

**REPORT TO THE BOARDS OF GOVERNORS OF THE
FUND AND THE BANK BY THE CHAIRMAN OF THE
JOINT MINISTERIAL COMMITTEE OF THE BOARDS
OF GOVERNORS ON THE TRANSFER OF REAL
RESOURCES TO DEVELOPING COUNTRIES
(DEVELOPMENT COMMITTEE)**

Agustín Carstens

Thank you for this opportunity to share selected highlights of yesterday's Development Committee discussion. A more comprehensive account of our work is available in our published Communiqué.

At our meeting, we discussed three broad sets of issues that are of great importance to developing and transition countries. I am going to focus my remarks today on these same three topics.

First, we spent most of our time discussing *the current global situation, including the turmoil in world financial markets*, with a special focus on the *implications for the developing and transition countries*.

Beyond the present crisis, we took some time to discuss two sets of issues that are of long-term significance. We discussed and agreed on an important set of reforms designed to enhance the “*voice and representation*” of developing and transition countries in the World Bank on this important matter.

Finally, we discussed and endorsed a new Strategic Framework designed to provide a basis for wide-ranging engagement by the World Bank in helping member countries grapple with the critical *challenges posed to them by Climate Change*.

So with that outline, let me share with you some of the main points of our discussions in these three areas.

First, the current economic situation and the financial crisis. Our meeting took place at a critical time for the global economy, with financial markets experiencing unprecedented turmoil. Developing and transition countries (DTCs) - many of them already hit hard by current high prices for energy and essential foodstuffs - risk very serious setbacks to their efforts to improve the lives of their populations from any prolonged tightening of credit or sustained global slowdown. The poorest and most vulnerable groups risk the most serious – and in some cases permanent – damage.

Against this background, we endorsed the very important commitments made at the International Monetary and Financial Committee, relating to measures to address the financial sector crisis.

Next, we stressed that aid volumes need to be consistent with existing commitments and we called for full compliance with these commitments.

In support of these concerted actions, we called on the World Bank to join with the IMF in drawing on the full range of its resources - finance, analysis and advice - to help developing and transition countries strengthen their economies, maintain growth, and protect the most vulnerable groups against the impact of the current crises.

Under the strong and effective leadership of President Zoellick, the World Bank Group stands ready to help:

The Bank recently announced a \$1.2 billion rapid financing facility, which is providing immediate help for countries coping with the impact of high food prices on the poor. We urged countries to consider making contributions to this fund.

- We encouraged the Bank and its partners to move forward with a planned new program – Energy for the Poor – that would provide rapid support for countries’ efforts to strengthen social safety nets to protect the poor against the impact of high fuel bills.
- We noted that IBRD has the financial capacity to comfortably double its annual lending to developing countries to meet additional demand from clients. IBRD lending was US\$13.5 billion last fiscal year.
- We also urged IFC to explore options for helping recapitalize banks in developing countries adversely affected by the global liquidity crisis, including the possibility of a fund.

Let me now turn to the second set of issues – our work on reforming the World Bank Group. When the Development Committee met this past April, we called for concrete reform options for the World Bank Group on these issues to be prepared in time for us to discuss them at these Annual Meetings. I am now very pleased to tell you that, based on intensive work undertaken by member countries and Bank management and staff over the past 6 months, we were in a position yesterday to review and advance a concrete package of reforms.

First, an additional chair will be created for Sub Saharan Africa on the Bank’s Board. Second, the voting shares of developing and transition countries’ in IBRD and IDA will increase, giving special emphasis to smaller members. Third, a realignment of Bank shareholding will be

taken up by the Bank's Board in an important shareholding review that will work to an agreed timeline to develop principles, criteria and proposals for shareholding. The review will consider the evolving weight of members in the world economy and other Bank-specific criteria consistent with the WBG's development mandate, moving over time towards equitable voting power between developed and developing members. Fourth, there is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates. Recognizing the above package as an important first step in the ongoing process of comprehensive reform, we asked the Boards and Management to take prompt action to implement this first step.

Third and finally, we discussed and welcomed a new strategic framework that has been developed for the World Bank Group in the field of *Development and Climate Change*. This framework provides a basis for the Bank Group to fulfill its core mission of promoting economic growth and poverty reduction, at the global, regional and country levels, in the context of the challenges posed by climate change. We encouraged the Bank Group to customize its support for climate change adaptation and mitigation efforts to the needs of its different member countries. Given the enormous financial gap for addressing climate change, we also encouraged the Bank to strengthen its resource mobilization efforts in this field. Finally, we encouraged the Bank Group to play an active role in supporting the development and deployment of clean and climate-resilient technologies.

STATEMENT BY THE GOVERNOR FOR THE ISLAMIC REPUBLIC OF
AFGHANISTAN*Anwar Ul-Haq Ahady*

It is a great privilege to address this forum again.

Despite deterioration in the security situation during the past year, the government of Afghanistan has continued to implement existing restructuring programs, and has launched new major development efforts. We submitted our Poverty Reduction Strategy Paper (PRSP) to the World Bank and the IMF boards in April of 2008. Jointly with the government of France, we convened the Afghanistan Support Conference in Paris last June whereby donors generously pledged new contributions of over US\$15 billion to help the implementation of our national development strategy. Our PRSP calls for US\$50 billion investment in five years. We had about \$14 billion in outstanding pledges, and I am quite confident that donors will pledge additional amounts during the next few years to help finance the implementation of our PRSP. We will submit our first year PRSP implementation report next April.

Over two years ago, we started our Poverty Reduction and Growth Facility (PRGF) program with the IMF. We plan to complete the third year of our PRGF program in summer 2009, which is fundamental in achieving debt restructuring under the Heavily Indebted Poor Countries (HIPC) program; and we have successfully implemented most of the PRGF recommendations for structural reform. Like in the previous years, last year we increased our revenues by 27 percent; this year we expect to increase our revenues by 32 percent. Despite increasing challenges in the way of collecting revenues, I am happy to report that we just met our second quarter revenue target.

However, like the rest of the world, Afghanistan has suffered from the drastic increase in the prices of food and oil. Between 2002 and 2007, inflation remained below 10 percent whereas last year it rose to over 20 percent. Increase in the food and fuel prices explains over 80 percent of the last year's inflation. Furthermore, this year's drought is projected to cause a decline of about 30 percent in the production of grain. Without major imports of grain, we anticipate major food shortages. Thus, to remedy this situation, in addition to asking donors for food assistance and expecting the private sector to import larger amount of food, the government has allocated US\$100 million to purchase grain from international markets.

Last year, the economy grew by 11.5 percent; unfortunately, this year, due to the drought, we have lowered our expected growth rate to 7.5 percent. Even though we anticipate our structural reforms to enable the private sector to play a much more important role in economic growth in a few years' time, for now, donor assistance continues to be the largest contributor to economic growth. Of course, we are very grateful to our donors for helping us to rebuild our economy, but as I have said in the past, without addressing the issue of aid effectiveness, we are not likely to have impressive results. With better aid effectiveness, we believe we can have much higher growth rates. We are very pleased with the results of the High-Level Forum on Aid Effectiveness that was convened in Accra, Ghana, during the first week of September this year. We are thankful for donors agreeing to channel at least 50 percent of their assistance through the national budget by 2010. Cost-effectiveness, particularly in procurement, and genuine ownership of the developmental priorities by the recipients of aid are also very important factors in improving aid effectiveness. We are committed to mutual accountability, enhancing value for money, transparency, and predictability of aid, and we urge the World Bank Group to develop plans to implement the Accra Agenda for Action. Now that donors have agreed to channel a substantial amount of their resources through the national budget, I hope that we will also promote these other critical aspects of aid effectiveness.

Of course, the Bretton Woods institutions play an important role in the world economic affairs, especially in developing countries. The IMF's PRGF program in Afghanistan is a mechanism for market-oriented economic reform, which is expected to promote sustainable growth. We appreciate IDA's continued funding of some of our most essential development programs as well as rebuilding effective state institutions. Donors, including the World Bank, should support the governments of developing and post-conflict countries to develop greater capacity for responding to drastically changing external conditions. In this context, we commend President Zoellick in responding to rising global food prices. The Bank's Food Crisis Response Trust will help countries to increase food security over time; we indeed hope that the long-term solutions to food insecurity will receive greater attention. However, it is also necessary for countries like Afghanistan to receive immediate assistance to respond to the short-term crisis. We also welcome the World Bank Group's collaboration with the UN High Level Task Force on Global Food Crisis.

I also appreciate the discussion at the IMFC on Saturday on concrete steps to restore financial stability and the smooth functioning of credit markets. Developing countries could indeed suffer greatly from a

long global slowdown. It will be therefore crucial to maintain focus on support for sustainable growth, poverty reduction, and the achievement of the Millennium Development Goals (MDGs). We hope that the current financial crisis will not reduce the amount of assistance available for development. In this regard, we welcome the world leaders' renewed commitment to the MDGs at the recent United Nations (UN) High Level event. We also welcome the IMF's mobilization of the Poverty Reduction and Growth Facility (PRGF) in response to its members' needs, and the recent reform for easier and more rapid access to concessional assistance in response to external shocks.

We also strongly support the World Bank's continued focus on access to renewable energy, a key requirement for developing countries to achieve economic growth and make progress towards the realization of the MDGs. As discussed yesterday in the Development Committee, we recognize the importance of supporting the low-income countries in adapting to the effects of climate change, but we hope that this effort will not mean redirecting financial resources from other important development priorities. Furthermore, there is an additional concern about the increasing cost of projects due to screening of climate change impact.

In conclusion, despite the increased difficulties in our environment and the complexity of our problems, the government of Afghanistan has adhered to its economic reform agendas. Our developmental achievements are still impressive. We thank the IMF for advising us on establishing an economic system that will enhance sustainable growth and the World Bank for financing some of our essential developmental and effective state-building programs. Even though we face tremendous challenges, with your continued support, I am confident that we will overcome these problems.

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

Wayne Swan, M.P.

Global financial crisis

We are facing a global crisis, which requires a global solution. Australia has been participating fully in the international response so far—through our membership of bodies such as the IMF, the Financial Stability Forum (FSF), and the Group of Twenty (G-20).

Progress this weekend represents a significant step forward in the response to the challenges we all face. Australia is very supportive of efforts in the United States and elsewhere to manage immediate risks to financial stability and restore market confidence, and of the US Treasury Blueprint for domestic financial regulatory reform. Our central bank is an active participant in cross-border initiatives to provide markets with liquidity.

For its part, Australia's banking system remains resilient, with stable profits, good balance sheets and few nonperforming loans. Our strong prudential and macroeconomic frameworks have also enabled us to withstand the turmoil well so far.

However, Australia's financial system is being affected by global events, in particular developments in international wholesale funding markets. As a preemptive move to guard against risks, we have decided to guarantee bank deposits for a period of three years and to guarantee, for a fee, wholesale term funding of banks and other authorized deposit-taking institutions to enable these institutions to continue to raise funds overseas in the current tight conditions.

These steps are in line with action taken in other countries and with the Group of Seven (G-7) agreement on Friday that the current situation calls for urgent and exceptional action to stabilize financial markets and restore the flow of credit to support global economic growth.

It is vital that the international community capture the lessons of the current global financial crisis and translate them into action. In the wake of the financial crises of the late 1990s, major players acknowledged the need to improve domestic regulation and strengthen the global financial architecture. Some useful things were done, but not enough.

We support the FSF recommendations and are working within the FSF and international standard setting bodies to ensure their full implementation domestically and internationally. This is essential to improving standards of disclosure, transparency, and prudential regulation of financial markets, and to rebuilding longer-term confidence in the system.

However, Australia believes the FSF recommendations should be enhanced by the inclusion of additional measures in support of conservative and consistent prudential standards that apply to all financial institutions of systemic importance. And we need to strengthen the global financial architecture through the existing forums of the IMF, the FSF, and the G-20.

Australia has proposed a five-point plan.

- First, all systemically important financial institutions, not just commercial banks, should be licensed—with licensing subject to

full disclosure and analysis of on- and off-balance sheet exposures.

- This should be embedded in globally agreed best practice standards of financial regulation whose implementation would be facilitated by the IMF and become an integrated part of the IMF's surveillance activities. Central banks in each country would have responsibility for financial system stability.
- Second, counter-cyclical regulatory frameworks should ensure banks and other financial institutions build up capital in good times as a buffer for bad times, using predictable rules.
- Third, financial institutions need to have clear internal incentives to promote responsible behavior. There should be higher capital requirements for firms with remuneration arrangements that reward short-term returns or excessive risk taking.
- Fourth, supervisory systems must be more compatible with accounting principles that reflect reasonable assessments of the value of assets over time, so that accounting rules foster a more medium-term perspective.
- And finally, the G-20 would strengthen its input into shaping the work of the IMF and FSF and the implementation of agreed outcomes. The IMF would have a stronger mandate for prudential analysis. And the IMF and FSF would develop their capabilities for early warning of impending institutional vulnerabilities and provide timely advice on remedial policies.

Systemically important emerging market economies must have a role in strengthening the financial architecture. Indeed, while the epicenter of today's financial crisis is the major advanced economies, it is disrupting the flow of capital across the globe and therefore all systemically important countries must be part of the solution.

That is why Australia also sees a central role for the G-20—with its unique membership of systemically important countries—in providing political authority for reforms to the architecture. This will mean the G-20 placing financial stability at the centre of its work program.

Under our proposals, the G-20 would monitor implementation of FSF recommendations, encourage their wide adoption, and engage on the risks facing the global financial system based on regular scenario analysis provided by the IMF and FSF. The communication of these risks must also be significantly improved by combining the IMF's *World Economic Outlook* and *Global Financial Stability Report* into a single, more concise, and better-targeted report that clearly identifies

vulnerabilities and recommends policy responses in a form that demands attention by global policy makers.

In addition, given their systemic importance, individual G-20 members would provide the IMF and FSF with better information on the stability of their domestic financial systems and cross-border exposures.

These proposals would, I believe, build constructively on the work undertaken to date to try to prevent future crises.

Australia has been active in the IMF's work to strengthen its financial sector surveillance and related policy advice, and ultimately its capacity to help prevent future crises. The IMFC has endorsed a strengthened IMF role in these areas, as part of the process of rebuilding the international financial architecture:

- The Fund will strengthen its early warning capabilities in relation to identifying and reporting on risks to global financial stability.
- The Fund will play a key facilitation, analytical and assessment role in helping build a more robust and coherent financial policy framework and advise members on policies to address the weaknesses revealed by the current financial turmoil.
- The Fund is strengthening its watchdog role in overseeing the implementation of policy reforms. With its wide membership and mandate, the Fund is uniquely placed to tailor, monitor, and evaluate the implementation of policy recommendations through its bilateral and multilateral surveillance activities.

To perform these roles effectively, the Fund will collaborate with the other multilateral forums to exploit complementarities and build international consensus.

Australia has been a key supporter of these reforms and welcomes their adoption.

We also fully support the use of the Fund's emergency procedures to make available substantial resources where necessary to help member countries cover financing needs, and the accelerated work on the possible establishment of a new IMF liquidity instrument.

Development Challenges

Many developing countries are likely to face a dual challenge: slower global growth and increased difficulty in accessing credit and investment, combined with inflationary pressures driven by high commodity prices.

The IMF and World Bank will need to work collaboratively and urgently to respond to these issues, recognizing their respective mandates and comparative advantages.

Countries must also continue to work together to meet shared challenges and be engaged in discussions on global problems such as high food and energy prices and climate change. These problems will also require considered policy responses at the national level, with input and advice from organizations like the IMF and World Bank.

Open trade and investment policies, including reduced subsidies and tariffs, can strengthen developing countries' economies, improving their resilience to respond to higher global food and fuel prices. Concluding the Doha round is one of the most important collective steps the world can take now to boost global food supplies and improve long-term food security.

I commend the World Bank for its efforts in helping break the cycle of food insecurity. Australia is committed to doing its share in the current fight against global food insecurity and was pleased to be able to commit A\$50 million to the World Bank's multi-donor trust fund.

Climate Change

For a long-term effective solution to climate change, all countries—both developed and developing—will need to be involved. Institutions such as the World Bank and the United Nations will also be required to work together to ease the challenges that climate change presents for developing countries, with the IMF also playing an important role in advising on macroeconomic impacts.

The Australian Government is committed to tackling climate change and is pursuing policies on energy efficiency, low emissions technologies and domestic and international adaptation. Discussions at the Bali breakfast highlight the important role of market-based mechanisms in tackling climate change. The central element of Australia's climate change policy framework is a national emissions trading scheme, the Carbon Pollution Reduction Scheme. Australia is also pleased to be able to support the UK as G-20 host in 2009, by co-hosting a G-20 climate change workshop in February 2009.

International financial institutions have an important role in complementing the work of the United Nations Framework Convention on Climate Change. The World Bank's Strategic Framework for Development and Climate Change presents a balanced approach for the World Bank in addressing climate change, while recognizing the core mandate of the Bank in supporting development outcomes in partner

countries. Australia was pleased to be able to announce an Australian contribution of A\$150 million to the Climate Investment Funds.

Governance Reforms

Today's world is very different from the world when the IMF and World Bank were conceived and it is important that these changes are reflected in institutional arrangements. Australia strongly supports efforts by the Fund and Bank to pursue governance reforms. All members will benefit from a Fund and Bank that have greater legitimacy and relevance, and are therefore more effective in fulfilling their respective mandates for international financial stability and poverty reduction.

The proposed voice and participation reforms considered by the Development Committee represent a good step forward, following the substantial quota and voice reforms agreed at the Fund. The Bank reforms will see an increase in the votes of developing and transition countries and a third chair for Sub-Saharan Africa—providing opportunity for the region to strengthen its voice in decision making at the Bank.

It will be important to build on this reform package to further strengthen the governance and policy framework of the Bank. Realigning voting interests in the Bank to reflect the increased economic weight of emerging economies will be fundamentally important to the long-term relevance of the Bank. Australia looks forward to working constructively with members on the challenging reforms that lie ahead.

At the IMF, Australia thanks the Independent Evaluation Office (IEO) for their comprehensive *Report on the Evaluation of Aspects of IMF Corporate Governance—including the role of the Executive Board* and looks forward to further work on these issues, including through the agreed work plan of the Executive Board and the independent assessment of the Committee of IMF Governance Reform, chaired by South African Finance Minister Trevor Manuel. Australia will continue to engage on proposals to strengthen the roles and accountabilities of the IMF Board of Governors, IMFC, Executive Board, and Management.

Sovereign Wealth Funds

Australia welcomes efforts to accommodate the growth of sovereign wealth funds, which are becoming increasingly important in global financial markets and have demonstrated that they can have a stabilizing influence in these markets.

We thank the IMF for their work in facilitating and coordinating the work of the International Working Group of sovereign wealth funds. We welcome the release of the Santiago Principles. If widely subscribed to,

the Principles will build transparency and strengthen confidence in the independence and commerciality of sovereign wealth funds, supporting an open and stable international investment climate.

IMF Refocusing and Budget Reform

Finally, Australia would like to thank the IMF Managing Director for his work, supported by the Executive Board, in achieving significant refocusing of the Fund's work program on areas of comparative advantage, and budget reform involving substantial expenditure savings and the establishment of a new income model. These are difficult reforms not often seen in multilateral bodies and should not be underestimated.

