me finally briefly touch upon the most recent developments in the Turkish economy. The GNP growth in 2004 reached at almost 10 percent while inflation was down to below 10 percent, one third of its 2002 level. This remarkable performance also continued in 2005. We expect growth to stabilize at around 5 percent in 2005 while CPI inflation further declining to below the 8 percent target despite the all-times record global energy prices and significant hikes in major commodity prices. Public net debt to GNP ratio is expected to come down to below 60 percent by the end of 2005, levels representing a drop of more than 30 percentage points in just four years time. Looking ahead we will continue with our prudent fiscal and monetary policies and fortify the resilience of our economy against possible future volatilities. Strengthened economic activity, improved macroeconomic fundamentals, and strict adherence to our structural reform policy lend great support to our efforts. The steadfast implementation of the structural reform agenda is a top priority and currently we are working on social security, tax, and financial sector reforms which will be completed in a matter of months.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE
UNITED KINGDOM

Gordon Brown

We meet in Washington in a year that has brought us face to face with both the immediate and long term challenges that arise from what future historians will describe as the biggest restructuring of the global economy the world has seen since the industrial revolution.

In particular, Asia will soon be manufacturing more than Europe and is now consuming 30 percent of the world's oil—one of the reasons for the doubling of oil prices and the return of inflationary pressures. While the rapid growth in Asia's exports into Europe brings the threat of manufacturing jobs losses and a new protectionism.

In Britain over the last eight years, when faced with global economic challenges, we have had the strength to take the right long term decisions to overcome them. To protect against the old British stop-go, in 1997 we made the Bank of England independent and created a new regime of monetary and fiscal disciplines that have stood the test of time:

- monetary policy set to meet our symmetric inflation target, which has allowed the Bank of England to act pre-emptively as circumstances change while securing inflation expectations at low levels for the long term; and
- fiscal policy set over the economic cycle allowing it to support monetary policy at times of economic slowdown while ensuring the public finances remain on a long-term sustainable course.

This framework has withstood the global challenges we have faced. The 1998 Asian crisis required action to ensure growth in Europe. In 1999 an IT bubble, in 2000 a stock exchange crash, in 2001 and 2002 a U.S. downturn all required pre-emptive cuts in interest rates and supportive fiscal policy to meet our inflation target and keep the economy moving forward.

As a result of our new economic model for stability—Bank independence, low debt, fiscal responsibility—Britain has enjoyed not only the lowest inflation and the lowest interest rates and the lowest unemployment for thirty years but Britain has had the longest sustained period of continuous growth—52 consecutive quarters—in our history. This stability has only been possible because we rejected the old-style backward-looking approach to monetary and fiscal policies based on asymmetric inflation targets and nominal fiscal deficits that take no

account of the economic cycle, debt and the important role of public investment.

Oil

Now facing the highest sustained oil prices for a quarter of a century we will continue to have the strength to take the right long term decisions.

When we met in Washington in April, the price of oil Brent crude reached a then new nominal high of \$55 per barrel. Since then the price of Brent has increased by a further fifth and peaked shortly after Hurricane Katrina at just under \$70 per barrel, while the U.S. West Texas Intermediate (WTI) peaked at over \$70. Oil prices have trebled since 2002 and doubled since 2004, and currently are estimated to be \$18 higher on average in 2006 than the IMF forecast five months ago.

Concerted international action—with dialogue among producer and consumer nations—is required to tackle the risk to global growth posed by current high and volatile oil prices and stabilize the market for the long term. This was endorsed by European Finance Ministers last week and we now ask the IMFC to do the same.

The proposals include: in the short-term, an immediate increase in appropriately priced supply in response to rising demand; greater transparency, particularly from OPEC, about oil reserves and plans for development to ensure there is no unnecessary uncertainty in the market which may cause instability and speculation; additional investment in production and refining capacity; new funds from the World Bank to support the framework that is already being developed for investment in alternative sources of energy and greater energy efficiency in developing countries; and the adoption by the IMF, with an invitation to oil-producing countries to contribute, of a facility to help developing countries affected by commodity price shocks. It is also important that the IMF continues its work in analyzing the oil market and working closely with its members to help address the challenges high prices pose for them.

Global economy

It is a measure of success of a decade of anti-inflation policies that the most recent increase in oil prices has not seen a return to the stagflation of the 1970s. However, stability in the oil market is a precondition for global prosperity and high oil prices are already having a negative impact on world economic growth. Estimates from international organizations and independent analysts, such as the OECD

and the IMF suggest that oil prices sustained at their current level could reduce growth in the developed countries by up to 0.5 percentage points.

At a time of ongoing global imbalances, this shock to the world economy threatens to derail already slowing growth. On the basis of the IMF's latest estimates, growth in the G7 economies is expected to slow from 3.4 percent in 2004 to 2.6 percent in 2005. On some estimates, U.S. growth could be reduced by 0.5 percent in the second half of this year due to Hurricane Katrina. While in some regions growth has been stronger than expected growth in the UK's largest export market, the Euro area, at 1.2 percent this year is again expected to be lower than originally forecast. Of the three largest euro area economies, Germany and Italy have been in recession during the past 12 months while growth in France is forecast to slow to below 2 percent. So while UK exports to the rest of the world have remained robust, net exports to the slower-growing euro area have been weaker than expected.

Housing market

And in Britain, not only have we faced the consequences of the global oil shock and weak growth in the euro area, but we have had to manage the transition from double-digit growth in house prices down to a more sustainable level, moderating from 23 percent in the year to the final quarter of 2002, to 11 percent in the second quarter of 2004 and to 4 percent in the second quarter of this year.

In each of the past three house price cycles—in the mid 1970s, in the early 1980s and again in the early to mid 1990s—a period of such rapid house price growth has been accompanied by a rapid rise in inflation and sharp increases in interest rates followed by sustained falls in real house prices, rising unemployment and recession. But it is because of the new framework for economic stability—with interest rates low and stable, inflation low and employment at record highs—that the economy is better placed to adjust to the moderation in the housing market. So that instead of the old British stop-go, house prices are adjusting free of recession.

UK economy

In previous decades any one of these shocks—the biggest sustained rise in oil prices for a quarter of a century, recession in some of our main export markets and adjustment in the housing market—would have tipped the British economy into recession.

In the last oil shock, inflation rose to 25 percent, unemployment surpassed 2 million and the British economy was the first in, last out and

worst hit by world recession. Today inflation is 2.3 percent and employment is at a record high.

The point of our monetary and fiscal framework is that we can not only take long term decisions that ensure stability, but that we can respond quickly to changing trends. The Bank acted proactively last year to meet its inflation target and slow house prices. This year as European growth has slowed and oil prices have risen it has been able to be proactive bringing rates down.

But no country can insulate itself from the ups and downs of the world economy. With European activity much lower and oil prices much higher, there has been an impact on growth right across the continent, including the UK. We will update our forecasts in the Pre-Budget Report. But while trends so far this year suggest the UK is likely to see growth at or slightly below our cautious view of trend it is because of the tough forward-looking decisions we have taken in monetary and fiscal policy that, even despite the new challenges we now face, Britain is continuing to grow faster this year than the other major European economies, all of whom are forecast to grow by less than 2 percent with just 1.2 percent growth in the Euro area.

We will continue to take no risks with inflation and steer a long term course of stability, and in doing so reject the old short-termist easy option, the inflationary pay rise, and the resort to the old industrial conflicts. By taking no risks with stability Britain remains well placed to respond to any pick up in global growth next year.

Globalization

Rising Asian demand for oil—itsself partly the result of rapid Chinese and Indian growth rates—starkly illustrates that we are witnessing the biggest global economic and industrial restructuring shift in economic power in our industrial history.