Australia values its close working partnership with the Fund and Bank and we look forward to further ongoing productive dialogue with both institutions to promote global stability and sustainable development.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
THE BAHAMAS, ON BEHALF OF THE JOINT CARIBBEAN GROUP

Hubert A. Ingraham

As Governor for The Bahamas, I have been given the distinct honor to speak on behalf of the Caribbean Community (Caricom), namely, Antigua, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

We express our gratitude to the management and staff of the Fund and the Bank as well as the government of the United States of America for the arrangements made for these meetings.

These meetings are being held at a critical time. Global economic growth is being eroded by exorbitant increases in commodity prices gravely impacting the living standards of our people. The tremendous uncertainty in global financial markets is seriously threatening employment levels in our countries, with further negative effects on the living standards of our people.

The medium-term outlook for less developed countries and small island states, such as ours, appears especially challenging. However, we

believe that these challenges can also present opportunities to us all if the appropriate international responses are effective.

For our part, we intend to do all we can to implement policies and measures that will reposition our economies for early, resilient, sustainable and strong growth to meet the aspirations of our peoples.

Rise in Energy and Food Prices

While we have been doing our best to overcome these difficulties, the sustained increases in energy and food prices have presented serious macroeconomic, social, and human development challenges for small, open economies such as ours.

Like others around the world, the governments of Caricom have been preoccupied with the accelerating rates of inflation fuelled by the unprecedented spikes in energy and food prices.

Since food and fuel account for a large component of our consumption baskets, the impact of the price increases has been hugely damaging to the living standards of our people.

Moreover, the growing cost of energy is affecting the travel plans of many internationally, with direct negative consequences for tourism, a principal industry for most Caricom countries.

The severity of the problem has compelled regional Governments to implement various support programs to mitigate the adverse effects on poor and vulnerable groups. These actions have placed additional burden on already strained fiscal accounts.

Since the high prices are expected to persist over the medium-term, there is an elevated risk of social and economic dislocation. We have therefore intensified our efforts to formulate sustainable regional agricultural and energy policies. We hope that these will bolster our ability to absorb external shocks.

Millennium Development Goals

Despite the challenges facing the region, our countries remain firmly committed to achieving the Millennium Development Goals by the year 2015. However, we cannot accomplish these goals and maintain these standards on our own.

We look forward to and we welcome continued assistance from the Bretton Woods institutions and from our development partners. It is within this context that we wish to express our sincere appreciation to the President of the Bank for his invaluable efforts in overseeing a successful IDA-15 replenishment exercise. This concessional window has contributed significantly to the economic development of some of our member countries.

We recognize IDA's eligibility criteria in terms of per capita GDP and that some of our members are surpassing these levels. But given the special circumstances of small island states, we urge the Bank to continue IDA support to the region.

Climate Change

We welcome the enhanced awareness and attention our developed country partners are paying to climate change. The recent G-7 meeting witnessed the adoption of a proposal by member countries to reduce green house gas emission by 50 percent by the year 2050.

The persistent challenge of climate change, with its dire twin prognosis of sea level rise and stronger and more frequent hurricanes, is especially troubling for the Small Island Developing States (SIDS) of Caricom.

Much of our land mass is within 1.5 meters of sea level and our most significant economic development has taken place in susceptible coastal zones. So we are very much aware of the impact of climate change on the productive sectors of our economies.

We have moved with urgency to effect numerous adaptation and mitigation strategies. We believe that our efforts, although small, will make a meaningful contribution to the global effort.

The introduction of the Climate Investment Funds (CIF) is timely, and we congratulate the Multilateral Development Banks for their efforts in designing a financial mechanism to assist developing countries in addressing climate change.

Public Debt

We cannot overemphasize the issue of public debt sustainability, which is a serious and growing concern in our region of primarily Middle Income Countries (MIC). Too often, our ability to address social issues is hampered as a result of heavy debt servicing burdens.

In the case of Jamaica, 54 cents out of each dollar collected in government revenue goes to debt servicing. Similarly, our Eastern Caribbean States are challenged by rising debt. Consequent to the collapse of the Doha Round of trade talks, it is possible that these countries could witness further deterioration of their debt positions and heightened social challenges.

While we are indeed grateful for the assistance of the Bank in determining options for addressing this issue, we believe that our classification as MIC countries limits the Bank's potential range of interventions. We therefore recommend that the Bank review the status of small island states and their unique needs.

Voice and Representation

We note the options presented for discussion by the Bank to increase the level of Voice and Representation for Developing and Transitional Countries (DTCs). We consider reforms arising from dialogue on this subject as salient to the effectiveness of the institution.

Our hope in this regard is for an agreement on a roadmap that addresses in sequence, and in a timely manner, the options deemed necessary for significant enhancement to the Voice and Participation of developing countries in the World Bank Group.

Caribbean Technical Assistance Centre

Once again, we place on record our deep appreciation to the Bank, the Fund, and the Caribbean Regional Technical Assistance Centre (CARTAC) for their invaluable contributions to institutional and capacity building, and the improvement of economic management in the Caribbean. As we continue to implement the regional agenda and strengthen our ability to respond effectively to challenges and to exploit opportunities, we will require well-coordinated assistance from the Bank, the Fund and international donors.

Notwithstanding the planned budget cuts, the Caribbean needs to remain a focus of the work of the Fund. To avoid crises, it is important that the Fund invest not only in those countries that are systemically important but also in those that are vulnerable.

Conclusion

Finally, Mr. Chairman, we know that the institutions listen carefully and with understanding to the views that we have expressed at these meetings.

We are sure that the institutions will respond urgently and positively to the needs that I have expressed today on behalf of the Caribbean Constituency, needs which are extremely urgent in the present unsettled global economic and financial environment.

We wish both institutions every success in their future endeavors to fulfill their respective mandates.

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

A.B. Mirza Md. Azizul Islam

I feel privileged to have the opportunity to attend the 2008 Annual Meetings of the IMF and the World Bank at a very challenging time confronting the world economy. The financial market turmoil in some of the developed countries has the potential of exerting considerable negative impact on growth and poverty reduction in developing countries. We hope the ongoing government interventions would help calm the volatile situation and restore stability and confidence in the market place. This year, we are also halfway through our quest to achieving the Millennium Development Goals (MDGs). It is high time for us to take stock of the progress we have made and evaluate our performance on the mutual accountability framework enunciated in the Monterrey Consensus for future course of effective action.

According to current estimates while poverty will be halved on a global level by 2015, many countries are likely to miss this target by a wide margin. The MDGs relating to human development are unlikely to be met even at the global level. Climate change in conjunction with spikes in the prices of energy and food poses grave threats to the sustainability of development and to poverty reduction. The challenges ahead of us are, therefore, daunting. The core constraint in achieving progress in MDGs continues to be lack of adequate development financing. We note with concern that real official development assistance from Development Assistance Committee (DAC) donors declined in 2006 and 2007. Many poor countries across regions have by now proved their ability to effectively absorb increased volume of aid. There is an urgent need now for the developed countries to fulfill their obligations to increase core development assistance to 0.7 percent of their gross national income.

We must also renew our commitment to further improve predictability and effectiveness of aid. We firmly believe that the Accra Agenda for Action provides an adequate blueprint to accelerate the progress we have made since the Paris Declaration. Strengthened donor harmonization and alignment with country systems are more critical now in view of the emergence of increasing number of donors and new aid modalities. We believe country ownership of the development agenda, use of country systems and a monitorable results framework will be critical for implementing the Accra Agenda for Action.

The recent surge in prices of commodities, oil, and food in particular, has seriously affected the poor in many low-income countries. While welcoming the call by President Zoellick for a 'New Deal for Global Food Policy' and his initiative to set up a 'Global Food Crisis Response Program' we call upon the World Bank to ensure that assistance under this facility is additional to the normal IDA allocation. We also welcome World Bank's recent moves to bring back agriculture sector in the forefront of its agenda for development assistance. Simultaneously, the international community must delve into the root causes of this crisis and remove policy distortions to ensure food security.

The worst victims of climate change are the low-income developing countries and the poor communities whose contribution to this catastrophic change is minimal. Recognizing the inextricable linkage between climate change and development, we welcome the strategic framework of the World Bank Group on development and climate change. We also welcome the establishment of two new Climate Investment Funds. We, however, reiterate our call to address the climate change issue on the basis of the principle of "common but differentiated responsibility" as articulated in the UN Framework Convention on Climate Change. While we support the need for integrating actions on climate change into the development process, we believe that these actions should not compromise growth. Climate change action plans must be country-owned and backed by additional grant resources and technology transfer. Countries most vulnerable to climate change due to their geographic locations should be given adequate grant assistance, additional to normal assistance package, to meet both adaptation and mitigation needs.

Enhancing the voice and representation of developing countries in the decision making of the Bank is critical for its legitimacy and credibility as a multilateral development institution. We reiterate our view that the package of reforms to achieve this should address, amongst others, realignment of shareholding through a Bank-specific formula including weight of member countries in the global economy.

Let me now say a few words about the Bangladesh economy. Despite successive natural calamities and exogenous shocks, macroeconomic situation continues to remain stable with growth over 6 percent per annum. Most of the MDGs are within our reach. Surge in fuel and food prices generated some inflationary pressure, as in many other countries. Notwithstanding targeted safety net programs of the government, the inflationary pressure has somewhat retarded our progress in poverty alleviation.

Let me conclude, Mr. Chairman with the renewed hope that we will translate our commitments into concrete actions to build a world free of poverty.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR BELGIUM

Jean-Pierre Arnoldi

More than ever, all member countries should cooperate with the IMF and the World Bank in promoting financial stability, durable development, and poverty reduction. This requires that the Bretton Woods institutions continue to adjust to the rapidly changing structures of the global economy.

The ongoing financial crisis calls for more effective Fund surveillance, which must be conducted evenhandedly. In doing so, the Fund will need the full cooperation of its members.

The statement of surveillance priorities, which the IMFC endorsed this weekend, focuses on the right issues. Special attention must be devoted to strengthening financial sector surveillance. A reshaped Financial Sector Assessment Program must be better integrated in Fund surveillance. In this field, the Fund should fully exploit synergies with all relevant standard-setting bodies.

The Fund should take the lead in drawing lessons from the current crisis and recommend effective actions to restore confidence and stability, in cooperation with relevant fora and partners.

The Fund must act effectively in giving timely financial assistance to countries hit by the crisis and to help improve, as needed, their macroeconomic policy frameworks.

The Fund's lending framework has become too complex and no longer fits the needs of the membership. We welcome the fact that the Fund has launched a major review of its financing instruments. This review should cover all existing lending facilities, conditionality, access limits, and the cost of borrowing from the Fund. The objective should be to establish a simpler, more coherent and predictable framework, and enable the Fund to fulfill its mandate effectively. We see merit in a single, flexible facility.

The reform of the Fund members' quotas and voice improves the representation for many countries. The governance of the Fund can also be further improved. The report of the Independent Evaluation Office on

the Fund's corporate governance should be carefully considered as part of a more comprehensive review program as outlined by the Executive Board and the Managing Director.

The World Bank Group has embarked on the reform of voice and representation in its various institutions. We support the package that has emerged from the discussions. As we know it from the Fund, this reform is an ongoing process. The objective should be to endow the World Bank Group with a system that will allow regular adaptation to changing relative positions in the world economy while ensuring adequate representation of all members, including the smallest and poorest. This process should be complemented by internal governance reforms, based on the proposed Board effectiveness reform package.

The financial crisis must not let us forget the other crises that affect the poor. We refer, in particular, to the food and energy crisis. Although the prices of these commodities have declined in the recent past, for many commodities prices remain at historically high levels, and continue to affect the poor in low and middle-income countries. The World Bank Group and the Fund must act decisively to promote food security and help overcome the financial consequences for the poor countries.

Climate change is another challenge that calls attention. Whereas until recently the biggest problem was that of inaction, now we are faced with the specter of multiplicity of actions, bringing with it the danger of fragmentation and ineffectiveness. We strongly favor the full use of the existing financing instruments. The World Bank is well placed to play an important role in shaping the financing mechanisms to combat climate change, which is an integral part of the development agenda.

Poverty reduction remains an unfinished agenda. In a few weeks, in Doha, we will assess the progress made in promoting development since the Monterrey conference. That assessment will show important shortcomings. We must decide how to do better. In this, the World Bank and the IMF, with their unmatched experience and know-how are essential partners.

In closing, I would like to echo what the Managing Director of the IMF told us this morning: strong support for and strengthening the roles of the Bretton Woods institutions, is the best strategy to make our cooperation as effective as it needs to be. In this, we all benefit from the contributions of the institutions' competent management and staff.

STATEMENT BY THE GOVERNOR OF THE FUND FOR BOLIVIA

Luis Alberto Arce Catacora

The world is in the midst of one of the most severe crises in the history of the capitalist system, potentially more serious than the Depression of the 1930s. According to experts, the worst is yet to come, thus we in the emerging and developing countries are deeply concerned. As we all know, the international financial crisis has its epicenter in the developed countries; yet the smaller countries such as ours are not immune, even though our capital markets are not integrated with the rest of the world. The effects of the crisis could be catastrophic for some low-income countries that are commodity producers, given their external vulnerability. The external repercussions in terms of prices and export volumes may endanger poverty reduction policies and jeopardize efforts to attain the Millennium Development Goals.

When the smaller countries faced macroeconomic imbalances, the IMF and World Bank recommended structural adjustment policies with financing subject to strict conditionality. Bolivia and other countries had no choice but to accept these recommendations; however, these policies—based on market forces and limited government involvement—merely fostered social marginalization, harmed the environment, and exacerbated poverty. Conversely, when the developed countries create a crisis like the present one through inadequate government supervision of the development of financial markets, no attempt is made to execute an emergency Financial Sector Assessment Program (FSAP), let alone adjustment programs.

IMF surveillance ought to focus primarily on the larger countries, however, the Fund and the Bank did just the opposite, resulting in the obvious adverse effects that have radiated across the globe. The crisis in the global financial system, which is attributable to inadequate regulation by financial supervisors and speculative behavior by transactors in the main financial centers, will be resolved at the expense of poor people in the developed and underdeveloped countries. The 21st century demands a qualitative change in managing the crises spreading around the world, be they in the spheres of finance, food, energy, or climate change. The developed countries must shoulder their responsibilities in this situation; they need to build a new international order focused on structural solutions to the economic, social, and environmental problems facing the underdeveloped countries.

The governments of the developed countries and multilateral organizations are proposing short-term financial solutions that do not necessarily address the structural causes of the crisis and, therefore, may not work. In the current context, the building of a new international order calls for financial architecture and regulatory institutions that promote comprehensive, orderly, and equitable development for all countries.

Those of us whose countries are not to blame for the current crisis but are nonetheless suffering from its fallout should receive both financial and commercial compensation. Accordingly, it is proposed that the World Bank and IMF make available to small countries specific programs that entail resource allocations without conditionality.

One of the key lessons we have learned from the current crisis is that, unless the State plays its role as leader in the development process and active participant in the economy, the attainment of the MDGs and poverty reduction will be seriously compromised.

Finally, we are calling upon the President of the World Bank to accede to the Bolivian government's request to move forward Bolivia's denunciation of the Convention establishing the International Centre for Settlement of Investment Disputes (ICSID Convention) and withdrawal of its consent to have its disputes heard under ICSID jurisdiction.

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

Chea Chanto and Aun Porn Moniroth

We are pleased to represent Cambodia at this important annual discussion. We meet here today under extraordinary circumstances related immediately to the mandate of our two institutions. The crisis we face is multi-faceted and affects people all over the globe, mostly the poor and underprivileged.

A cataclysmic and still enlarging financial crisis of unimagined and unprecedented proportions has engulfed all of us, catching us totally unprepared and unable to fully grasp its magnitude, an extensive labyrinth of complexity and adverse effects spreading to all parts of the globe. This is a man-made tsunami, long in the making. No one in the modern financial world could foresee it until its full force has come to unfold in the recent weeks. All the postmortem, which would no doubt be done on its causes, would not solve the gigantic problems we will all

face for years to come. Of immediate consequence to the developing and poor nations is that the slowing economies of the developed countries are shrinking demand for goods and services they import from the former. This in turn will affect millions of jobs and send tens of millions below the poverty line from which they have only recently emerged. The mammoth financial bailout undertaken by the bigger economies to avoid an even bigger crisis puts at risk the level of development assistance and accommodation needed from them to meet essential millennium development goals in the rest of the world.

Inflation is running high all over the world reducing growth prospects, leaving the poor not being able to meet even their essential survival needs. Food shortages are occurring in part to due subsidies provided to diversion of food crops for bio-energy. Food and fuel prices continue to be high, volatile, and unpredictable. All these factors feed into each other, with compounding global effects. Shock waves have reached every corner of the earth. It is clear that free, unregulated markets cannot correct themselves.

All of us here need to admit that our two global institutions with all their research expertise failed to notice such developments in advance and alert the world. They did not do their global watchdog functions. They seem to have been more absorbed in the euphoria of preaching to developing countries and prescribing to them impossible conditions. Even as they imposed more and more reforms on borrowers, they had relegated pursuit of agricultural research, production, and productivity. Our institutions turned the spotlight on poor countries failing even to notice the mammoth turmoil brewing here in their own backyard.

But, the crisis we face gives us a real opportunity to start afresh. We need to critically review the mandate and functions of the two institutions so that they get out of 20th century mindsets and become more tuned, alert, capable, responsive, and ready to face the 21st challenges. Cambodia joins in the calls made by others to come up with new roles, shape, structure, and accountability for the two institutions so that they can truly keep a watch over global developments, not merely in the poorer part of the world. We need to set in place sensors and triggers that can alert us in advance about any crisis in the future and to enable us to take adequate alleviating action just as we do when we know of natural disasters in the making. We need to protect the world from such disasters in the future.

The review needs to be conducted by a body of experts, drawn from the academic world and public finance practitioners including from the developing world. A high-level body needs to be set up consisting of governors of the two institutions with proportional representation from all regions.

There is at the same time the need to expand and enhance intra regional cooperation and solidarity through regional bodies, institutions, and mechanisms. Effective regional bodies and intra regional investments could possibly cushion against future global shocks.

Even as the world manages the ongoing crisis, it is imperative that we do not lose sight of our long-term global commitments to alleviate the miseries of the poor in mostly developing countries. The task of poverty alleviation and reaching promised millennium development goals cannot afford delays or postponement. If any, it needs much faster acceleration and concerted action. Not only our two institutions, but all other international and bilateral partners should ensure that programs of assistance to these ends do not slacken but get enhanced. The present dark clouds over our skies should not stop us in our march.

Cambodia is getting fast integrated into the global economy. Because we are less developed, we have so far been only bruised by the global events and not very severely affected. We already feel the pain of high inflation, a slowing economy, and reduced exports, which affect our earnest efforts to reduce poverty, which have shown impressive success so far but are at risk now. We can no longer sustain our recent annual double-digit growth rates in the near future. Our inflation will remain higher than we would like. Our immediate concern is not to let anyone slide back into poverty from which they have only recently stepped out. We see opportunity in the crisis to make our economic base more diversified by optimally using our natural endowments in rural areas where immense potential for increasing agricultural productivity remains untapped. The renewed focus on rural areas will also help us to immediately and directly address issues relating to poverty reduction. Direct assistance to poor farmers by way of improved seeds, inputs, and extension services will at once alleviate poverty and broaden the economic base in a sustainable manner. Both the World Bank and the UN have clearly acknowledged that this is the need in most parts of the world.