Twenty year's ago, developing countries produced only 10 percent of manufactured goods. This is forecast to rise to 50 percent in the next few years. China alone manufactures 30 percent of the world's televisions, 50 percent of the world's cameras, 70 percent of photocopiers, and possibly, soon, 60 percent of world clothing. The global sourcing of goods is now combined with vast technological innovation, from the internet, the DVD, and the e-mail to digitalization—all virtually undeveloped less than a decade ago.

With the pace of innovation faster than at any time, the scale of industrial transformation greater, the breadth of competition more global, the shift in manufacturing activity more profound, the prize for success

greater but the penalties of failure greater too—in particular, there can be no hiding place in protectionist policies.

Nor up against these flows and forces should governments do nothing. Even with global manufacturing and technology replacing old skilled work, we must not now abandon the goal of high and stable levels of employment. Indeed with the right long term policies we can seize rather than squander the opportunities of globalization.

Nations will rise and fall depending upon their ability to master globalization. As with companies no country today, however prosperous, can take its economic success tomorrow for granted.

For Britain, we are determined to make the correct long term decisions—to invest in education of all, to build our science and technology, and value enterprise and flexibility—we can combine our stability, our creativity, our belief in hard work and education, our openness to the world so that more so than any other country we can turn globalization from a threat to an opportunity.

Achieving the Millennium Development Goals

Developed countries have made significant steps in 2005 in committing to increased aid and 100 percent debt cancellation. We know that both developed and developing countries must deliver on these commitments and do more if we are to achieve long-term global prosperity. In addition, action on trade is essential to ensure that the Doha Development Round delivers real benefits to developing countries.

The HIPC Initiative has played a significant role in alleviating the burden of unpayable debt in 28 countries; writing off 70 billion dollars and reducing debt payments from an average of nearly 24 percent of government revenues to 11 percent, and with 65 percent of resources released from debt relief now going to health and education. And so we will work together to ensure the completion of the HIPC Initiative so that all eligible countries can benefit from HIPC debt relief, so that all creditors participate; and to ensure that the initiative is securely and fully financed.

But, we know that a substantial increase in resources for debt relief is needed in order to build on the success of HIPC. This was recognized by the G-8 in June, when we put forward proposals for providing 100 percent multilateral debt relief for HIPCs. We welcome the work by Staff since then to demonstrate the benefits of the proposals and indicating how the operational issues can be dealt with. We must now move swiftly to implement the proposals, so that the poorest countries can begin to benefit from the predictable and reliable stream of funding that the debt service savings will provide.

The UK Government will maintain its unilateral initiative to provide its share of multilateral debt service of eligible non-HIPC IDA only countries and urges other governments to pay their share. If debt is to be kept sustainable in the future, we will need to complement debt cancellation with aid. Earlier this year, the EU committed to double its aid by 2010, from around \$40 billion to over \$80 billion a year. The G-8 then confirmed that global ODA will increase by almost \$50 billion a year by 2010, with at least \$25 billion flowing to Africa. All member States who joined the EU before 2002 have now set a timetable to reach the longstanding goal to spend 0.7 percent of national income on aid by 2015. The UK has set a clear timetable to reach 0.7 percent by 2013.

However, we know that 2010 and 2015 are too late to mobilize the scale of finance we need if we are to achieve the MDGs by 2015. Innovative financing mechanisms are needed to help deliver and bring forward the required financing.

That is why we have put forward our proposal for an International Finance Facility (IFF), a complement to our commitments to 0.7, to increase the resources available for the poorest countries now, when they are needed most. The IFF is specifically designed to bring forward donor aid commitments. Using existing and new resources, the IFF will be able to increase aid to the levels required to meet the MDGs, ahead of 2010.

The Bank and Fund have conducted further detailed analysis of the IFF and work on it is technically advanced. As a first step, on 9 September, the UK—in partnership with France, Italy, Spain, and Sweden—launched a pilot International Finance Facility for Immunization (IFFIm). The IFFIm will ensure the provision of an additional \$4 billion over the next ten years to support the work of the Vaccine Fund and the Global Alliance for Vaccines and Immunization (GAVI), tackling some of the deadliest diseases in some of the world's poorest countries. Frontloading resources through the IFFIm is expected to save 5 million children's lives by 2015, and a further 5 million adult lives thereafter.