In the tasks ahead in Cambodia, we need continued help from our development partners and international and regional institutions in the following ways at least:

First, write off, or provide swap arrangements in regard to, past outstanding debts, some incurred during a war period dating back to more than thirty years ago. The released resources could be ploughed back into the rural economy and toward achieving millennium development goals.

Second, provide funds for direct assistance to the poor in rural areas to improve their livelihood through better inputs and practices in agriculture.

Third, open up markets in the developed world by reducing tariff and local subsidies for products that we can best supply at lower cost.

Fourth, international institutions start to function more effectively as the advocate of poorer countries in the international arena.

The Cambodian delegation looks forward to a meaningful debate and emergence of a clear course of action at this meeting.

We now turn to other matters on our agenda. We agree with the core objectives and the broad set of guiding principles as outlined in the paper on voice and participation at the Bank. We would like to stress that the voting powers of the smaller members should be protected. We support the increase in IBRD basic votes, which will have a bigger impact on raising the voting power of smaller countries. Practical options for realignment of IBRD shareholding should be considered. We support an additional chair for Sub-Saharan Africa in the Bank's Executive Board. We want to see this effort implemented in the broader context of Board effectiveness and governance. On the selection of Bank President, we believe that the process should be consistent among the World Bank group, IMF and the Regional Development Banks.

We find that the six strategic directions in the Bank's Strategic Framework for Development and Climate Change support the vision of the World Bank Group of "contributing to an inclusive and sustainable globalization—to overcome poverty, enhance growth with care of environment, and create individual opportunity and hope." However, "public goods" are also vital to address adverse effects of climate change and should not be crowded out of IDA funds. The Bank should mobilize additional financial resources to support strong country ownership and target specific interventions.

We have noted with regret that, by using the International Procurement Agency (IPA) arrangement, the Bank financed portfolio for Cambodia suffered a decline last year and would do so next year. This would represent the worst portfolio performance since we began to receive assistance from the Bank. We are disturbed by such poor results.

We wish now to present to you some highlights of Cambodia's macroeconomic and financial performance. Our socio-economic agenda is spelt out in the Rectangular Strategy we have developed and adopted in 2004 and is implemented through our National Strategic Development Plan, 2006–2010. The Royal Government formed after the recent general elections has reaffirmed this strategy and will continue it in its second phase.

As a result of clear vision and concerted action on a package of policy-oriented measures, despite some difficulties and attendant social pains, a number of positive developments are taking place in the country. Poverty level in the country declined rapidly in three years, from about

35 percent in 2004 to 30 percent in 2007. In 2008, we expect that GDP growth would continue at a healthy level, though declining from the two digit levels seen in the last few years. Per capita income rose to US\$594 in 2007 increasing by over 50 percent in three years from 2004. Foreign reserves doubled during this period and now stand at \$1.9 billion. The exchange rate with the U.S. dollar will remain fairly stable. Budget performance would continue to improve with the rationalization and reorientation of public expenditures.

We are quite optimistic about the prospects of revenues from exploitation of our oil and natural gas reserves. We will ensure that benefits accrue to and are available to all Cambodians whose common heritage they are. The additional revenues will be used for targeted investments in priority sectors set out in our National Strategic Development Plan. We are fully committed to managing revenues from our natural resources in a transparent and effective manner for the long-term development of the country and with full accountability.

Inflation, which was well managed and contained until 2006, suddenly increased in the last quarter of 2007, spurred both by the external environment already pointed out and by internal pressures, including high liquidity in the system. It has continued at a high rate since then. This has prompted a more prudent management of prevailing monetary conditions. The monetary policy implementation has focused on managing the excess liquidity and the over-involvement of banks in the real estate sector, which could have adverse consequences. Among measures undertaken were increasing the statutory reserve requirement from 8 percent to 16 percent, increasing the capital requirement of the banks, and reduction in real-estate lending. In the area of fiscal policy, despite few expansionary measures to contain the impact of inflation on livelihood of the most vulnerable group of population, the general policy line of the Royal Government is limiting spending, increasing current budget surplus, reducing overall budget deficit, increasing Government's deposit in the banking system and redirecting spending towards productive sectors, especially agriculture and rural economy. However, the Royal Government, conscious of the trade-off between inflation and growth, will follow a flexible approach.

In strengthening of the banking system, we have moved away from judgmental loan classification to the prudential asset classification based on objective criteria, adopted strict criteria for the level of provisioning to be applied to various grades of loans, and enhanced credit information sharing system. The implementation of reforms and strengthening of the institutional structure of the banking sector in Cambodia has had an all round salutary impact on the financial health of the banking system, as evidenced by the significant improvements in a number of prudential

parameters. The average capital adequacy for the commercial banks in June 2008 was 25.5 percent, well above the bench mark of 15 percent despite significant growth in the aggregate assets of the banking system. In regard to the assets quality, the nonperforming loan ratio, which was as high as 14.8 percent in 2002 and 9.9 percent at the end of 2006, declined significantly to 2.6 percent as at the end of June 2008. These figures have been driven by loan loss provisioning by the banks as also by the improved recovery climate enabled by the more supportive legislative environment.

In sum, our system in the banking sector supervision has worked satisfactorily and the volume of business transactions undertaken by the sector has been increasing steadily. The level of financial deepening has accelerated with increased financial services promoted through the progressive reforms implemented under the Financial Sector Blue Print, 2001–2010, which in late 2007 was updated to the Financial Sector Development Strategy, 2006–2010.

Reforms in other areas of the banking activities are also underway. These include strengthening and supporting the growth of microfinance institutions, the improvement of corporate governance and banks internal audit, enhancing credit information sharing system, and enabling financial leasing business for banks. We have also accentuated our efforts to ensure an efficient implementation of the Law on Anti-Money Laundering and Counter-Financing of Terrorism that was adopted in 2007 through the recent establishment of the Financial Intelligence Unit and will allocate resources to facilitate capacity of this unit.

Ladies and gentlemen, we wish to record our appreciation for the assistance Cambodia has received from the Bank and the Fund. We also urge that the Fund to exclude poor countries from its new scheme on “country contributions” or charging for policy technical assistance.

In conclusion, we wish to once again thank the Board, management, and staffs of the Bank and the Fund for their readiness to respond to the needs of Cambodia and for providing support over the years.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
CANADA*James Michael Flaherty*

We are experiencing a time of global economic and financial uncertainty that in some respects is unprecedented in the last half century. Virtually no country is immune to the risks stemming from the turmoil in global financial markets and many are facing serious dislocations from the sharp hikes and volatility in commodity prices we have witnessed. In these difficult times, having strong global institutions like the World Bank and the IMF is a tremendous asset. We must use the momentum for reforms in both institutions to ensure they are fully equipped to pursue their important mandates.

Global and Canadian Prospects

The global economy continues to be buffeted by shocks emanating from the turmoil in many parts of the global financial system and by increases in the prices of commodities central to people's standards of living. Growth in the major advanced economies has slowed sharply, and although emerging markets will remain the major driver of global economic growth, their pace of growth is expected to slow. This has made it increasingly important for countries to work together to promote a return to strong sustained global growth and stability. I believe that finance ministers should meet again in the coming weeks to ensure continual progress. The government of Canada also supports the idea put forward by President Sarkozy of a leaders' summit to review measures to strengthen the international financial system.

Many economies are better placed today to weather these shocks due to past improvements in policy frameworks. Canada, along with others, took the necessary measures in recent years to put public finances on a sound footing. This has provided us with the flexibility to respond to signs of a softening of growth with timely fiscal stimulus while continuing to maintain a balanced budget. While headline inflation has picked up globally as a result of oil and commodity price increases, the increased credibility of central banks who have adopted strong policy frameworks have generally kept inflation expectations well anchored. However, signs of higher inflation are more worrying in several emerging market economies, many of which are sacrificing some of their

monetary policy independence by limiting the flexibility in their currencies.

Economic growth in Canada has weakened since the end of 2007 as a result of the United States slowdown, which, coupled with a higher Canadian dollar, has significantly reduced Canadian exports. However, as a result of the strong dollar and higher commodity prices, Canadian consumers and businesses have benefited from rising real incomes and profits. As a result, domestic demand growth in Canada remains solid despite slower growth overall. Moreover, Canada's economic fundamentals remain strong: employment has continued to increase this year; the unemployment rate remains near a 33-year low; the financial sector remains strong and well-capitalized; the financial positions of consumers, businesses, and governments are sound; and core inflation remains low and stable. The IMF expects Canadian growth to be 0.7 percent in 2008, increasing to 1.2 percent in 2009.

Core inflation pressures remain contained at 1.7 percent in August 2008, despite a recent uptick in headline inflation. Total consumer price inflation was 3.5 percent in August, compared to a recent low of 1.4 percent in March 2008 reflecting increases in the prices of energy and food products following sharp increases in world prices earlier this year. On October 8, the Bank of Canada joined other major central banks in a simultaneous reduction of policy interest rates by 50 basis points. This significant action will provide timely support for the Canadian economy.

Canada's fiscal situation remains strong. In fact, it remains the best of the G-7 countries. According to the IMF's fall outlook, on a total government basis, Canada's budget surplus was 1.4 percent of GDP in 2007 and is projected to remain in surplus for 2008 and 2009. Canada also has a very strong track record on debt reduction. Our total government net debt, as a percentage of GDP, has declined steadily from a peak of nearly 71 percent in 1995 to about 23 percent in 2007.

The IMF's Role in Low-Income Countries

Canada commends the recent work done by the staff and management to address the particular needs of low-income countries through the presentation of a comprehensive approach to IMF engagement in these countries. In order to achieve economic growth and poverty reduction, and to reach the Millennium Development Goals, macroeconomic and financial stability are essential. This is why the Fund's work is so important and must remain focused and effective, especially in the context of a more stringent budget environment. Key to this will be avoiding the reemergence of unsustainable debt in post-debt-relief members and preventing its emergence in other low-income

members. Coherence with the World Bank and other institutions and development partners remains fundamental to the effectiveness of the Fund's activities in low-income countries, and should be strengthened further wherever possible.

IMF Governance Reforms

Subsequent to the successful conclusion of discussions on a new quota formula this past spring, it is now time to address a broader reform agenda for the Fund's governance. The April 2008 report of the Independent Evaluation Office highlights broad areas that need to be addressed, such as strengthening the strategic role of the International Monetary and Financial Committee, increasing the strategic focus of the Board of Executive Directors as well as clarifying its oversight role, and clarifying the accountability of the Managing Director and Staff. We also need to make further progress to open the selection process for the heads of international financial institutions. I believe that these are all relevant issues which, once resolved, will lead to a more legitimate and effective institution.

Surveillance Reforms

IMF surveillance is at the heart of the Fund's mandate of promoting global stability and important innovations have been made in this area. Recent developments in global financial markets underscore the appropriateness of the Managing Director's vision for the IMF as being an international centre of excellence on linkages between the financial system and the real economy. It will be critical to continue to strengthen the IMF's analytic capacity in this area and to continue to improve the manner in which it communicates its analysis of macrofinancial developments to policymakers and the public.

In June of last year, the Fund adopted the 2007 Decision on Bilateral Surveillance over Members' Policies to further improve the effectiveness of its surveillance activities. Since then, we have noticed improvements in the focus of Article IV reviews, although the all-important goal of increasing the candor of surveillance reports remains a work in progress. The time has now come to support the full implementation of the 2007 Surveillance Decision, including the use of the ad-hoc consultations process to ensure that concrete results are achieved.

In this respect, I am very pleased that the International Monetary and Financial Committee has just endorsed the IMF's first Statement of Surveillance Priorities (SSP). I view the new SSP as an important complement to the 2007 Surveillance Decision in that the SSP provides

the opportunity to enhance the focus of IMF surveillance on the most pressing issues, promote greater consensus within the membership on the key economic vulnerabilities and risk and the need to address them, and improve the accountability of the IMF for its surveillance outputs. It is important that we use the SSP to its full potential.

Review of IMF's Financing Role and Instruments

The recently launched strategic review of the Fund's lending tool kit is timely. The global economy has changed so much since the Fund's tool kit was originally designed that mere incremental changes are unlikely to ensure a modern and appropriate mix of lending facilities. While some aspects of lending have already been addressed, such as changes to the Exogenous Shocks Facility, critical work is also needed to ensure coherence and effectiveness across the range of instruments. More fundamentally, the Fund should look back at the context in which each lending instrument was first created to evaluate its relevance to address today's challenges.

Food and Fuel Prices

High global food and fuel prices continue to be a critical development concern, and we commend the Bank and Fund for drawing early attention to the crisis and helping to place it high on the international agenda. This crisis requires a rapid and effective response. In this regard, we welcome the prompt action taken by the Bank to facilitate a coordinated and multifaceted response. With offices in more than 100 countries, the Bank is well positioned to integrate a response to the food crisis directly into existing country programs, aligning with the country's priorities in harmonization with other donors. Likewise, we are pleased with the prompt action by the Fund to provide advice, technical support and in some cases funding through PRGF programs. We also welcome recent reforms to the Exogenous Shocks Facility to make it a more effective crisis response tool.

Action is not only needed to relieve the immediate effects of the current food crisis. As the recent High Level Event on the Millennium Development Goals (MDGs) noted, the first MDG, to reduce hunger by half, is unlikely to be met by 2015. Thus, food security is an on-going and serious problem that must not be forgotten once the current crisis is no longer at the top of the international agenda. As an illustration of the size of the challenge, it is expected that food production in Sub-Saharan Africa will need to double or even triple over the next few years to meet local demand.

In this context, we encourage the World Bank to focus on investments to promote sustainable forms of agricultural production, especially those that would benefit smallholder farmers who are most in need of support. It is especially crucial to ensure that programs are designed to be equitable and to meet the needs of the most vulnerable, often women and girls. Another key part of the solution will be to foster innovations for increased agriculture productivity, including through public-private partnerships.

World Bank Reform

Enhancing the participation of developing and transition countries in the World Bank's decision-making processes is an important objective and we are pleased with the discussion and work to date on the Bank's Voice and Participation reform exercise. We will continue to support and participate in these efforts.

Adjustments to increase the voting power and shareholding of developing and transition countries and an additional seat for Africa at the Executive Board are important components of voice reform, and we look forward to agreements on these options. We believe that further measures to improve focus and communication within the Executive Board are equally important, and in this regard, we look forward to the World Bank's management and the Executive Board elaborating a set of specific reforms. We are also pleased with the steps the Bank has taken to improve the voice of developing and transition countries in their operational work, such as the appointment of more developing country nationals to senior management positions and the decentralization of their operations. We encourage the Bank to continue to explore what more can be done in this regard.

Stronger engagement of developing and transition countries in the World Bank's decision-making will yield many benefits. Strong participation of all members at the Board of Governors and the Executive Board will be a key backdrop for the Bank becoming an even better platform to support dialogue and collective action on global issues. It can help improve the design of new sector strategies and instruments as developing and transitions countries bring lessons learned from their own country programs to the table. Finally, more voice for the Bank's client countries at the operational level will help with the success of lending programs by ensuring that projects are properly tailored to country contexts and that governments have a true sense of ownership and accountability over them.

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

Yi Gang

The U.S. financial crisis has taken a serious turn for the worse and continues to spread across the globe. Economic growth has slowed markedly worldwide and we face enormous uncertainty. For the international community, the most urgent task is to join efforts to stem further deterioration and spread of the crisis—the major threat to global growth—and restore global economic and financial stability. The Bretton Woods institutions should fulfill their mandates to maintain global monetary and financial stability and facilitate sustainable, balanced growth.

We hope the measures adopted by advanced economies to stabilize financial markets—particularly the *Emergency Economic Stabilization Act of 2008* in the United States—will be implemented quickly and yield positive results in restoring confidence and stabilizing the financial markets. China will continue to strengthen its cooperation with concerned countries and hopes that all governments will work together to overcome the current difficulties and restore international financial stability. From the medium- and long-term perspective, the reserve currency issuing countries must assume international responsibility, commensurate with their positions, for advancing structural adjustments, increasing savings, and preserving economic health and sustainable growth to benefit balanced and stable growth of the global economy.

In 2008, China has weathered the shocks of natural disasters and an adverse external environment. While maintaining stable and relatively rapid economic growth, clear progress has been made with structural adjustments. Consumption has increased, the trade surplus has narrowed, and the growth of foreign exchange reserves slowed. The industrial structure has been improved. Every effort is being made to protect the environment through intensifying energy conservation and the reduction of COD and SO₂ emissions. Inflationary pressure has decreased with the CPI dropping in recent months to 4.9 percent y-o-y in August. In addition, financial institutions in China remain sound. After several years of comprehensive financial reforms, the capital adequacy of financial institutions has reached a historical high, corporate governance has improved markedly, and risk management strengthened significantly. There is ample liquidity in the market. Overall, the fundamentals of the Chinese economy are solid and resilient. We are confident we can

weather the financial turmoil. With the global economic slowdown, it is important that China maintains its stable and relatively rapid growth.

We remain committed to expanding domestic demand—household consumption in particular—by providing a better social security system. In the rural areas, we are improving medical schemes and making additional resources available for infrastructure and education. The successful implementation of these adjustments will further improve the external and internal balances.

Here, I would like to make special mention of the substantial progress in reforming the renminbi exchange rate formation mechanism. Exchange rate flexibility has increased markedly and the exchange rate increasingly reflects the fundamentals. From introduction of the exchange rate reform in July 2005 to end-September 2008, the real effective exchange rate (REER) of the renminbi calculated by the Bank for International Settlements appreciated 21.8 percent, an average annual rate exceeding that of the euro, the yen, and currencies of other emerging Asian economies. From the unification of exchange rates in 1994, the REER appreciated 54.47 percent. In the past two months, the renminbi has appreciated 15 percent against the euro. The ongoing improvement in China's balance of payments demonstrates that the renminbi exchange rate is closer to the fundamentals.

Mr. Chairman, China attaches significant importance to the role of the Bretton Woods institutions. The Fund should give the surveillance priority to the ongoing financial turmoil, deepen its analysis, learn lessons, and listen to the opinions of member countries. In providing a practical and effective guide for the Fund's surveillance and in adapting to global economic developments, the *2007 Surveillance Decision* should be reviewed and revised as soon as possible so that the Fund can determine where the true risks lie, and adopt effective measures to maintain a stable and orderly global economic and financial system. From the medium- and long-term perspective, the Fund must address the inherent deficiencies of the current international monetary system and foster an international financial architecture adaptive to the evolving global economy and financial markets.

As the largest multilateral development institution, the World Bank should re-assess the challenges confronting the developing countries—soaring food and fuel prices, higher financing costs, deteriorating balance of payments positions, and mounting inflationary pressures. With the advantages of its financing capacity and expertise, the World Bank should urge the developed countries to shoulder their due responsibilities in stabilizing the global economy through targeted measures, carried out in an even-handed and professional fashion.

We welcome the World Bank's active participation in the global response to climate change and formation of the *World Bank Group's Strategic Framework for Development and Climate Change*. In accordance with the *United Nations Framework Convention on Climate Change* and the *Kyoto Protocol*, we agree that in carrying out its core mission of poverty reduction and development, and, with no policy conditions attached, the World Bank should vigorously encourage the transfer of low-carbon technologies and provide recipient countries with practical aid in facilitating their response to climate change.