We all know that more aid needs to go hand in hand with better aid. In order to achieve the MDGs it is crucial that the international community prioritizes the poorest countries, and improves the effectiveness and long-term predictability of aid. In order to deliver better aid, donors need to increase co-operation, harmonize operational procedures, and align aid behind country-owned priorities in accordance with the commitments in the Paris declaration on aid effectiveness agreed on 2 March 2005. Finally, developed and developing countries must continue to work together to tackle corruption.

The international community must grasp the opportunity presented by the Doha Development Agenda of world trade talks to achieve an

ambitious outcome that makes a real contribution to poverty reduction. It is essential to maintain momentum on the key issues of interest to developing countries, particularly agriculture, leading up to the Hong Kong Ministerial in December. An ambitious agreement providing significant increases in market access for developing countries, substantially reducing trade-distorting subsidies, including the elimination of agricultural export subsidies, and providing effective special and differential treatment for developing countries is key to increasing growth in developing countries, integrating the most vulnerable countries into the world economy, and maintaining the credibility of the multilateral trading system.

The international community needs to recognize and address the constraints faced by developing countries in benefiting from more open global markets. Many developing countries will not be able to benefit from trade even with greater market access because they lack the economic capacity and infrastructure to trade competitively. We need to consider how best to provide the additional aid we have announced this year, to help developing countries build the capacity to enable them to produce and deliver goods to international markets competitively. We also need to deliver additional assistance to help vulnerable countries and their most vulnerable people adjust to more open markets. Finally, developing countries must have the flexibility to carefully decide, plan and sequence their trade reforms into their own development and poverty reduction strategies. Trade liberalization must not be forced on developing countries through aid conditionality or a mercantilist approach to trade negotiations.

We welcome the existing work of the IMF on the assistance they give to poor countries to enable them to benefit from trade, and call on the Fund to build on this and to work with other partners through the integrated framework to explore further ways of building capacity to trade as well as easing adjustment in low income countries.

IMF's Medium-Term Strategy

As the structure of the global economy continues to change, the IMF's role should be to help the entire membership to maximize the benefit and meet the challenges that globalization raises. The Fund needs to respond to the new challenges by clearly defining its mission and priorities.

The Managing Director's report on the Fund's Medium-Term Strategy is a welcome step forward, rightly acknowledging many of the challenges now faced by the IMF and providing a guide to the Fund's agenda and work program over the next few years. But as the

international monetary and financial system continues to evolve, there is an ongoing need for the Fund to reflect on how these changes will further redefine the IMF's role and priorities.

As this stage of the Fund's review draws to a close, the IMF should take forward the analysis begun in the report and develop its strategy for responding to the long-term challenges of globalization.

Going forward, we welcome the progress the Fund has made in developing the new medium-term budget; together with the ongoing compensation review, this will provide the necessary framework within which important decisions can be made about the effective reprioritization of IMF resources and which of the ideas presented in the Medium-Term Strategy should be put into practice.

In a modern, rapidly changing global economy, the Fund's surveillance role is crucial. In recent years, the IMF has made considerable progress in improving the quality and effectiveness of surveillance. We warmly welcome the emphasis of the Managing Director's report on the continued importance of stronger, more effective, and authoritative Fund surveillance. We can support many of the proposals in the report.

Nevertheless, we believe further improvements can be made to increase the quality and traction of Fund surveillance advice. In particular, there is a strong case for reconsidering the form of surveillance, as well as its focus. Key priorities for further reform should include establishing a framework for assessing the effectiveness of surveillance, as an important step towards improving its impact on members' policy decisions.