Enhancing the voice and representation of developing and transition countries (DTCs) in the World Bank's decision-making process is an essential component of its governance. Ensuring that all DTCs benefit in the reform process and the ultimate achievement of a 50/50 distribution of voting rights is the most fundamental and important objective of World Bank reforms. With the proviso that existing DTC Executive Director seats are not affected, we support the addition of a Chair for the African constituency, and endorse further discussion on the selection process for leadership of the World Bank in accordance with the principles of openness, competition, and merit.

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

Boris Vujčić

It is my honor to address the 2008 Annual Meetings of the Boards of Governors of the World Bank and the Fund here in Washington D.C. This year stands out as a year in which the Fund undertook important governance and finance reforms, broadly supported by its membership. But, it also stands out as a year in which the landscape of financial markets is being changed, triggered by financial crises in the US market, and a year in which inflation came back. With no doubt, the latter two developments represent a test for the international financial system and add to the Fund's challenging task of promoting the stability of the international monetary system.

Allow me first to outline the major economic developments related to Croatia. Thereafter, I will touch on Croatia's relations with the Fund and the Bank, and finally, I intend to discuss a couple of policy issues relevant for the Bank/Fund business.

Croatia, like other emerging European economies, was faced with increasing inflation rates during the last 12-month period, mainly due to increases in food and energy prices, but also due to demand pressures, given strong private consumption growth, especially in the last year. More than half of the July inflation rate (8.4 percent, annualized) can be attributed to increases coming from food prices, while an additional quarter comes from oil and electricity prices. However, we expect inflation to ease by the year-end, and to come down toward 5 percent. In achieving this, the central bank will continue to rely on exchange rate stability that anchors inflationary expectations, as well as on policies that, on the one hand, restrain excess liquidity in the banking system, and on the other hand contain banks' credit activity within reasonable limits (i.e., on policies that help contain demand pressures and safeguard stability of the financial system). The role of the government also continues to have a paramount importance in curbing inflationary expectations by suppressing any wage demands (within their jurisdiction) that would go beyond productivity gains, which serves as an important signal. It thus helps prevent potential second-round effects (through the wage spiral) on inflation. No doubt, besides the prudent policies on the domestic front, future inflationary path will continue to depend primarily on global developments in food and oil prices. In this respect, we very much welcome the analysis on commodity prices and inflation provided in the coming World Economic Outlook, which gives no reassurance that the price hikes of food, metals and oil that we have been observing in the recent past are firmly behind us.

Ongoing distress in global financial and capital markets, particularly in the US, is not hurting Croatia's banking system, which accounts for three-quarters of the total financial system assets in Croatia, and represents the most important source of funding for the economy. Neither can we see any immediate risks that could arise in the foreseeable future (affecting the stability of our banks). This is so because Croatian banks have not been directly exposed, nor have their parent banks had any significant exposures to the developments in the US. And thanks to the central bank's measures (both monetary and prudential ones) that have helped build solid cushioning elements into the system over the recent past. On the one hand, these measures have restrained excessive credit growth and foreign debt build-up; while on the other hand, they have ensured a build-up of liquidity reserves in the banking system that can help the system in withstanding even the serious international financial market disturbances we are currently witnessing. We observe, though, some indirect effects of the distress on our banks: lending standards tightening and slightly increasing interest rates. But so far, these factors have not been affecting banks' activity in a way that would require the

central bank's reaction. Also, we observe the impact of the distress on the Croatian capital market, but this has a very limited effect on broader economic activity, given the negligible role of the capital market in real economy financing, and even helps in both cooling private consumption and reducing banks' foreign borrowing, as money has started to move back from investment funds and shares into bank deposits.

Against this background, the Croatian economy is in a cooling mode this year; after the last year's very strong growth performance (5.6 percent) primarily fuelled by buoyant private consumption. The economy is expected to grow by roughly 4 percent this year, mainly due to decelerating private consumption and weaker net exports' performance. The budget deficit for 2008 is projected at 1.3 percent of GDP (ESA 95 methodology). The fiscal impact together with the fact that the pensioners' debt repayment scheme has entered into the second stage this year (with lower annual installments paid out to pensioners) will, however, have a far less expansionary effect on the economy this year than in 2007. Nonetheless, current account deficit is expected to deteriorate to -9.7 percent of GDP in 2008, (from -8.6 percent of GDP last year), primarily as a consequence of this year's oil price hikes. External debt, on the other hand, is likely to improve by 1.7 percentage points of GDP, to 86.9 percent of GDP in 2008. An important contribution to an expected relative decline in external debt will come from banks, since banks have been scaling back their foreign liabilities as a reaction to the central bank's measures.

While keeping a close eye on inflationary developments in the recent past, the Croatian authorities have remained strongly focused on external imbalances. In this respect, further fiscal consolidation that should help narrow the domestic savings-investment gap continues to be an objective of the policy stance. Government plans to achieve a balanced budget by 2010. On the monetary and financial fronts, the central bank has been taking new measures and vigilantly improving the existing ones for quite some time now, with a view to protecting the soundness of the banking system and supporting the overriding goal of external debt stabilization. As a result, banks' credit growth decelerated to reasonable levels over the last two years (but at no expense for productive investments), the banking system continues to be well-capitalized and sound, and it is well-positioned to withstand potential macroeconomic shocks of a reasonable magnitude.

Turning to my second point—Croatia's relations with the Fund and the Bank—I first want to stress that Croatia continues to have open and fruitful discussions with both the Fund staff (within the framework of Article IV consultations) and the Bank staff. The Bank has been supporting Croatia in its efforts to intensify structural and institutional

reforms that should make Croatia better prepared for the EU membership through Programmatic Adjustment Loans. In addition, Croatia has benefited from the Bank's investment lending focused primarily on improving social welfare, enhancing economic competitiveness, protecting the environment, improving trade and transport infrastructure, and advancing Croatia's knowledge-based economy.

Croatia has also been actively and intensively participating in a number of the Fund/Bank initiatives aimed at strengthening the architecture of the international financial system. Let me note in this context that in late 2007, the Fund/Bank staff conducted an Update of the Financial Sector Assessment Program for Croatia, which at the outset confirmed the soundness and resilience of the banking system. Also, apart from the ROSCs included in the FSAP, Croatia participated in two ROSCs in the recent past: the ROSC on Corporate Governance and ROSC on Accounting and Auditing. Moreover, in close cooperation with the authorities, the Bank staff is currently performing a Diagnostic Review of Consumer Protection and Financial Literacy. Besides, I wish to thank both the Fund and the Bank for providing us with expertise and technical assistance in specific areas, which is very much appreciated.

Finally, let me touch on a couple of policy issues relevant for the Fund/Bank business. First, regarding the Fund's governance reform package, Croatia supported enhanced voice and participation of low-income countries in the Fund by adopting the relevant Amendment to the Articles of Agreement of the Fund, as well as the second ad hoc quota increase for underrepresented countries based on a new formula this year. Let me note that the new formula has brought much-needed transparency into the quota calculation process, and it also strikes right balance between the size of countries and their openness. However, it failed to deliver simplicity. In this regard, any further work on the quota formula should restrain from including new variables, especially those for which data availability and reliability is questionable. Second, Croatia gave its support to the Fund's efforts to develop a more sustainable income-expenditure framework by accepting the Amendment to the Articles of Agreement of the Fund aimed at expanding the Fund's investment authority. With more degrees of freedom to invest, the Fund has obtained an opportunity to put its own finances on a sustainable path over the medium-term. However, this opportunity requires more responsibility on the part of the Fund, especially in times of financial distress. Third, concerning the Bank, we believe that increasing voice and participation of DTCs, is important for further enhancing the legitimacy, credibility, and effectiveness of the World Bank. We welcome the measures already taken by the Bank to increase country ownership and project communication, and we encourage the Bank to increase its efforts in this

respect. Finally, we are pleased to see that the trend of improved development outcomes from Bank lending continued over the last three years, and that more and more projects are now better meeting their development objectives. Therefore, we see the ARDE as a tool for providing a good analysis of the state of the Bank's program portfolio.

Mr. Chairman, dear guests, allow me in conclusion to thank our hosts for their hospitality and excellent organization of these meetings. Let me also express my appreciation to both Mr. Strauss-Kahn and Mr. Zoellick for their dedicated services to our institutions. I wish the Fund and the Bank success in their future undertakings.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE REPUBLIC OF
ESTONIA, ON BEHALF OF THE NORDIC-BALTIC COUNTRIES

Ivari Padar

I am honored to address the 2008 Annual Meeting on behalf of the eight Nordic and Baltic countries—Denmark, Finland, Iceland, Latvia, Lithuania, Norway, Sweden and Estonia. Our constituency strongly believes that the World Bank Group plays a crucial role in the fight against poverty and in the achievement of the Millennium Development Goals. We truly appreciate Mr. Zoellick's work as the President.

Today, I will mostly focus on gender issues that are very important. I will also talk about the needs of Africa, especially the fragile states, the World Bank's role in the Climate Change agenda and the importance of private sector development. But let me commence by saying a few words about the changing global economic environment.

Crisis in the financial markets, global slowdown and increased commodity prices that have led to high inflation, concern us all, not least the poorest countries. This changing external environment stresses the need for strong multilateral institutions to stand ready to play a counter-cyclical role. Indeed, the first priority for the use of IBRD and IFC capital must be preserving their ability to respond fast to potential increase in demand from client countries and companies. We all must remain committed to the long-term development agenda, regardless of the present events. Despite the current financial crises we encourage all donors to fulfill their commitments as agreed in the Monterrey Consensus, including the 0.7 percent of GNI to ODA; and also the full

financing of the Multilateral Debt Relief Initiative and the Heavily Indebted Poor Countries initiative.

We strongly believe that in order to meet the Millennium Development Goals, it is of vital importance to enhance our efforts on two overarching issues, namely gender equality and climate change. As we all know, the aspect of gender is undeniably interlinked with all the development issues. Economic empowerment of women pays off and has a large impact on private sector development, health issues, child and maternal mortality, education and more.

The World Bank has estimated that it takes a doubling of resources in order to achieve the Millennium Development Goal number 3 on gender equality. With President Zoellick's six very concrete commitments to the gender equality and the timely implementation of the Gender Action Plan, the Bank is beginning to show a leadership in placing women at the center of development. We expect to see this important political leadership translating soon into sufficient resource allocations.

We are happy to note the World Bank Group's increasing involvement in Sub-Saharan Africa, and especially in the fragile states. Fragile states are often plagued by violence, conflict and instability. In such situations, the women and children are suffering the most. These groups are also often excluded from processes and efforts to overcome conflict and violence. We have an obligation, as donors, to give specific attention to the needs of these vulnerable groups.

We commend the Bank for taking on an active role in combating climate change whilst underscoring the leadership role of the United Nations Framework Convention on Climate Change in the climate negotiations. The World Bank Group is well positioned to successfully address climate change challenges over the long-term, including partnering with developing countries in order to help them to establish and execute climate sensitive development policies. However, the social dimensions of climate change cannot be ignored. The climate change impacts often differ by gender and we believe that the Bank's regional and sector strategies must adequately address it.

The role of the private sector as an engine of growth is well-known. In order for the private sector to successfully contribute to national development policies, institutions and regulatory frameworks are essential. We encourage the IFC, in close cooperation with other World Bank institutions and donors, to continue to pursue private sector development in the most difficult environments, in particular to Africa. The IFC and other donors play an important catalytic effect; and should continue investing in countries and sectors where the private sector otherwise would not.

We welcome the Bank's increased attention on the role of women in business. The Doing Business Report illustrates numerous obstacles, limitations, and discriminations that still exist against women in many developing countries. These are not only obstacles to women, but obstacles to development and economic growth. We commend the staffs of the World Bank and IFC for their ongoing work in developing the Gender indicator for Doing Business. We believe it will initiate debate and bring the much-needed attention to the regulatory issues confronting women entrepreneurs. The partnership between the World Bank and the Nike Foundation on the Adolescent Girls Initiative is another excellent example, supported by many countries in our constituency. We hope to see an increasing World Bank cooperation with the private sector also in terms of more strategic Corporate Social Responsibility and the economic empowerment of women. Our constituency will continue to work actively with the Bank on these matters.

The World Bank is a dynamic institution. This character allows its clients to fully benefit from the Bank's services. As they develop, former clients can take on more responsibility. Our constituency is a good example of this—all the Baltic countries have now graduated from IBRD client country status and are gradually joining the donor activities, where our Nordic neighbors have already set an impressive standard in delivering up to ODA targets and even exceeding them substantially.

Mr. Zoellick, on behalf of our Nordic-Baltic constituency, I would like to thank you for your dedicated leadership of the World Bank Group and wish you success for the years to come.

STATEMENT BY THE GOVERNOR OF THE BANK FOR FIJI

Peceli Vocea

Mr. Chairman, it is indeed an honour to address you on this annual meeting of the International Monetary Fund and the World Bank, on behalf of the government of Fiji. Hon. Zoran Stavreski, I offer you my congratulations on your appointment to chair this joint annual meeting.

The international economy has been beset with a series of challenges in the past year that has raised uncertainties on many fronts. Many advanced economies face recession whilst growths of emerging market economies are slowing down. The spillovers of the crisis including weak external demand, persistent inflation and tight credit

conditions have become apparent and dim any hope of a quick turnaround in global growth.

Mr. Chairman, the crisis unfolding in the financial markets is of historic proportion. The problems beginning with the sub-prime mortgage markets more than a year ago, have reached unprecedented levels. It is evident that problems and risks taken on by financial institutions were veiled by huge corporate profits. With financial globalisation, the turmoil on Wall Street has serious implications for the rest of the world, as systemic risks have the potential to ignite a global credit crunch.

The fact that countries have taken a comprehensive approach to relieve the stress on their financial institutions and markets indicates that the financial crisis has now become a global problem. The systemic nature of the crisis calls for extraordinary or even unorthodox measures to calm the markets, restore financial stability and improve confidence. At the same time, we caution that these measures be carefully designed to avoid stifling proper functioning of market mechanisms and themselves being sources of risks. Furthermore, the financial regulatory architecture needs to be modernised and sound risk management practices developed so as to avoid a repeat of such a massive global financial catastrophe in future.

Small and open economies like ours are deeply concerned about the financial market events, which no doubt will have wide-ranging impact on us. It adds to the already precarious situation we face in managing the risks related to commodity price increases. Policy making as a result, has become more challenging with the trade-off between inflation and growth whilst ensuring financial stability is at the forefront of policy makers' consideration. As such, the current crisis calls for more urgency in strengthening surveillance.

Mr. Chairman, the series of crises that we have seen lately raises a lot of questions about the vigilance of the Fund and the Bank. In this regard, we wish to emphasize the following. Firstly, it is important to enhance the surveillance of advanced and systemically important economies. It is evident from the crisis that there may have been oversight on this front that has now proven disastrous. Secondly, the advanced and systemically important economies should also be included in the vulnerability exercise. Thirdly, the Fund should be more holistic in its exchange rate assessment. In addition, we believe that in implementing the 2007 Decision, the Fund should focus on the broad macroeconomic picture and policy mix with due consideration of a country's specific and unique circumstances in determining the appropriateness of a member's exchange rate.

Mr. Chairman, the Bretton Woods institutions have a responsibility to cushion the effects of the fuel and food price increases on member countries. Quick action by the Fund and the Bank in analysing the impact of these price increases on low and low-middle-income countries, as well as the provision of funding assistance is acknowledged in this regard. To the Fund's credit, the provision of useful analysis and policy advice to the members through flagship reports such as the Global Financial Stability Report and the World Economic Outlook have been useful. We also welcome the flexibility exercised in the recent modification of the Exogenous Shocks Facility. On the Bank side, we appreciate the progress made in implementing the Global Food Crisis Response Program to support countries that have been severely affected by the increase in food prices. We also look forward to a similar response program to assist countries mitigate the impact of high fuel prices.

Nevertheless, I believe more can be done and I am certain that members would prefer much swifter action by the two institutions during difficult times. As such, we urge the Fund and the Bank to be more flexible during adverse global developments. A review and reform of funding instruments within the Fund and the Bank may be necessary and would be welcomed.

Mr. Chairman, Fiji has been affected by the hikes in food and oil prices, but more severely by high oil prices given our heavy dependence on imported fuel. Recent surveys conducted by the Bank attest to this. Our authorities have implemented measures to counter the impact of the high prices on sections of the population that have been most affected, but we submit that these measures can only provide short-term relief.

As such, we appeal to the Fund and the Bank for technical as well as financial support to alleviate the effects of high commodity prices on small and remote island countries like Fiji. In line with its mandate, we call on the Fund and the Bank to provide assistance in the form of budgetary support that can create the fiscal space and allow Governments to strengthen social protection programs for the most vulnerable. To improve energy supply, we seek the Bank's assistance in providing affordable financing and technical advice for projects that support viable long-term energy solutions. In this regard, we call on the Bank to review its position on the financing of a key renewable energy project in Fiji.

Mr. Chairman, poor and developing countries are more susceptible to the impact of climate change, and hence, will bear a bigger burden of the adaptation and mitigation costs. As a result, rehabilitation costs of climatic events are sometimes met at the expense of planned developmental programs, which add pressure to government finances. In this regard, we fully support the call for developed countries to take urgent action in contributing to the mitigation and adaptation costs of

developing countries. Contribution of financial resources must go beyond the existing envelope of donor assistance for mainstream developmental programs. The World Bank's proposed strategy for climate change provides clarity on its role in expanding financial products and incentives, as well as in building collaborative relations amongst countries. However, the Bank must ensure that its products and programs for climate change take into account the special needs of member countries, particularly those most vulnerable.

Mr. Chairman, reforming the World Bank's governance structure is vital to the legitimacy and long-term viability of the institution. As such, we feel the Bank's unique mandate should be appropriately featured in the reform process. We note the progress made in the last few months and we support the proposed increase in basic votes to enhance the voting power of developing and transition countries. We also support the establishment of a third Executive Director for the Sub-Saharan African region. In our view, the geographical size and needs of the region justify the need for an additional chair to contribute to Board effectiveness and the Bank's operations in Africa.

Mr. Chairman, allow me to provide an update on recent developments in Fiji. Given our current situation, we are aware that a clear and predictable plan for restoring democracy that is supported by the international community would be an important part of re-engagement. In this regard, I wish to assure you that the Interim Government continues to have effective control over the country. Peace and stability is maintained whilst positive progress towards democratic elections is being made. The population census is completed, a new supervisor of elections has been appointed and the election boundaries are being reviewed. Combating corruption and promoting good governance remains high on the agenda of the government. We are also in the process of finalising a Draft People's Charter that aims to set a platform for broad political and social reforms. All these efforts are geared towards a return to democratic rule. The recent court decision which was in favor of the current Authority will help fast track preparations for the upcoming elections and we hope that it will also facilitate full re-engagement of the Fund and the Bank with Fiji.

Fiji's domestic economy is on the mend following a severe economic contraction in 2007. A modest growth is expected this year and in the medium term. There are encouraging signs in some sectors, including a rebound in tourism and resumption of gold mining. But challenges remain in terms of raising investments and lifting our exports that would strengthen and sustain growth going forward. Managing inflation is equally critical in our efforts to maintain international competitiveness. Whilst the increasing commodity prices have made this

task difficult, closer coordination between our monetary and fiscal policies will ensure that inflation remains in check.

Mr. Chairman, both fiscal and monetary policies have remained tight and domestic demand has been managed through controls. The resultant stability of the financial sector and reserves levels is testimony to the effectiveness of unconventional methods when the situation demands. However, we will reverse these controls when the situation improves, following regular reviews of their effectiveness. Fiscal consolidation has also seen our deficit and debt levels reduce since 2006, with plans to bring them down further. Mr. Chairman, despite the many odds stacked against us, Fiji has always honoured its debt and major obligations.

Fiji's financial system remains robust and is currently insulated from the international financial markets meltdown. We are progressively implementing the findings of the FSAP to strengthen our supervisory and regulatory capacity, and enhance the ability of the financial system to withstand shocks. Furthermore, Fiji has just concluded an Article IV Mission and the results are awaited with enthusiasm. As always, we are appreciative of the policy advice and discussions such Missions generate.

Mr. Chairman, fuel accounts for about a quarter of our import bill and is a drain on our reserves. Demand management is now an important policy aspect for controlling our dependency on fuel and its derivatives and to promote increased efficiencies in our use of these products. Similarly, we are pursuing a number of initiatives to secure alternative sources of energy to reduce our dependency on fuel imports.

Mr. Chairman, we appreciate the rationale behind the Fund's reforms relating to charging Technical Assistance, however, the fact remains that for some, TAs and training are the most tangible benefits we derive as members. The process of applying and seeing the TA through is also taxing on members in terms of time and personnel. As a beneficiary of such technical assistance, Fiji expresses concern that charging for technical assistance may hinder capacity and institutional building in low and lower middle-income countries, even with the system of differentiated charges in place. We are comforted with the reassurance that if ineffective, the charging policy will be reversed. Nevertheless, Fiji acknowledges the technical assistance that the Fund and the Bank have provided over the years. We also appreciate the work done by the IMF Pacific Technical Assistance Centre in Suva and the World Bank Regional Office in Sydney in assisting Fiji and other Pacific Island countries.

At this point, I would like to reiterate Fiji's request for a full re-engagement with the Bretton Woods institutions. As Fiji continues to make concerted efforts towards democratic rule, we believe our

development objectives could be achieved faster with the support of the Fund and the Bank through the provision of affordable financing, particularly, in the face of the current global crisis.

Finally Mr. Chairman, we wish both institutions well in their future endeavours and we look forward to your continuous engagement.

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

Christine Lagarde

In this uncertain period with regard to the macroeconomic and financial conditions, the role of the international institutions as cooperation fora, at the forefront of which the IMF and the World Bank, is more essential than ever. The IMF, under the leadership of Dominique Strauss-Kahn, has continued to apply its ambitious reform agenda that we fully support. The agreements found between Member States in the first half of this year on the reform of the IMF quotas and voting shares on the one hand, on the new income model on the other hand, were great achievements. A similar agreement has been reached at the World Bank and provides for enhanced legitimacy and effectiveness of the institution, consistently with its core mandate.

One year after the triggering of the financial turmoil, no one can contest that the most urgent obligation falling within the responsibilities of public authorities is to restore confidence in financial markets and more generally in the International Monetary System's resilience. In my opinion, the current international conditions make necessary that strong political guidance in the functioning of international institutions be ensured and that cooperation among international institutions and among national authorities be strengthened.

Maintaining strong guidance for both the IMF and the WB with clear objectives and effective instruments is key

The IMF and World Bank have firmly improved the response to their members' changing needs and to tackle the new challenges posed to the global economy in the 21st century.

Among the first lessons that can already be drawn from the current financial crisis is that international stability is indeed a global public

good. Therefore, decisive actions have to be quickly taken to coordinate the different responses convened to mitigate the current financial crisis and prevent future crises to arise. The IMF, with its universal membership, should play its entire role over these issues, and contribute to set up a comprehensive approach aiming at strengthening our international financial system.

Strengthening surveillance should therefore be on top of objectives. In that respect, we welcome the strong focus held in the Triennial Surveillance Review and the Statement of Surveillance Priorities on better integrating financial sector and macroeconomic stability issues and strengthening the analysis of cross-country issues, which clarify IMF's objectives and are a necessary and timely first step in the adaptation and the reinforcement of the role of the IMF in terms of surveillance. Likewise, we look forward to the effective implementation of the 2007 Surveillance Decision over members' policies, while acknowledging the need to ensure even-handedness and the fact that the assessment of external stability should not be restricted to exchange rate developments.

Moreover, another priority should be to adapt IMF instruments to new types of crisis and evolving members' needs. We want to underline here that the global review of IMF lending toolkit must consider simultaneously the different axes as set out by the Managing Director. First, an extensive review of the analytical framework must be undertaken so as to address gaps and overlaps in the toolkit and IMF mandate. In this respect, we agree that the IMF lending framework should be streamlined. Second, we urge the IMF to consider as a priority to put in place a crisis prevention facility aimed at emerging economies, given the risk of the crisis spreading to emerging countries. Third, in order to preserve the crucial involvement of IMF in low-income countries, we welcome the modifications to the Exogenous Shock Facility towards more rapid access and streamlined conditionality. The revised ESF will provide in complement with the poverty reduction and growth facility a full set of adapted instruments to those vulnerable countries the IMF must assist as part of its mandate. Fourth and lastly, the charge and surcharge and access-level policy must be re-examined. As per access-level, we need to take into consideration the significant growth of many emerging economies.

As the World Bank has also increasingly been called on to respond to emergency situations, its policies and processes were developed to meet broader circumstances. The World Bank's new framework for rapid response to crises and emergencies that has been initiated in 2007 gave keys in particular to address engagements in fragile states. This move has been maintained by addressing with strong commitment the global food crisis, by continuing to implement a reformed HR policy providing

greater incentives and protection to the staff working in fragile countries and by concluding a fiduciary principles agreement with the United Nations, but it could be enhanced further to improve flexibility, speed and effectiveness. Mitigating the impact of high food and oil prices leads to complement existing financial instruments. In particular, we encourage the World Bank to work on two issues: first the creation of rapid response facilities providing budget support to poor countries facing exogenous shocks complementarily to the reform of the Exogenous Shocks Facility as already considered by the IMF; second the implementation of innovative lending instruments to reduce countries vulnerability : in this respect, a new lending policy could take into account the borrowing space opened by HIPC and MDRI initiatives and study the possibility of implementing concessional counter-cyclical loans.

Moreover, the efficiency of our institutions and their capability to tackle new challenges have to rely on renewed governance, as far as legitimacy is a key issue to strengthen our policies and decisions. The actual outcome of the quota reform has contributed to the enhancement of the IMF governance and provides for a relevant starting point for the World Bank, which has to maintain momentum after the important agreement reached yesterday. The agreed package represents a significant step forward to further increase the legitimacy, credibility, and effectiveness of the World Bank. Although a more ambitious reform package for Sub-Saharan Africa would have been preferred by the French authorities, the additional chair for Sub-Saharan Africa is welcome and will enhance the voice of the poorest countries at the board ; in addition, their voting power will significantly increase both in the IBRD and the IDA; and the selection process for the President of the World Bank Group, genuinely merit-based, transparent and open to candidates irrespective of nationalities, is a welcome step.

Cooperation among international institutions and national authorities is key for restoring confidence and ensuring the proper functioning of the international monetary and financial system.

Appropriate cooperation and coordination is key in period of turmoil in a global system in order to restore confidence while avoiding overlapping.

The IMF contribution to financial stability is essential thanks to its universal membership, its global vision allowing in-depth analysis on the interlinkages between real and market developments and the combination of multilateral and bilateral perspectives.

The implementation of the Financial Stability Forum's recommendations should help solve many of the failures that the turmoil has revealed in risk management, the functioning of financial markets and the supervisory framework. At the EU level, authorities are committed to fully and swiftly implement the FSF recommendations.

While implementing those recommendations is urgent, there is also a need to further develop coordination between financial institutions, notably between the IMF and other international financial institutions such as the FSF, through joint initiatives and continuous information sharing. As we agreed in our IMFC session, the Fund shall focus discussion, and enhance cooperation, with a wide range of perspectives with the FSF, the G-20, and others on this issue in an inclusive setting. It will need to start this initiative immediately and to report to at the latest at our next meeting. Likewise, based on the close interrelations of national financial markets at the global level, the IMF, along with the G-20, is a very good place for associating all countries in implementing the recommendations that were issued on the international scene and targeted primarily to the more advanced countries.

As for the World Bank, we plead for a strategic review of the Bank Group's operations that would highlight its comparative advantages, but also areas where other development institutions should lead the international community.

Eventually, relations and coordination between the IMF and the World Bank are to be strengthened, especially as regards the lending policies to middle-income countries. Stronger coordination is a key issue for insuring a global and consistent response to crisis. This issue calls for a clear vision regarding the respective roles of the IMF and the World Bank. We have to address the question of the limit of their respective actions and the complementarities of their operations.

To conclude in a few words, the role of the IMF and the World Bank is more essential than ever for ensuring international macroeconomic and financial stability. At the same time, the current conditions further underline the need for continuing implementing their reform agenda. The cooperation between the IMF and the World Bank has always been a core issue for France. I wish it will be strengthened in order to enable both institutions to further develop their legitimacy and their effectiveness. It will allow them to play a central role in building a sounder financial system.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR OF THE FUND
FOR GERMANY

Hermann Remsperger

At the current juncture, restoring the stability of the financial system must be a top priority for policymakers around the world. We should continue to cooperate closely to this end. We commend the U.S. administration for its resolute efforts to reduce stress in the U.S. financial system as the epicentre of the current crisis.

The European Action Plan of the euro area countries—set up this Sunday—facilitates the funding of banks, allows for an efficient recapitalisation of banks and ensures sufficient flexibility in the implementation of accounting rules. These unprecedented measures reflect the severity of the crisis and the willingness to restore confidence and the proper functioning of the financial markets.

In the longer term, fundamental questions of financial regulation must be addressed at an international level in order to enhance the resilience of the global financial system. In this context, the ongoing initiatives to globally implement the recommendations of the Financial Stability Forum are welcome and must be sustained.

Given its unique mandate and expertise, the Fund has an important role to play in supporting policymakers with its advice and expertise in these times of financial stress.

Fund surveillance has benefited considerably from efforts to strengthen the multilateral perspective and financial sector analysis. These efforts must be sustained, along with more candid and systematic risk assessments. The Fund should also continue its close cooperation with the FSF and help members implement the lessons drawn from the financial crisis.

In our view, the Fund's lending framework has proven effective and flexible enough in the past to support members in need. We are confident that this will continue to be the case. Some improvements to the tool-kit, such as a new pure signalling instrument for middle-income countries, should nonetheless be envisaged. The lending framework must, however, remain firmly based on the Fund's fundamental lending principles. These include in particular the concepts of conditionality, balance-of-payments need, and the exceptional access criteria. They are essential to safeguarding the Fund's resources and they have not hampered the provision of financial support in times of crisis.

We welcome additional efforts to further strengthen the governance framework. There is some room to further raise the efficiency and efficacy of the Fund's main bodies of governance. However, their respective roles and responsibilities, as laid down in the Articles of Agreement, continue to serve the institution well. We are therefore opposed to fundamentally alter this balance.

The financial crisis will dampen growth in many developing countries. This comes on top of the burden imposed by high food and fuel prices. As many of the poorest countries will suffer most from high commodity prices, rapid and workable solutions are called for. We therefore warmly welcome the "Global Food Crisis Response Program" of the World Bank. We also appreciate the "Energy for the Poor Initiative." It is an effective mechanism to deal with the high vulnerability of poor countries.

Climate change will impede developing countries' ability to eradicate poverty. It is therefore crucial that the International Financial Institutions, within their respective mandates, help find effective and efficient ways of reducing greenhouse gas emissions and mitigating the consequences of climate change. We are pleased to see the recent establishment of the Climate Investment Fund as an important step in this context.

Germany has committed about US\$900 million to the Climate Investment Fund. We expect the World Bank to play a major role in mobilizing financial resources to contribute to poverty alleviation and economic growth in the context of climate change.

As to the Voice agenda, there is now a solid basis for reaching an agreement on enhancing the participation of all developing countries and countries in transition. The Voice reform should take into account results of the IMF reform. We welcome the additional chair for Africa in the World Bank board. And we also welcome the broad consensus to increase basic votes as this will serve best to provide increased weight for smaller countries.

Going forward, we believe that a selective capital increase is an appropriate way to ensure that dynamic emerging countries are adequately represented. A meaningful voice reform should also lead to improved participation in formulating and implementing World Bank programs and projects.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GREECE

George Alogoskoufis

The global financial system is facing severe problems, which require urgent and exceptional global action.

We must continue working together to restore confidence, ease the flow of credit, recapitalize the banking sector, and support global economic growth.

The financial crisis is taking its toll on global growth. All regions of the world have been affected, including the euro area economy.

The recent communiqué by the G-7 Finance Ministers and Central Bank Governors suggests a roadmap that will help stabilize financial conditions—if fully implemented. A similar roadmap has been decided for the EU by the latest ECOFIN Council and the recent Euro area summit.

Policy makers in the EU have agreed to closely coordinate the implementation of decisions to address the financial turmoil as well as the flexible application of the rules of the Stability and Growth Pact.

Greece is gradually experiencing the impact of the financial crisis although developments so far suggest that the Greek economy is showing greater resilience than many other European economies. This is indicated by Greece's relatively high growth rates and falling unemployment. In the first half of 2008, growth in Greece reached 3.5 percent compared to 1.8 percent for the Euro area economy. The Greek financial system also displays greater resilience. However, there is no room for complacency. Fiscal consolidation and the structural reforms agenda followed since 2004 will continue. This is the best shield in the light of the worsening global economic climate. At the same time, Greece is taking measures to sustain the soundness and credibility of its financial system.

With its internal reform nearing completion, the Fund is appropriately focusing on helping members meet global economic challenges. The unprecedented nature of the global financial crisis has created new policy challenges for the Fund and underlined the need for deeper analysis of macrofinancial links and spillovers. We welcome the new initiatives that are being undertaken.

Developing and transition countries (DTCs) make a positive contribution in the current international environment. According to the Fund, the expected growth in the global economy is almost solely due to the developing world as advanced economies are expected to remain

virtually stagnant. However, the financial crisis and the high oil and food prices create additional problems for the developing world.

The role of the Bank becomes even more significant in these difficult times. Recognizing this, Greece has doubled its burden share in IDA-15.

In this difficult juncture, we should all coordinate to restore confidence in the international financial system, continue supporting the developing and transition economies, and pursue coordinated policies to facilitate a global recovery. I am certain that we shall all rise to the task at hand.

STATEMENT BY THE GOVERNOR OF THE BANK FOR HAITI

Daniel Dorsainvil

It is a pleasure for me to echo the sentiments of my colleagues who preceded me at the podium in congratulating, on behalf of the Haitian delegation, the Secretariats of the Bank and the Fund, for the unequivocal work done to ensure the success of this year's Annual Meetings of Governors, as they have done in previous years.

One year ago, we were able to view the future, at least the near future, with a certain degree of optimism. Of course, we could not, and did not, anticipate the various shocks with which we have been hit during the past fiscal year, namely, price hikes, a food crisis, five months of political uncertainty, a succession of natural disasters that have had a devastating effect on several regions in our country and, at the moment, the financial crisis. Faced with these shocks, like many other countries, we have had to revise downward our growth objective for the year 2007–2008, from 4 percent to 1.5 percent.

Last year, while we could not have seen all that lay ahead, in congratulating Mr. Dominique Strauss-Kahn on his new position, we did emphasize the importance of reforms in the context of the role of the Fund in low-income countries. Furthermore, while commending the decision of the World Bank Group to allocate US\$3.5 billion to the poorest countries, we stressed the need to review the criteria for granting resources to post-conflict countries, given that access to resources based on past performance is punitive.

Last year, we expressed regret over the fact that the damage sustained by Jamaica as a result of Hurricane Dean had brought to the

fore the existence of conditions and criteria that are impeding disbursement of resources under the Caribbean Catastrophic Risk Insurance Facility. The partial assessment of the catastrophes in Haiti points to close to 800 deaths, 310 missing persons, approximately 200,000 families affected by the disaster, and damage to 110,000 homes. This year, we are expressing the same reservations, in even stronger terms, with regard to our situation. That said, we wish to express our gratitude to the Bank and Fund, as well as to all partners here present, for the support shown to my country when it was put to the test.

While we view reform of the IMF's Exogenous Shocks Facility as a step in the right direction, we deem it inadequate. We reiterate our call to strengthen the reforms pertaining to the Fund's role in low-income countries. More specifically, we call on the IMF to take the steps necessary to ensure that low-income countries continue to benefit from the full amount of technical assistance they require. This concern is justified by the new contribution policy of member countries to financing assistance in this area.

We are cognizant of the Bank's efforts to boost available resources for Haiti. However, given the challenges that we have to tackle, we must point out that an IDA allocation of US\$70 million over a three-year period remains small in relation to our work in the areas of development and poverty reduction. At this juncture, we reiterate our call for additional resources.

The tremendous loss of human life and physical capital heavily undermines growth and poverty reduction and leads to greater financing needs. We must provide urgently needed assistance to victims, rebuild our infrastructure, safeguard our environment, rebuild our capital, and restore our productive capacity to pre-disaster levels. National recovery and reconstruction efforts are being curtailed by the paucity of domestic resources. The Government recently managed to mobilize resources on the order of US\$200 million to begin the recovery process. However, the reconstruction effort requires much more resources. With the assistance of the World Bank, the European Union, UNDP, IDB, and other partners, we have undertaken a needs assessment process, which should soon allow us, in light of recent events, to adjust the sectoral action plans of our Growth and Poverty Reduction Strategy (GPRS). Haiti maintains a committed and steadfast position with respect to medium- and long-term objectives in the areas of development and governance.

Notwithstanding these many shocks, Haiti continues to implement the reforms undertaken in the context of its financial program supported by the Poverty Reduction and Growth Facility (PRGF), and is making strides toward achievement of the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. Fiscal Year 2008–2009,

which started this month, marks the third year of the PRGF, and we expect to reach the completion point in 2009. However, the challenges are daunting.

The Government nevertheless intends to forge ahead with the reconstruction of the country and is calling for the support of its partners to successfully carry out this undertaking.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ICELAND, ON BEHALF
OF THE NORDIC-BALTIC CONSTITUENCY

Arni M. Mathiesen

I am honoured to address the 2008 Joint Annual Meetings on behalf of Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Sweden and Iceland. Let me begin by thanking the City of Washington for its usual warm welcome.

The world economy and financial markets are put to the test

The outlook for the world economy is more challenging than it has been for some time as the financial sector in advanced countries is in turmoil.

One of the key foundations for long-term sustainable growth is a strong financial system. Conditions in international capital markets have changed significantly since the last Annual Meetings. The current environment has proven difficult for financial institutions, as the credit and liquidity squeeze continues to bite and assets are being written off. It is quite evident that risk was not priced appropriately over the past few years. The repercussions are bound to stay with us for some time.