We continue to believe that the credibility and objectivity of IMF surveillance would be greatly enhanced by the development of proposals to separate surveillance from the Fund's lending decisions; especially ensuring assessments of debt sustainability are independent from other lending decisions within the Fund. Further questions also remain about whether surveillance should be carried out principally through the Article IV or ROSC processes.

As the events of July have reminded the international community, fighting the financing of terrorism remains of crucial importance. As part of their work to ensure compliance with international codes and standards, the IMF has a central role to play in ensuring countries are meeting international counter-terrorist financing standards, and provided well-targeted technical assistance where necessary.

We look forward to further detailed consideration of these issues in the context of the next Biennial Surveillance Review.

Efforts by the IMF to harness the benefits and challenges of globalization must be underpinned by an appropriate organizational

structure. We welcome the attention of the Managing Director's report on this important issue. However, the emphasis of the report on refocusing and reprioritizing the Fund's work presents an opportunity for a more fundamental review of the Fund's internal governance and management framework than that set out in the medium-term strategy.

The IMF should be at the cutting-edge of best practice in governance and management to ensure it does not lag behind the considerable progress made in modernizing private and public sector management practices. The Fund should give further consideration to the most appropriate and effective governance structure in order to meet the challenges of globalization over the long-term.

The Medium-Term Strategy places an important emphasis on the issue of quotas and representation at the Fund. This is an issue that affects the entire membership. Quotas should reflect changes in the world economy and we need to look at measures to enhance the voice of all members at the Fund. We look forward to full consideration of these issues as part of the 13th General Review of Quotas.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR THE
UNITED STATES

John W. Snow

We meet at a particularly challenging time for the United States. I want to take this opportunity to thank all those from around the world who have responded with solidarity and offers of support in the wake of Hurricane Katrina.

The U.S. economy is strongly positioned, even in the face of the economic impacts of the hurricanes, to continue on a path of growth and deficit reduction. Growth in the first half of 2005 was a solid 3.5 percent. The unemployment rate fell to 4.9 percent in August, the lowest rate in four years. Although the immediate outlook has softened slightly, recovery efforts are likely to boost growth early next year. The vitality, flexibility, and resilience of the U.S. economy will be tremendous assets as we move forward.

The world economy, too, has continued to expand strongly since we met last year. The outlook is favorable. Nonetheless, we must be mindful of the risks of higher oil prices and persisting global imbalances. We all share responsibility for managing these challenges.

The United States has made clear that we will reduce our fiscal deficit. Although recovery from the hurricane will expand spending in the near term, we remain on track to cut the deficit in half by FY 2009.

But one country's efforts are not enough. Fiscal consolidation in the United States without action elsewhere will yield slower global growth, higher unemployment, and less progress on poverty reduction. Slower growth in the United States is clearly not the answer, and would be in no one's best interest. As I have said, addressing global imbalances is a shared responsibility. We welcome the actions taken by China, and also by Malaysia, to adopt a more flexible exchange rate. This is a step forward, but greater flexibility is still needed. And throughout East Asia efforts need to be undertaken to spur the growth of domestic demand and reduce reliance on exports. In addition, structural reforms in labor and product markets are essential in Europe to boost domestic demand and growth, as are reforms to enhance productivity growth and the flow of resources among sectors in Japan. In other parts of Asia, financial and corporate reforms are needed to put growth on a solid path.

A vibrant global economy is in all of our interests. Making the benefits of growth available to each and every one of our countries depends on free trade. Tariffs, subsidies, and trade barriers are unnecessary impediments to growth. President Bush laid out a very clear message on trade last week at the United Nations. A successful conclusion of the Doha Round will bring benefits for every country—and particularly for the developing world. Trade in services in particular can greatly benefit developing countries, providing knowledge and infrastructure to facilitate economic growth and create jobs. This is especially true in the case of financial services. An efficient, well-regulated financial sector is a key element for achieving economic growth and stability in developing countries.

The IMF and World Bank remain central to the task of promoting growth and stability in the world economy. We want these institutions to be as effective as possible. Together we have made progress on reform. But the United States believes that there is more to accomplish.

In the IMF, ongoing evolution is needed to keep the institution relevant and effective for all its members in the modern global economy. In our view, this means an IMF that is tightly focused on its core mission of promoting international financial stability and balance of payments adjustment. The IMF must set high standards for strong policies, both in its lending programs and through surveillance. It must not shy away from tough judgments—including on exchange rate regimes. The IMF also has an important, but limited, role to play in promoting strong policies in low-income countries whether through the new Policy Support Instrument, technical assistance, or lending in cases of actual balance of

payments need. For all members, a modern governance structure is vital to preserve the IMF's centrality. It is time to begin the process of making both quotas and representation reflect the realities of today's world economy.

In the World Bank, we have seen improvements over the past few years as the Bank has strengthened its focus on measurable results at the project and country level. Now the Bank needs to adopt the results approach for the institution as a whole, including evaluating staff on project results rather than volume. The fight against corruption—both in recipient countries and within the institution—must continue unabated. The Bank, too, should stay focused on its core mission—reducing poverty through private-sector-led economic growth. The Bank needs to identify an appropriate role in middle-income countries, whose success means they no longer need the Bank to finance their development needs. This will involve thinking through what the Bank can offer these countries in ways that both fill unmet needs and preserve the Bank's focus on its core mission.

To make growth achievable and future aid more likely to bolster success, we simply must confront unsustainable debt burdens in the poorest countries. We believe it is essential now proceed with implementation of the proposal, endorsed by the G-8 leaders in Gleneagles, to provide full debt cancellation for Heavily Indebted Poor Countries (HIPC), and conclusively end the lend-and-forgive approach to development assistance. The G-8 countries have collectively pledged to ensure that debt cancellation will not diminish the resources of our institutions, and I personally repeat that pledge today. I call on each of you to join this effort and make debt relief a reality.

I look forward to advancing our shared agenda.

STATEMENT BY THE GOVERNOR OF THE FUND FOR VIETNAM

Le Duc Thuy

First of all, on behalf of the delegation of the Socialist Republic of Vietnam, I would like to express our deep gratitude to the host country, the United States of America, and the IMF and the WB for their efforts in organizing this important event. I would like also to avail myself of this opportunity to congratulate Mr. Paul D. Wolfowitz on chairing the first Annual Meetings in his position as the President of the WB.

Since the last Annual Meetings, the global economy has continued its strong growth, though at a more moderate pace than the year 2004, yet more sustainable with inflation under control. Large economies like the U.S. and China have continued their high growth rate while Japan has regained its momentum, and Asia and the Pacific region has maintained its dynamic development. This year, the issue of deep concern for many countries, especially the developing ones in Asia, is the impact of the increasing oil prices on economic growth. In addition to policy responses in the form of fiscal and monetary adjustments, it is important to improve the efficient use of energy and to increase investment in oil refining projects for the purpose of reducing pressures of oil products' retail prices on the prices of crude oil.

Over the past year, the IMF and the WB have exerted their enormous efforts in improving and strengthening the international financial systems, and promoting the balanced and sustainable development of the global economy. Fulfilling its mandates set out in the Articles of Agreement, the IMF has been continuously reforming itself in order to be able to conduct more efficiently the role of the largest international financial institution in overseeing economic developments in each individual country, in various regions and in the world as a whole; and providing policy advice and technical assistance, thereby ensuring macroeconomic stability, socio-economic development, and poverty reduction. In order to achieve the Millennium Development Goals, over the past year, the WB has focused its assistance on the developing countries, particularly the poor ones, to facilitate their growth and poverty reduction and strengthen their debt sustainability as well.