Cycles are a familiar characteristic of human nature—and indeed, of nature itself. Yet, there is always the conviction that “this time it will be different.” Then, when the tables turn, there comes the realisation that finding a solution to the problems of the last cycle, so as to prevent the next one, is never easy. However, let us hope that the latest experience will result in more forward looking policies and effective regulation of the financial sector to control risk and to reinstall confidence. We must also seek to ensure that changes in business practices do not reduce transparency. Moreover, efforts must be made to breathe life into

interbank markets and thus to reduce what has become excessive reliance on central bank financing.

I would like to highlight two issues of importance in the current situation: namely, the lack of transparency in certain sections of the financial markets and the emergency powers of authorities.

The global economy has seen a significant rise in over-the-counter (OTC) transactions. The main purpose of OTC instruments has been laudable; that is, to hedge risk and facilitate trade and increase depth in financial markets. The OTC markets are useful as such, and, during normal times when liquidity was ample, they were quite effective. However, the OTC markets are opaque, and because of the lack of transparency of credit derivatives and the false sense of security they engender, including that provided by rating agencies, they have become a risk in themselves. Improvements should be made in market making practices in the OTC markets. The markets need to become more transparent, information sharing should be increased, and players in the markets must become more aware of the risks involved. Policy makers need to have a better oversight of these markets in order to have the appropriate policy tools to deal with adverse developments.

Financial institutions are experiencing difficulties. Some have gone under, others been rescued. The liquidity facilities of central banks and contingency plans of authorities are being put to the test. There is good reason why authorities have processes in place to address situations that can jeopardise the stability of the financial system—and hence the economic welfare of nations. Because of assumed public support and contingency mechanisms, some market participants have not appropriately priced risk. Thus there is moral hazard which requires moderation. Policy makers should revisit the ideology behind emergency powers, as it was originally based on more contained risks, within balance sheets, and a clearer separation between commercial and investment banking.

As many countries are feeling the effects of slowing economic growth and distressed financial markets, it is of great importance that authorities demonstrate strength and that central banks, financial supervisory authorities, and governments cooperate effectively in these challenging times. Words must be matched with action. Strong collaboration and candid dialogue with financial institutions will be vital. The International Monetary Fund can play an important role in the current environment, especially in its role as a confidential advisor in its financial surveillance capacity.

The policy response to the current economic environment is challenging and policy makers should take the threat of inflation seriously. Experience has shown that inflation expectations are difficult

to tame once they become entrenched. We must stave off this threat: the social cost of inflation is too great for us to do otherwise. At this point, there are signs that inflation expectations are becoming unhinged and we have yet to see the potential second-round effects from the surge in commodities prices. Therefore, policy makers worldwide must monitor inflationary pressures closely and respond accordingly thereby supporting sustainable growth and employment.

Low-income countries have shown strength, but more challenging times lie ahead

In recent years, there have been positive developments in many low-income countries. Economic growth has been robust, debt ratios have fallen, and trade has increased. However, there are signs that more difficult times may lie ahead, *inter alia* due to the financial sector turmoil in advanced countries.

My constituency believes that the Fund should continue to be engaged in low-income countries; however, the focus needs clarification to be more effective. The future engagement with low-income countries must remain within the Fund's mandate. The main emphasis should be on macroeconomic issues and temporary concessional lending. The Fund has extensive experience in this field. Its emphasis should be on areas where it has a comparative advantage. Areas beyond its expertise should be left to others.

Reforms of the Fund will pay off

The Fund has been undergoing a significant transformation over the past few years. We believe it has been successful in adjusting to new circumstances.

The Nordic-Baltic Constituency believes that, for the Fund to be effective in the global economy, adequate and fair representation of all members must be ensured. We are especially pleased with the tripling of basic votes, as this action represents an effective way to increase the voice of low-income countries and small states. We place special emphasis on voice in this context and broad-based representation of the Fund's members in the Executive Board is important. Another important matter—and one that we think would further enhance the legitimacy of the Fund as a global institution—is a reform of the criteria and procedure for the selection of the Fund's senior management.

In closing, the result of the Doha round was a disappointment for the global economy. We should reopen the discussions and seek to bring them to a prompt and successful conclusion.

As I have underlined, these are challenging times, but while the economic slowdown is underway, policy makers have been responding, and there will be self-correcting features in the global system that will contribute to easing the adjustment that lies ahead. In facing these challenges it will be imperative that the international community works in partnership.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK, ON BEHALF
OF GOVERNOR OF THE FUND AND THE BANK FOR INDIA

Ashok Chawla

We meet in Washington at a time when the global economy is under severe strain. The financial sector turmoil that originated in the U.S is now unfolding into a full-blown crisis across many developed economies and possible spillovers to rest of the world. Inflationary pressures arising out of elevated food and fuel prices have not yet fully subsided. The recessionary trend is slowly becoming a reality. After five years of high growth, the world economy is now on a sharply decelerating trend. More than 100 million people may have slipped back into poverty, and our efforts to eliminate poverty have suffered a setback by about seven years.

Nevertheless, crises do give us an opportunity to quickly take stock of what went wrong and to act in a concerted fashion—not just to alleviate the immediate effects of the crisis, but also to create a better world especially for its poor.

Global Food Crisis

The global food crisis is not a natural catastrophe. It is man made. The fall in world cereal production, low food stock levels, and crop diversion for the bio-fuel sector have played a major role. Add to these, the role of speculation and financialization of commodities, and we have an unprecedented crisis.

Some laudable international efforts are underway. However, we need urgent action on rationalizing the biofuels policy. We should also quickly reach agreement on removal of agricultural subsidies; arrive at a successful conclusion of the Doha Development Round; and create the conditions for a more efficient and fair global food trade.

The Financial Crisis and the Role of IMF

The current crisis and the attempts at its resolution have raised a number of concerns. In developed countries, risk management and supervisory practices have lagged behind the pace of financial market innovations and new business models. I am afraid there will be substantial fiscal costs with attendant implications.

The Fund's principal mandate is to provide the global public good of financial stability. The Fund attempts to deliver this mandate through two key tasks assigned to it—surveillance and providing the comfort of readily available financing to members. Separate efforts are already underway in several fora. It would be more appropriate to organize the fragmented efforts on a global scale under the inclusive umbrella of the IMF.

Voice Reform in the World Bank Group

The ongoing Voice and Participation reform process at the Bank is a great opportunity to make a far reaching reform of its governance structures so that it continues to play a vital developmental role in global economic affairs.

We strongly support and call for immediate implementation of an additional Board seat for Sub Saharan Africa. However, we feel that the proposal approved yesterday on the important dimension of 'Voice as voting power and shareholding' has failed to live up to the promises made at the Spring Meeting of 2008.

While in the interest of consensus, we agreed to the proposals at the Development Committee yesterday, we believe that the efforts now to be made on realignment must lead to substantial and effective enhancement of the **individual** as well as **collective voice of DTCs**.

Development and Climate Change

We emphasize that issues relating to finance and technology are fundamental to the success of any global strategy to address climate change. New and additional resources that do not detract from the ODA must be provided by the developed countries. It is equally important to transfer clean, environment friendly technology to the developing countries at affordable prices.

The basis of international cooperation on climate change lies in the UNFCCC principle of "common but differentiated responsibility and respective capability." There is no escape from the reality that emerging and developing countries will consume more commercial energy. India is committed to evolve and pursue a strategy of environmentally

sustainable development. We have formulated our National Action Plan on Climate Change and are committed to ensure that our per capita carbon emissions will never exceed the average of the per capita emissions of developed countries.

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

Boediono and Sri Mulyani Indrawati

We are meeting at a time of great challenge and risk in the global economy. The global financial crisis, rising commodity prices, and a considerable slowdown in global economic growth, are presenting unprecedented challenges in the history of global economy. As this is a global crisis, we need a global solution. We believe that given their mandates, the International Monetary of Funds and the World Bank must play the leading role in the crisis resolution, provide guidance on the appropriate policy responses, and reshape the works to better assess and prevent future crises.

Global Economy and Financial Market

The slowdown in the global economy continues to deepen, with the slow growth in both advanced and emerging economies. Risks to growth are firmly on the downside, particularly if the financial conditions should deteriorate further and that financial strains would be more intense. Emerging economies are increasingly affected by the spillovers from financial and economic stress in advanced economies, with clear signs of decelerating economic activity and continuing inflationary pressures. The immediate challenge is thus for macroeconomic and financial policies to support the recovery and stabilize financial conditions, while keeping inflation under control.

Monetary and fiscal policies are very important to anchor inflationary expectations and to mitigate negative feedback loops between the financial system and the economy in the near-term. In this regard, we welcome the policy responses in the US to provide support to the economy in the face of financial stress while ensuring adequate liquidity to the financial system. Direct fiscal intervention with the use of public sector balance sheet has already taken place in the US and in a

number of advanced countries to contain systemic financial risks. Nonetheless, we view that closer and concerted policy coordination, particularly those among advanced economies, is the key to immediately address the liquidity problem in the global financial system and manage the orderly deleveraging process. It will also be critical to continue with reforms to strengthen the financial system.

Refocusing the Fund

We welcome the efforts of the Fund to identify the underlying causes of these potentially devastating problems. The current crisis once again provides an important lesson that the rapid financial innovation without proper market safeguards and adequate regulation and supervision can lead to systemic failures. This clearly calls for a redesign of international financial architecture. Reforms in regulation and supervision of institutions and markets are needed and to be coordinated on a global scale to mitigate the risk to global financial stability. We call on the Fund, in closer coordination with other international fora including the Financial Stability Forum (FSF), to play a leading role to provide the multilateral platform for discussing and eliciting the appropriate responses.

In the short-term, since we are still grappling with crisis, what we need is to move quickly and coherently with more concrete solutions to avoid a global financial catastrophe. To this end, the Fund should be advising members what to do and how best to respond to the fallout from the crisis, how to restore the stability and preventing further spillover effects. We call on the Fund to play a more proactive role in the much needed global policy coordination through its multilateral consultation. Building on its expertise and experience from wide membership, the Fund is better place to provide such policy advices. We also urge the Fund to expedite the new liquidity instrument to help members better prepared in their crisis prevention framework as they integrate into global financial system.

The turmoil has posed challenges to policy makers and highlighted the importance of better analysis of global stability risks. In this regard, we commend the Fund's progress to meet its Reform Agenda. We are convinced that the reforms will help the Fund become more efficient in carrying out its mandates and sharpen its focus. On surveillance, we are pleased to note that the Fund will enhance its surveillance on macrofinancial linkages and advance its early warning framework. However, in the current global financial crisis, a better integration of multilateral surveillance into bilateral surveillance should also be prioritized.

We also believe that the Fund's existing lending instruments are based on a model that is no longer suited to the needs of a large part of the membership. The global financial system has evolved enormously since the Fund was created, and so have members' needs for Fund support. While the Fund has adapted to members' evolving needs, this was not nearly fast enough. In addition to expeditiously concluding the work on a new liquidity instrument, there is urgent need for exploring analytical considerations for Fund lending, re-examining conditionality, reviewing the Fund's lending role in low-income countries, and reviewing access limits and financing terms for using Fund resources.

We also welcome the establishment of Committee on the IMF Governance and Reform. We believe that in addressing global issues, the Fund depends heavily on its capability to establish an adaptive and flexible management structure. In this regard, we trust that the Committee would come up with recommendations that benefit all its members. Nonetheless, we must not forget that further addressing the voice and representation of developing and emerging economies remains one of the key issues on IMF Governance reform. We call on the Fund to make further progress in closing the gap between actual and calculated quota shares to reflect their relative positions in the world economy.

Strategizing the Bank

The current global challenges also call for the central role of the World Bank. We need to mitigate the spillover risks of continued high commodity and food prices to development agendas. Higher inflation reduces the capacity to advance important development goals. In some extreme cases, it might undo many of the achievements of the past decades and push more people into poverty. We believe that the Bank is well positioned to lead a coordinated global effort to tackle these problems.

Looking beyond the crisis, we support the Bank's efforts to achieve its Long-term Strategic Direction. We believe the Strategy provides a better mechanism for aligning aid with national development strategies. We appreciate the increasing role of Country offices to maximize the Bank's understanding of client countries.

We are heartened that the Bank remains committed to a leading role in advancing climate change efforts. We also applaud the Bank's for assisting developing countries to access and maximize the benefits of various financing schemes. The Bank is well positioned to act as a catalyst in the efforts to increase the private sectors' climate change role, as well as facilitating technology transfers.

We believe that tackling corruption and improving transparency both at an international and country level is a fundamental condition for ensuring a sound path for development. We note that together we could do more to implement the Stolen Asset Recovery (StAR) Initiative. This important project needs concrete and collective efforts to investigate, trace, and repatriate stolen assets. A coordinated effort would help rid the globe of safe havens for stolen assets.

We encourage the Bank to continue with efforts to advance structural reforms and to increase the voice and role of developing countries. This should include efforts to increase representation of staff from developing countries in the senior management ranks and to empower all members to participate in the leadership selection process.

Responding to the Crisis—Indonesia's Experience

In closing, we reaffirm Indonesia's commitment as a solid and reliable partner of the Bank and the Fund. We continue to do our part to mitigate the spillover risks of the unfolding crisis into the emerging markets. We have so far been able to withstand the negative impact of the global crisis, thanks to our prudent macroeconomic policy, strengthened financial sector, and adequate foreign exchange reserves. Nonetheless, this is a challenging task, particularly given the increasing trade-off between inflation and growth while preserving financial stability. In this context, we have taken measures to adjust the economic policy mix to reduce inflationary pressure while maintaining financial stability and growth momentum.

On the fiscal front, in order to secure fiscal sustainability and at the same time allow the needed fiscal space, we have moved forward towards more streamlined subsidies accompanied by well-targeted social transfers as well as reinforcing expenditure restraints. On monetary front, the central bank has preemptively raised its policy interest rate to curb inflation expectations and the second-round impacts of domestic fuel price increase, while at the same time ensure sufficient liquidity in the financial system. Going forward, we will press forward our effort to enhance our crisis management framework, including our plan to strengthen legal aspects of the crisis management and protocol that outlines procedures and clarifies the responsibility of agencies.

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

Seyyed Shams Al-din Hosseini

It is my pleasure to address the 2008 Annual meetings of The World Bank Group and IMF.

The global economic outlook has continued to deteriorate with several advanced economies bordering on recession; in particular the recent turmoil in the United States financial market has impacted most of the markets worldwide. At the same time, developing and emerging market economies are struggling with rising costs and weakening of external demand, while low-income countries are suffering from high commodity prices. The financial outlook is now subject to greater uncertainty and despite some remedial measures recovery could not be expected soon. This is a great challenge that will have significant bearing on the world economy and which needs to be dealt with in a concerted and well- thought manner.

It is surprising that the IMF has not foreseen this tremendous financial turbulence in order to send an alerting signal in timely manner. This would have been particularly critical, given the extent of the crisis and its global spillover. Going forward, considering its mandate to overlook the global financial stability, the IMF needs to play a more effective role in helping shape the policy response not only in the developing countries but also in advanced economies in order to safeguard emerging markets sustainable growth and financial soundness.

On the issue of the Voice and Representation of DTCs I believe that: First, the major source of income and knowledge of the World Bank is generated from cooperation with developing countries. Therefore, in order to enhance its legitimacy it should move according to a defined timetable toward the parity of voting power between DTCs and developed countries.

Second, we emphasize that in implementing an increase in the voting power of the DTCs, this increase should be formulated in a way that would not dilute the voting power of any single member of developing and transition countries. Third, we strongly support a selection process of IMF Managing Director and the President of the World Bank that should be fair, competitive, merit based and open to individuals from all member countries. We are also of the opinion that the Bank and the IMF should take more serious measures to enhance

staff's diversity in both institutions, particularly at higher managerial levels from all member countries.

Finally, In order to enhance its image as an impartial and unbiased multilateral institution, the World Bank management should engage with all its developing country members through its country assistance strategy and investment in their development projects which must be considered solely on the basis of their economic merits. In this context the World Bank must restrain from being influenced politically which is against the stipulations of its Article of Agreements. In this direction, we strongly urge the Board of the World Bank to follow up this matter as part of its governance mandate.

On the issue of climate change, the role of advanced economies that are mainly responsible for this phenomenon is highly significant. Therefore, they should justifiably bear the main costs and burden for the adaptation and mitigation to climate change in the developing countries which need to sustain their economic growth and development in order to reduce poverty, and which cannot afford additional high costs of new technologies. Therefore, developed countries that picked the fruit of development and prosperity at the expense of climate change should bear their differentiated responsibility in this process and provide the necessary additional financing and new technologies to developing countries at low cost. The neutrality of the supporting multilateral institutions is fundamental for the success of this process.

Next, I wish to touch briefly on the recent economic development in my country.

Growth continued to be strong despite some external constraints and unemployment declined in spite of the rapid growth of the labor force. Real GDP expanded by 7.6 percent in 2007.

In addition, privatization has gained momentum with a rapid increase in the purchasing shares by private investors. In this direction, following the reinterpretation of Article 44 of the Constitution, about 80 percent of state-owned enterprises will be privatized by 2010.

For the medium-term the government plans to implement a strategy that involves significant reforms, the most important of which is the reform aimed at better subsidy system.

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

Martin Mansergh

I am pleased to attend here today to speak on behalf of Ireland.

We meet against a backdrop of extreme global economic and financial uncertainty with continuing downside risks to the global economy. More than ever now, it is important to have a strong IMF and World Bank Group, working in co-operation with their members, to promote global economic growth and stability. We must ensure that progress made in recent years towards achieving the Millennium Development Goals is not reversed.

IMF Reforms

Ireland welcomes the progress made in the past year in refocusing and reforming the Fund. We support the Managing Director's ongoing commitment and efforts to implement the reform agenda set out in the Medium-Term Strategy, which should see the IMF continuing to enhance its role and credibility in the global economy.

Surveillance

IMF Surveillance is particularly important in current economic conditions. The key challenge for the Fund is the effective implementation of all the provisions of the 2007 Decision on bilateral surveillance—including the use of the ad-hoc consultation procedure. We join with others in calling for effective and even handed implementation.

Irish Developments

I would like to turn briefly to developments in Ireland.

Ireland has taken swift and decisive action to safeguard the stability of our financial system and more broadly our economy. Two weeks ago, the Irish Government decided to put in place a guarantee arrangement to safeguard all deposits with and loans to six named credit institutions. The guarantee arrangement will also be available to certain banking subsidiaries in Ireland that have a significant presence in the domestic economy. This approach has now been approved by the European Commission. Ireland also strongly welcomes the interventions of other European Member States and countries worldwide to ensure stability

within the financial system. Actions by individual countries and by other groupings—such as those announced by the Eurogroup Heads of State and Government on Sunday night—are crucially important in ensuring that policy makers can go beyond a reactive approach to the difficult market circumstances. Ireland is continuing to work with other EU member States, the Commission, and the European Central Bank in the work to find an overall framework to address the financial crisis.

The Irish economy is currently being subjected to a number of negative shocks. On the domestic front, a major adjustment is underway in the residential construction sector, and this has dragged down economic activity this year.

The more difficult external climate is having an additional detrimental effect. Weak demand in our main export markets, exchange rate appreciation, the fall-out from global financial market turmoil and, notwithstanding some easing in recent months, higher commodity prices are all having an adverse impact.

The latest data confirm that the economy has slipped into recession and for this year, we now expect the level of activity to contract.

The contraction in activity has been mainly concentrated in the higher yielding components of demand, with the result that there has been an accelerated deterioration in the public finances.

To deal with these challenges, the government brought forward the normal date of our national Budget from December to tomorrow. The Budget will set out steps to stabilize the situation by strictly prioritizing expenditure to reflect the changed realities and to ensure that Ireland's economy is in the best possible position to resume trend growth as international conditions improve.

Development and Aid

On development and aid issues, Ireland's contribution in recent years has increased substantially. This year, we will spend around 900 million euro on overseas aid. Proportionately, this makes Ireland the sixth largest donor per capital in the world, and represents 0.56 percent of GNP. Ireland's aid program has always focused on the poorest and most vulnerable. This focus will continue.

Ireland welcomes the outcome of last month's High Level Forum on Aid Effectiveness, in Accra, Ghana. The Forum reached agreement on accelerating and deepening the implementation of the 2005 Paris Declaration on Aid Effectiveness. The Accra outcome is a strong statement on the need to improve the deployment and delivery of development assistance. We join with others in commending the World

Bank for their contribution to the Forum, and we are confident that the Bank will fully play its part in implementing the agreed actions.

The constructive work carried out at the Accra Forum to improve the quality of aid is a solid foundation for the Doha Financing for Development Conference in November, when aid volumes and the 2002 Monterrey Consensus will be under scrutiny. Again, the World Bank will play a key role in the Doha discussions, particularly in light of the current global economic conditions.

Debt Relief

Ireland strongly supports debt relief for poor countries with unsustainable burdens. We remain committed to total debt cancellation for the HIPC countries. In this regard, Ireland has recently made an additional contribution of €6m to the HIPC Initiative as an indication of our continued support for the world's poorest countries. However, there is a danger that countries which benefited from HIPC and the MDRI will re-accumulate unsustainable levels of debt. Beneficiaries must therefore be encouraged not to engage in unwise nonconcessional borrowing. Donor countries wish to see debt relief used well in making progress towards the achievement of the Millennium Development Goals. Every effort should be made to ensure that progress made is not reversed.

Voice and Participation

Following the reform of Quota and Voice at the IMF earlier this year, Ireland supports the current reform process in the World Bank, aimed at widening and strengthening the participation of developing and transition countries in the decision-making of the Bank.

We congratulate the Bank for its commitment to this issue, in keeping with the spirit of the Monterrey Consensus and indeed with the Accra Agenda for Action, and we commend the progress that has been achieved this weekend. We welcome this progress as an important first step in the ongoing process of comprehensive reform.

In conclusion, I would like to refer to the contributions made in this morning's opening session. We should all be encouraged by the addresses of Managing Director Strauss-Khan and President Zoellick. These demonstrate a proactive approach by both the Fund and the Bank to developing an effective global response to tackle the effects of the shocks that have hit the world economy, and the discussions of the last three days. I can assure the institutions of Ireland's full support for these efforts.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR ISRAEL

Zvi Eckstein

Unfortunately, Governor Stanley Fischer could not be present here. It is a special pleasure for me to be here today to deliver this address on his behalf, and on behalf of the State of Israel.

I would like to make brief comments on two issues: first, the Israeli economy; second, the Fund's Reforms and Policy Agenda. The limited time available will not allow me to cover other important topics, including global economic developments, especially in light of financial market turbulence, the implication of the current energy and food prices on the poorer countries and communities that are not endowed with such resources, and other important issues such as climate change.

The Israeli economy

Since 2004 and up to the first quarter of 2008, the Israeli economy has been growing at an average annual rate of more than 5 percent. In the second quarter of 2008, GDP growth decreased to approximately 4 percent. Given financial turbulence, global slowdown, and the strengthening of the Shekel, further slowdown is expected in the remaining part of the year and in 2009.

The Israeli economy is affected, like the rest of the world—by the substantial increase in uncertainty in the global financial markets. In Israel, the economy, in general, and the financial sector, in particular, is in good condition in order to address the possible ramifications of the crisis. Relative to banks in the US and in Europe, the Israeli banking sector is conservative and its exposure to the financial turmoil in the US and Europe is limited. I will briefly review recent macroeconomic developments in Israel.

In 2008, mostly as a result of significant increases in energy and food prices in the first half of the year, inflation is expected to be above the target range (1-3 percent per annum), but inflationary expectations for the next 12 months are within the target range and inflation is likely to return to the target range in the second quarter of 2009.

The balance of payments is expected to be in 2008 in a surplus of around 1 percent of GDP. Controls on capital flows have been removed progressively since the early 1990's, and the capital account is essentially totally liberalized.

On March 24, 2008, the Bank of Israel announced a plan to increase its foreign exchange reserves by purchasing foreign currency in the open market. With effect from July 10, the Bank purchases an average of \$100 million a day. This decision was made following an examination of the market conditions and in light of the rapid cumulative appreciation of the shekel.

The government debt ratio is on a declining path, yet it still remains too high and needs to be reduced further; government spending has been consolidated and needs to be further reduced; unemployment went down to 5.9 percent in the second quarter of 2008, and more needs to be done to improve the standard of living of the poorest members of the population.

On May 2007, the OECD Ministerial Council Meeting decided to start the accession process with five countries, including Israel. Following this decision, Israel is now engaged in a dialogue with the organization, and expects to become a full member of the organization in 2010. The process entails updating legislation and adapting to the organization's advanced standards. It would also serve as an incentive for Israel to continue promoting economic reforms.

At present, we are continuing to work on a new and modern central bank law that will clearly define the independence of the Bank of Israel, while increasing its accountability and transparency.

The Fund's Reforms and Policy Agenda

The Fund invests substantial energy in reexamining its role, advancing the surveillance agenda, reviewing lending instruments, and strengthening governance. As part of a re-organization, the IMF has cut spending and the number of staff, and highly qualified new professionals have been nominated to senior positions.

First, we welcome the Fund's sharper focus on refocusing its surveillance work. We, as other central banks, have found the Fund's fiscal policy analysis helpful. The overall quality of Fund's surveillance is held in high regards. These days, the obvious demand around the globe is for additional value added in the analysis of the financial sector. Needless to say, the Fund's FSAP work in identifying financial vulnerabilities have had a substantial contribution, but there is value in further work on risk assessment and early warnings. The 2008 Triennial Surveillance Review Paper (prepared by the Fund's Strategy, Policy and Review Department and discussed in the Board on September 26) states that there is a large unmet demand for analysis of financial sector issues, exchange rate analysis and external stability risks, as well as of the of two-way transmission channels between financial and real sectors, and

cross border spillover effects. We support the recommendation of the report. It is valuable to increase efforts in developing a framework of a more systematic macrofinancial surveillance. In addition, it is important to adopt further steps in order to speed up the completing of Article IV reports and to increase its use of interim reports.

Second, regarding the design of new lending instruments, such as the Rapid Access Line, the Financial Stability Line and the Rapid Liquidity Line, I would like to note that there is indeed value in introducing credit facilities to countries with sound policies, without the traditional conditionality structures. It is desirable that such facilities would be available to increase access to contingent liquidity instruments in order to assist member countries to reduce the risk of capital account crisis and assist those qualifying after being hit by turbulence in global capital markets.

Third, the Fund is an effective international organization that is in the process of improving its governance and accountability. It is important that member countries' authorities will benefit from the continued relevance of the IMF, especially for global financial issues. Such relevance is also tied to the issue of vote and representation. In order to reflect the current global economic situation, new economic powers deserve a bigger weight in the decision making process. With respect to low-income countries, the increased desire for vote should be balanced by the implications of increasing the weight of borrowers in any lending financial institution.

Before I conclude, I would like to make another point regarding the global financial crisis and state that during this critical period in the so-far ever-worsening crisis, government policy needs to be guided by two central principles: central banks need to ensure that sufficient liquidity is provided to the banking system and the money and short-term credit markets to ensure their continued effective operation; and governments need to stand ready to inject capital into their banking systems to ensure the stability of the system and the continued provision of credit to the economy.

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

Masaaki Shirakawa

It is my great privilege to have this opportunity today to address the IMF-World Bank Annual Meetings, representing the government of Japan.

At the outset, I would like to express my sincere appreciation to Mr. Dominique Strauss-Kahn, Managing Director of the IMF, and to Mr. Robert B. Zoellick, President of the World Bank, for their excellent leadership at their respective institutions.

The World Economy and Global Financial Markets

The financial crisis that erupted in August 2007 appears to have become even more profound today. Credit quality concerns are broadening, as further declines in house prices and tighter lending conditions spread across countries, most notably in the United States and Europe. Financial firms face greater difficulties in raising capital to cover losses, while efforts to squeeze assets add to downward pressures on asset prices.

Recent developments in the U.S. financial industry have led to a considerable deterioration in market participants' sentiments. Although the decisive measures adopted by the U.S. authorities have prevented the global financial system from further disruption, significant uncertainty remains regarding the way forward. We, as policymakers who have the responsibility of dealing with global financial issues, should use the term "crisis" with utmost care, but it would be difficult to blame anyone for describing the current situation of the world economy as a "financial crisis."

Presumably not independent from the financial turmoil, commodity prices have demonstrated very volatile movements over the past year. The price of oil more than doubled between December 2006 and mid-July 2008, before easing in recent weeks, while, during the same period, food prices rose by over 50 percent.

Although commodity prices have recently leveled off, underlying inflation has risen, particularly in emerging and developing economies. The tightening of policy rates in some emerging economies is considered to have been behind the curve. Implementing policy responses to

inflationary pressures from exogenous shocks will be quite challenging, given weaker growth prospects throughout the world.

Against this backdrop, the world economy is likely to display a marked slow down. Not only are advanced economies expected to go through a period of very sluggish growth for the remainder of 2008, but emerging and developing economies are also projected to continue to slow. Hence, it would be advisable that we prepare against a “global recession.” We should also bear in mind that the global credit contraction arising from the present financial turmoil could increase the risk of squeezed private capital inflows to emerging economies.

Considering the situation I have just outlined, I believe that now it is a time when the resilience of the international financial system as a whole, as well as the policy responses of individual countries, requires thorough scrutiny.

We believe that Japan can contribute to the stability of world economy by pursuing to secure its own growth. On August 29, the government announced a package of measures to address the global surge in commodity prices, and a supplementary budget to implement these measures has just been passed by the Lower House of the Diet. Monetary policy continues its accommodative stance. In response to elevated strains in the global financial market, the Bank of Japan, with other central banks, has taken coordinated action to provide U.S. dollar liquidity, and it has supported interest rate cuts implemented by other major central banks. The Bank of Japan intends to carefully assess its outlook for economic activity and prices, while closely examining the likelihood of its projections as well as the upside and downside risks, and to implement its policies in a flexible manner.

Since the situation in the international financial markets has an enormous influence on the Japanese economy, we will very attentively watch global financial developments and put forth our utmost efforts to maintain the stability of the international financial system.

Expected Role of the Fund

Let me turn to the question of the Fund and expectations regarding its role. In the midst of concerns about the financial crisis and a global recession, recently, it has often been questioned whether the Fund properly fulfils expectations. We have some concerns that, in response to this criticism, the analytical and advisory capacity as well as the policy tools of the Fund might be scaled back, despite a genuine demand for them, from the international community.

I would like to offer some proposals regarding possible ways in which the Fund can fulfill its expected role.

First, the Fund can make an intellectual contribution to advanced economies affected by the financial crises. The Fund is well situated to accumulate the expertise of member countries on how to respond to financial crises. It is therefore important that the Fund build up and organize member countries' existing experiences and provide effective input to those countries currently fighting against a financial crisis. The Fund should also improve its ability and capacity to analyze financial market issues, and to accelerate its ongoing efforts toward enhancing integration between the analyses of financial markets and the macroeconomy.

Second, there is room for intensifying the Fund's engagement with international financial crises. Addressing global financial crises, and helping member countries cope with those crises, both lie at the heart of the Fund's *raison d'être* as an international institution. When emerging economies and smaller countries that host large financial institutions implement such measures as providing capital to financial institutions and deposit guarantees, to ensure the stability of financial systems in the midst of a crisis, these countries are likely to encounter difficulties in financing their budgetary needs. The Fund should be responsible for providing financial assistance in such cases, and should seriously consider how to fulfill this responsibility. It does need to convey to the market the Fund's determined commitment to tackle against spreading financial stresses, and thus, have a positive impact on restoring confidence. If the Fund requires additional resources, Japan stands ready to supplement needed funds.

Third, the Fund needs to prepare for reduced access to private capital by both emerging and developing economies. As international intermediation falters as a result of the global credit crunch, such a situation may arise as thinner private capital inflows to emerging and developing economies leads some countries to face balance of payment difficulties. The Fund should vigorously examine how effectively it can fulfill its role and consider possible regimes of international cooperation for those countries.

Fourth, technical assistance is the Fund's area of unique competence. Indeed, from a mid- to longer-term perspective, capacity building of developing countries in the macroeconomic policy field is critical toward achieving economic growth and stability. Japan, for its part, has been expanding its financial contributions to the Fund's technical assistance programs through the Administered Account for Selected Fund Activities—Japan, and will continue to extend its support for Fund operations in this area. We believe that it is indispensable that technical assistance programs be mutually beneficial and offer a tangible outcome for both recipients and donors. To this end, particular

importance is attached to achieving an objective ex-post evaluation, with specific attention toward ensuring accountability to taxpayers in donor countries.

Development Issues and the World Bank

A global tightening of credit triggered by the subprime mortgage crisis could lead to shrinking private capital flows to developing countries, thus putting at risk the mobilization of resources necessary for infrastructure investments that support economic growth, indispensable for poverty reduction as well as for the provision of social safety nets. We expect the Bank to actively contemplate how the Bank, and Regional Development Banks, could compensate for the decline in private capital flows that have been the primary funding source for developing countries, and what kind of catalytic roles the World Bank Group could play in bolstering withered private capital flows.

At such a critical juncture, on October 1, the “new JICA” was launched by merging the JICA and the overseas economic cooperation operation of the JBIC. This marks a creation of one of the largest bilateral aid agencies equipped with providing all three aid modalities: technical cooperation, grants, and ODA loans. Facing the risk of shrinking financial flows to developing countries, Japan expects that the Bank and the “new JICA” will make their aid more effective and efficient and produce robust results by means of an exchange of best practices and know-how, and its close coordination and cooperation. In fact, at this year’s TICAD IV, good cooperation was already established in the broad area of aid for Africa. Also, in the global efforts to tackle the pressing food and climate change issues confronting the international community, Japan would like to strengthen even further its cooperation with the Bank.

Regarding governance reform at the Bank, we welcome the proposed comprehensive package that envisages a phased implementation of reform measures. The steady implementation of the measures in the package is critical to the success of the reform.

Conclusion

The world economy is experiencing a period of rapid change. Developments in the financial markets of one country are almost instantaneously transmitted to the financial market of other countries. Moreover, the factors that influence financial markets are increasing their tendency to affect the real economy through a so-called “negative feedback loop.” In such a world, no country can maintain its prosperity without thoughtfully considering the health of the global economic

system. Today, we hear many observations indicating that the Fund and the Bank need to be fundamentally reformed or that they should do much more to cope with the current new environment. These observations, however, can be interpreted as proof of continued high expectations for the two Bretton Woods institutions. Japan hopes that the Fund and the Bank will live up to those high expectations by fully utilizing their splendid human resources.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
KIRIBATI ON BEHALF OF THE FEDERATED STATES OF MICRONESIA,
KIRIBATI, MARSHALL ISLANDS, SAMOA, SOLOMON ISLANDS AND
VANUATU

Natan Teewe, MP

Warm Greetings from the Pacific. It is a great honor for me to deliver a statement on behalf of the Pacific Constituency comprising the Federated States of Micronesia, Kiribati, the Marshall Islands, Palau, Samoa, Solomon Islands and Vanuatu.

Our member nations, with a population of over 1.2 million people, are scattered over several thousand kilometers of the Pacific Ocean. They are different in a lot of ways but they do also share a lot of common economic features. They have common problems of isolation from the major markets; they have narrowly based economies and they are very vulnerable to the impact of climate change.

We meet here at a time of great uncertainty. The current financial crisis, coupled with the soaring food and fuel prices, that pose a threat to economic stability world-wide, has also a great negative economic impact in our region. We are already feeling the pressure of these events, which could undermine the gains made through programs of reform. These events have placed considerable hardship on our people.

Over the years, we have been undertaking wide ranging reforms to build our economic strength. Whilst the process has been slow for some, generally we have moved forward. To achieve great economic growth we have to take advantage of our disadvantages; we have to be accountable to our people and we have to manage our resources to the best we can. We view economic growth not so much in terms of increase in GDP numbers, but more in terms of providing a better life for our people, now and in the future.

Unemployment has been a problem in our region. We have to look outside our individual countries for job opportunities for our people. We are grateful for the opportunities provided by our developed partners. I would like to mention the Recognized Seasonal Employment Scheme initiated by the New Zealand Government. Not all our members are involved under the scheme. However, for those who are involved, the scheme has created the opportunity for employment in New Zealand for a limited duration. People employed remit a portion of their income to their families in their respective countries. The scheme has a positive development impact to the lives of many families, as well as to the individual economies. Still its initial stage the scheme has its problems, but no doubt and through time, things will improve. The Australian Government has announced the development of a similar scheme. We are anxiously looking forward to the implementation of it. We pray that in the very near future other developed countries will develop similar schemes to assist those of us who are by our very nature, unfortunate.

With telecommunications, there have been significant efforts Pacific- wide to open up the telecommunications sector after years of monopolistic regimes. Given our isolation and scatteredness over a wide area of ocean, an efficient and affordable telecommunications system, would encourage private sector investment which will in turn, contribute to our economic growth.

Air transportation, for some if not all of us, needs a lot of improvement. The significance of tourism to our economies requires efficient airline operations that offer improved connections. Something more than just a regional approach may be required. Developed countries in the region may be in a position to offer an answer with the support of our development partners.

Climate change has been our chorus in our region and it will continue to be our chorus in the future. It is our chorus because we are the most vulnerable to its negative impacts. We are the least contributors to green house gas emissions, but we are the worst affected to the extent that some islands may disappear for good as a result of sea level rise. Climate change is an issue of critical importance to our region, in particular the low lying atoll countries.

While we support the Bank's engagement in climate change, we at the same time pose a question, "Is that enough to answer our worries?." When will be the time to put our pens down and start with tangible work to reduce the negative impact? Why are we scaring our people with problems of climate change and not assist them resource wise, to counter the realities of climate change that they are facing? We welcome the establishment of the Climate Investment Fund and the emphasis on

adaptation and renewable energy sources, but we still have to see how effective these funds in overcoming our worries.

With the rise in oil and food prices, we are faced with the serious challenge of dealing with widening external and internal imbalances. With such increases, our people barely cope with their family needs, in terms of food, electricity, transportation and so forth. There is growing signs that our people are facing hardship and are beginning to demand for some form of relief.

After years of being neglected (and excuse me for saying that), we welcome the increased Bank involvement in our region through the Sydney Office, establishment of the country office in Solomon Islands, and satellite offices in Tonga, Samoa, and the placement of Bank staff at the Pacific Financial & Technical Assistance Centre (PFTAC) office in Fiji. We believe that, with those arrangements the Bank's understanding of our particular needs will be enhanced and hopefully will improve the Bank's response to those needs.