Vietnam strongly supports the joint initiative of these two institutions to strengthen the voice and participation of both developing and transitional countries in the decision making process of the IMF and the WB. We also welcome the two institutions' emerging joint initiative to support the developing countries in the process of trade liberalization and integration, and do hope that this initiative will cover not only the WTO members but also those countries seeking membership in this organization like Vietnam, since the WTO accession might make these countries face with enormous challenges as a result of the structural adjustments as well as significant changes of their legal framework to meet the WTO requirements. Beside these common efforts, we also welcome the WB's Infrastructure Action Plan which was launched in July 2003 for the purpose of supporting the infrastructure development of the developing countries, of which those countries in the Mekong Delta region have been chosen as a targeted group in the coming time.

We also support the Africa Action Plan to help the poor countries in Africa reach the Millennium Development Goals. Vietnam is willing to

accelerate its cooperation and share the experiences in development and poverty reduction with African countries, thus contributing to the international efforts of reaching the noble objectives set out by the United Nations. In this context, it is necessary to note that in parallel with expanding and accelerating the activities of the two institutions, the financial availability to fulfill these tasks should also be taken into due consideration. In this regard, the issues raised by the G-8 Debt Relief Initiative and debt relief for the poor countries are those to be treated more comprehensively. In addition, as one of the countries in the Asia-Pacific region, we hold that the WB should reserve more attention and appropriate resources in helping this region to achieve sustainable growth and poverty reduction, since the Asia-Pacific region is facing with enormous challenges with a large poor population, in spite of its being seen as a dynamic region in economic development.

The year 2005 is an important milestone for Vietnam because this is the final year of the country's Socio-Economic Development Plan for 2001–2005, and also the year to pave the way for the next 5-year plan in the 2006–2010 period. In spite of the difficulties caused by the avian flu, the adverse climate conditions and the increasing oil prices, the national economy has continued to progress. This is evidenced by the GDP growth rate of 7.63 percent for the first half of the year, the increasing industrial, agricultural and services outputs, the strong export performance with the growth rate of 18.7 percent during the first 8 months, the sound fiscal activities, the flexible but prudent monetary policy, and the stable macroeconomic environment. Thanks to the economic achievements together with the continued improvement of policy and institutional framework, foreign investment inflow has remarkably increased, resulting in an increasing amount of additional disbursement and new registered capital in the first 8 months of 2005 of 49.2 percent against the corresponding period of last year. Vietnam has also made all its efforts in accelerating its economic integration with the region and elsewhere. WTO accession by end-2005 has become one of the top goals of Vietnam's external economic activities, and the Government's efforts toward this end have been acknowledged by its partners through their commitments to support the country's accession to the WTO. Donors continue to support Vietnam's attempt to reach the objective of integrating economic growth with poverty reduction by the clear demonstration of the implementation of the Comprehensive Poverty Reduction and Growth Strategy (GPRGS). Noting the achievements in maintaining high economic growth and poverty reduction, the UNDP's most recent Human Development Report has re-ranked Vietnam to the 108th from the previous 112th among the total 177 countries.

The remaining months of 2005 will be a challenging time for Vietnam. Due to the problems posed by the continuing increase of the world oil prices and the resulted pressure on other commodities' prices, the increased trade and technical barriers in targeted markets, and the unexpected climate movements, the Government is required both to improve the quality of growth and accelerate the pace of growth. To these ends, the 5-year Socio-Economic Development for 2006–2010 with the goals of annual GDP growth rates of 7.5 to 8 percent and out of the list of low income countries by the year 2010 has been mapped out with the broad public participation and the active support of the international donor community. We hope that the implementation of a plan with such broad participation and careful consideration of practical elements will help Vietnam achieve its objectives of sustainable growth, significant improvement of the business environment, comprehensive reform of the enterprise and banking sectors, expansion and improvement of the investment efficiency, thereby taking a new step of external economic development, and getting well prepared to cope with enormous challenges when the country fully integrates into the AFTA and becomes a WTO member.

It is my firm belief that the utmost determination and endeavor by the Government and people of Vietnam to overcome the challenges ahead to achieve a sustainable economic development, improve its people's living standard, and integrate into the global economy will be actively supported by the international community, including the IMF and the WB.