We are aware that the next Regional Framework is in its final stage and will be ready soon. We would again like to reconfirm our preference for increased analytical work and more strategic focus at the country level. We look forward to being closely involved in the consultations and the formulation of the next Pacific Strategy.

Regional initiatives present the opportunity to deliver assistance to benefit a number of recipients, which might otherwise be less cost effective to deliver on an individual basis. High transaction cost of doing business given our small size, small population, and islands scattered across a vast area make regional and sub-regional approaches much more attractive. We have regional entities working well to serve the interests of the Pacific. We have the Pacific Plan, which has been endorsed by Pacific Leaders, as a source of ideas on regional priorities. And we have the Fund and Bank engaged in the Pacific. Yet there seems to be little practical partnership taking place in support of regional initiatives. We believe there are opportunities for real impact to take place with improved collaboration. I therefore urge the Fund and the Bank Group to coordinate their programs closely with the Pacific Plan initiatives to ensure complementarity and deliver optimum outcome.

Private sector development has been propagated as the engine for economic growth. In our region, private sector growth has been disappointing. We believe we have created a favorable environment and put in place appropriate governance structures and best practices, but there are only a few businesses established and not many foreign investors show interest. The 2009 Doing Business Review ranks most Pacific countries below 100 with the best performer at 39, yet there is no positive reward in terms of new investments. We want to understand the

missing part of the puzzle and we believe the Fund and the Bank Group should assist us with better analytical work and realistic advice.

We welcome the progress made on voice and quota reform in the Fund and we always believe that the interest of all members should be accommodated. To ensure that we are not left out the Bank should serve us at the ground level by providing an improved Bank-Country relationship, an improved standard of service, an improved Bank Management accountability and an innovative approach to promote Bank exposure to under represented regions.

We appreciate the way small states are treated in the IDA15 framework. The proposed resource allocation to reflect our special situations is a step forward. The increased IDA resources to the Pacific countries will help a lot in achieving our Millennium Development Goals within the stipulated timeframe.

Mr. Chairman, I would like to conclude by acknowledging on behalf of the Pacific Constituency, the improved collaboration we now have with both the Fund and the Bank Group, and we look forward to a continued meaningful partnership and practical outcomes that will help raise the quality of life of our people.

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

Man-Soo Kang

It is my great pleasure to join you here on behalf of the Republic of Korea.

Today, the world economy and global financial market are in grave difficulty.

Given the close linkage between financial markets and the real economy that we are now observing, our priority should be to stabilize the financial market.

To this end, it is important that we restore market confidence before the on-going financial market turmoil develops into a “Confidence Crisis.”

Policy-makers should enhance predictability in the market by providing transparent and objective information and sending consistent policy signals.

In particular, policy coordination and information sharing between member countries are critical in stabilizing the closely inter-linked global financial market.

Drawing upon our experience of the Asian financial crisis, I would like to make two suggestions.

First, policy-makers should take swift actions sufficient to stabilize the market when necessary.

In this context, I fully support the decisive and timely market-stabilizing measures including liquidity provision and interest rate cuts.

We should not forget, however, that emerging and developing economies are suffering the most from the turbulence in financial markets.

To ease their burden, I would suggest global market-stabilizing measures, such as liquidity provision, engage emerging and developing economies through close coordination.

To facilitate policy coordination, I look forward to G-20 taking a stronger role. Given its comprehensive membership consisting of both developed and developing economies, G-20 can be an effective platform for global collaboration.

Second, regarding the role of IMF amid today's uncertainty, I have three points to make.

First of all, the Fund has a bigger role to play in this unstable financial market. It should help the global economy address current turmoil by strengthening its surveillance.

Specifically, the Fund needs to help member countries enhance the financial supervisory system in response to the evolving situation in financial markets.

Objective and transparent evaluation and disclosure of the risk inherent in new financial products, will enable us to minimize systemic risk and regain investor confidence.

Second point is that the Fund should focus its analysis on the macrofinancial linkage by fostering the capability to identify and analyze the spillover process and its risk.

Going further, it needs to make recommendations on macroeconomic policies including the counter-cyclical role of fiscal policy to revitalize investment and consumption in the context of slowing growth.

My third point is that the development of regional surveillance and crisis management system and its coordination with the IMF are critical to effectively address the current financial crisis.

In Asia, for example, the CMI Multilateralization, which is to establish regional liquidity providing system, can be a desirable complement to the IMF.

As for the real economy, it is important that all member countries cooperate to stabilize oil and other commodity prices and, thereby, mitigate worldwide inflationary pressure.

To this end, commodity-exporting countries should stay away from “export protectionism” and maintain an adequate level of supply. On the other hand, developed countries need to take appropriate actions to stop speculative demand from driving up prices.

Turning to the on-going World Bank reform, the ultimate goal of governance reform is to enhance the Bank’s responsiveness and maximize members’ participation by ensuring their equitable representation.

The first and foremost principle of the reform should be to ensure that the share structure reflects each member’s relative weight in the global economy.

It has been a decade since the Bank realigned its quota in 1998. The current quota does not fairly reflect the status of emerging and dynamic countries whose economies have experienced significant changes.

That explains the urgent need for a quota reform, especially for the countries whose quota falls far short of their economic position.

I am confident that the reform will in turn contribute to achieving the Bank’s mandate as it will promote participation by member countries.

Last but not least, I urge you to support North Korea, one of the least developed countries in the world, in opening up its economy and reforming itself.

To encourage North Korea’s opening and reform, it is important to integrate the country into the global community.

This will be a challenging task, which requires the efforts of both Koreas as well as the cooperation of the international community.

In this regard, I would like to emphasize that the forward-looking stance of the IMF and World Bank is essential.

Once again, I ask for the support of all member countries.

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

Vienthong Siphandone

It is my honor and a great pleasure to represent the Government of the Lao People’s Democratic Republic at the 2008 Annual Meetings of the Boards of Governors of the International Monetary Fund and the

World Bank. 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 for the excellent arrangements made for this important meeting. I would also like to take this opportunity to express my congratulations to President Zoellick for continuing his fruitful work in enhancing the World Bank's role in supporting poverty reduction of all regions in the world, regardless of the gloomy economic situation in the United States and around the world recently.

Mr. Chairman, although, the Lao People's Democratic Republic is not directly affected by the sub-prime mortgage crisis in the United States, we share the concern that this crisis could develop into a global financial meltdown, and are greatly concerned about the potential effect on emerging countries and poor countries. We urge the U.S. Government and other industrialized countries to implement all possible measures to remedy the situation and to restore the investors' confidence in the financial market.

Mr. Chairman, I would like to take this opportunity to describe the Lao People's Democratic Republic's economic performance during 2007–2008. Our macroeconomic situation remains fairly stable, with continued strong growth of above 7 percent, which is expected to continue into 2008. Output has expanded in mining, newly emerging processing industries, agriculture, new construction of hydropower projects, tourism and other services, as well as large FDI inflows from neighboring countries.

Nonetheless, there are some risks of rising inflation. After falling to a record low level of 4.5 percent in 2007, overall inflation climbed to 6.4 percent in the second half of 2008. High fuel prices pushed up the cost of individual living, agriculture, and industry. Moreover, we recently faced floods from the north to the south, which affected plantations, livestock, transportation, and infrastructure; this has had a cost not only in monetary terms, but also with regard to the well being of the villagers. Vientiane itself experienced its highest water level in 40 years; thanks to the proactive efforts of the Lao community-government, the private sector, individuals, and the international community from different parts of Vientiane, we were able to save the capital from flooding. We are confident that the Bank and other donors will support us in restoring normal living and working conditions in the regions of the Lao People's Democratic Republic affected by the floods.

Mr. Chairman, during 2007–2008, the Government has adopted and implemented many reforms. On fiscal front, the Government has continued the implementation of a comprehensive medium-term Public Expenditure Management Strengthening Program (PEMSP) since 2005,

focusing on strengthening Public Financial Management systems and building the capacity of the Ministry of Finance and Provincial Finance Departments. In addition, the new Budget Law was adopted in 2007 to address weaknesses in the intergovernmental fiscal framework. Other key reforms include centralizing the treasury, customs and tax departments, developing a new fiscal transfer system, establishing greater control of public finance resources, and aligning policies to the budget, as well as promulgating the new Audit Law. The implementation of the value-added tax has started early this month.

The financial sector remains small and dominated by banks. The government has taken measures to strengthen the banking sector and level the playing field. There are more new investments in the private banking sector, the ANZ commercial bank, which is shared by IFC and Australian ANZ Bank, as well as Phongsavanh Bank, which is Lao's first commercial bank. As a result, the commercial banking law promulgated in 2007 provides for transparent, clear, and easy licensing for establishing private banks.

Furthermore, in order to fulfill the socioeconomic development plans set for the period ahead, the Government has initiated other major reforms such as improvement of the business environment, enhanced efficiency of investment, reduction of tariffs under AFTA commitments, and intensified preparation for WTO accession.

Mr. Chairman, we highly value the support of the international community, including bilateral and multilateral organizations, and international financial institutions. The Fund and the Bank have continued to provide vigorous support and assistance to the Lao People's Democratic Republic in term of policy advice, infrastructure, economic programs and projects, capacity building, and technical assistance. That support has played a vital role in helping the Lao People's Democratic Republic achieve economic growth and sustainable development. The Poverty Reduction Support Operations (PRSO) which, from the donor side, led by the Bank, has remarkably supported the structural reform to a more market-oriented economy, especially the improvement in the legal framework, which will form a foundation for sound and efficient development in the key sectors. We would also like to take this opportunity to urge the World Bank Group to continue the efforts in supporting the social and economic development and poverty reduction in the poor countries of our region as the Bank does with other regions of the world. ODA is an important factor in supporting the poor countries of this region to achieve their poverty reduction agenda and MDGs.

Ladies and gentlemen, on behalf of the Government of the Lao People's Democratic Republic, I would like to express my sincere appreciation to the management and the staffs of the Fund and the Bank,

and the fellow member countries for supporting the Lao People's Democratic Republic. I wish the Annual Meetings great success.

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

Wan Abdul Aziz Wan Abdullah

We welcome the 2008 Annual Meeting of the Boards of Governors of the World Bank and the International Monetary Fund. We would like to take this opportunity to thank the Bank and the Fund for the ongoing efforts in carrying out their respective mandates to eradicate poverty and improve financial management in member countries. We also would like to thank Mr. Robert Zoellick, the president of the Bank for the immediate response to support member countries affected by the food and energy crisis. We hope the Bank will continue to be receptive to distress calls by member countries and strive to be proactive with workable and pragmatic solutions.

Global Economic Outlook

Prospects of global growth are weighed down by the prolonged financial turmoil originating from the United States sub-prime crisis, and the surge in inflation triggered by higher commodity prices. The 2008 WEO indicates that developed economies impacted by the financial crisis are bordering on recession during the second half of 2008, while emerging and developing countries which experience high inflation are heading for slower growth. The world economy is expected to moderate further in 2009, unless financial institutions resolve their capital and solvency problems; commodity and housing markets stabilize; and domestic demand in emerging and developing countries continue to strengthen. The current global slowdown clearly underscores the need for concerted commitments by national and international authorities to institute policies as well as regulatory and governance mechanisms to address the challenges and sustain global growth.

Malaysian Economy

Structural reforms and pragmatic policies undertaken over the past five decades have systematically transformed the economy into one that

is broad-based and diversified. More so, since the 1998 Asian crisis, when Malaysia defied the prevailing orthodoxy of the day and undertook radical measures to ensure the economy is more resilient and better positioned to withstand challenges from the external environment.

The Malaysian economy registered strong growth of 6.3 percent in 2007, and posted higher-than-expected growth of 6.7 percent during the first half of 2008, despite rising inflationary pressures and external uncertainties. Steady growth in exports, particularly for commodities and resource-based manufactured goods, as well as sustained private consumption and investment supported the robust expansion of the economy. On a sectoral basis, growth was led by the services sector at 7.8 percent. Sturdy growth in wholesale and retail trade as well as healthy performance in the communication, transport and storage, and finance and insurance sub-sectors underpinned the expansion in the services sector. The manufacturing sector recorded 6.3 percent growth, contributed mainly by domestic-oriented industries, such as transport equipment, food and construction-related activities. Growth in the agriculture sector was 6.1 percent, supported by strong expansion in palm oil production, making Malaysia well-positioned to benefit from the commodities boom. The Malaysian economy is projected to expand 5.7 percent for 2008 and 5.4 percent in 2009.

Fiscal policy is focused on ensuring effective public spending. The higher fiscal deficit expected this year is due to increased commitments in providing social assistance, sustaining growth momentum and managing inflation. Nevertheless, the government remains firmly committed to consolidate its financial position and reducing the budget deficit in 2009. The international reserves, remains high at US\$109.7 billion, sufficient to finance 9 months of retained imports and is 4.1 times the short-term external debt as at 30 September 2008.

In relation to monetary policy, the Central Bank has maintained a stable policy interest rate since April 2006. The banking sector remains resilient, well capitalized with relatively low loan to asset ratios in mortgage financing and little exposure to the US financial crisis. The risk-weighted capital ratio (RWCR) is at 13 percent; and has better asset quality with nonperforming loans ratio of 2.7 percent as at end-June 2008. Net funds raised in the capital market were higher at US\$12.3 billion. These strengths ensure the Malaysian financial system continues to perform its intermediation function efficiently. Nevertheless, the government will remain alert and vigilant in view of the increasing uncertainties in the global financial market.

World Economic Development Issues

We note the Bank and Fund's concerns on recent economic developments and their effects on long-term growth as well as on the vulnerable groups. High oil and food prices have had serious consequences on the world economy, especially developing countries. Rising prices have not only contributed to inflationary pressures but have also led to social unrest, undermining the political stability in some countries. In striving for solutions to solve these problems, we urge the Bank and the Fund to be more proactive and aggressive in garnering greater international cooperation to bring about stability in the commodities market.

Of grave concern is also the prolonged duration of the financial crisis in the United States. Given that financial markets are highly integrated worldwide, the risks to international financial stability are very real. As the turmoil on Wall Street affects Main Street, we are monitoring closely the events unfolding, and are very concerned about the second round effects on the real sector. If the current financial crisis is not addressed comprehensively, the global slowdown is bound to worsen and further impact negatively on the low income economies. We, therefore, hope that the affected individual countries will take strong and immediate measures to resolve the crisis quickly before the contagion effects engulf the whole world. We also hope that the Bank will step up efforts to assist the more vulnerable among us.

Going forward, we strongly suggest the Fund to enhance its surveillance efforts to address the inadequacies in regulatory and governance mechanisms among member nations to ensure better market oversight, without fear or favor. Countries that have exercised greater discipline in banking supervision, securities market regulation and corporate governance, especially in the aftermath of the Asian financial crisis, should not have their economic gains eroded by the risky behavior exhibited in the more developed markets. We, therefore, agree with the IMF Managing Director that, "a systemic crisis demands systemic solutions," and that, "vigilance, objectivity and collaboration—on a global scale—will be needed to deal with the challenges ahead," not the least being the spillover of the financial fallout into the real economy. In this context, we strongly urge the International Financial Institutions to focus on strengthening the international financial architecture to better identify weaknesses that contribute to economic and financial vulnerabilities, providing early warning signals, and instituting preemptive measures and policy reforms to avoid crisis situations.

Climate Change

Climate change is increasingly recognized as a challenge to sustainable development. We concur that the impact of climate change poses a higher risk to emerging and developing economies in achieving their development goals compared with developed countries. Instituting mitigation and adaptation measures in response to climate change imposes extra costs to developing countries, many of which are already grappling with critical poverty and growth issues. Abandoning developing countries to their own devices to mitigate the effects of climate change is unjust and will not bring equity. Wealthy countries are responsible for the bulk of past green house gas emissions but enjoy higher gains from global wealth, while the low-emitting poor countries are hard hit by the consequences of climate change. Developed countries should, therefore, assist developing countries with extra resources, in terms of funding, as well as facilitating technology transfer and capacity building to help integrate the process of mitigation and adaptation efforts to climate change into development projects. However, diverting existing funds from poverty reduction programs into climate change initiatives will not bring equity to developing countries. Specific funds, which have been established in response to the threat of climate change, should continue and developed Countries should honor their agreement under the United Nations Framework Convention on Climate Change (UNFCCC) to assist developing country parties that are particularly vulnerable to the adverse effects of climate change. In this regard, we welcome the Bank's efforts in setting up the Strategic Framework for Climate Change as part of measures to mitigate the impact of climate change. However, we wish to remind the Bank that the financing of climate change actions must be well defined and not be taken from poverty eradication programs or the IDA allocation.

Voice and Participation Reform

We take note of the progress in the Bank's voice and participation reform. We would like to reiterate that the reform being undertaken should bring about equitable and transparent representation in the Bank's governance. While we can subscribe to the parallelism between the Bank and the Fund, the differences in the roles and mandates of these respective institutions must be taken into consideration in formulating the voice reform. What is appropriate for the Fund is not necessarily appropriate for the Bank. This is because both have distinct missions. As such, using the Fund formulae for the Bank's reform will not reflect its true governance. It is fundamental for the Bank to consider voice reform with a deep understanding of its mandate in order to ensure that its

specific development mandate and role are reinforced. Of paramount importance, regardless what methodology is adopted, the reform should enhance legitimacy, credibility, and accountability without diluting the voice of developing countries, either as a group or as individual countries, and without imposing an extra financial burden. However, we are concerned that the option of doubling basic votes would lead to only a marginal increase of 1.2 percentage points to developing and transition countries voting power. We also welcome the suggestion that the selection of the president of the Bank be a more transparent, merit-based process, and open to all qualified nationals of all Member-States. We believe that the selection process must reflect the good governance and democratic principles espoused by the Bank.

In conclusion, we would like to express our appreciation to the Boards of Governors, management and staff of the Bank and the Fund for their good work in promoting economic growth, poverty eradication programs and financial stability in resolving the difficult challenges that lie ahead.

STATEMENT BY THE GOVERNOR OF THE FUND FOR MALTA

Michael C. Bonello

It is an honour for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I would like to convey my appreciation to the management of the IMF and the World Bank, the government of the United States of America and the authorities of Washington D.C. for the excellent arrangements made for these meetings.

I also take this opportunity to welcome New Zealand as a member of the Multilateral Investment Guarantee Agency.

A warm welcome is extended to Dr Boutros-Ghali on his appointment as chair of the International Monetary and Finance Committee and Ms Izumi Kobayashi as Executive Vice President of the Multilateral Investment Guarantee Agency. We are certain that the Bretton Woods institutions will benefit from their experience in international affairs and global finance. The past months have seen a number of organizational changes in the IMF and the World Bank Group. In this regard, I would like to express my appreciation for the

service and dedication of all those who left one institution or the other, and congratulate their successors on their new appointments.

This year's meetings take place against a background of severe crisis in global financial markets and a hostile and uncertain macroeconomic environment which continues to be substantially undermined by depressed conditions in housing markets and the negative impact until recently of a sharp upward trend in oil and commodity prices.

In many economies, and especially in the advanced economies, economic growth prospects have deteriorated further since the summer. Although the deterioration in terms of inflation might be over, price pressures are set to remain elevated for a while as supply in commodity markets responds only gradually to demand.

This situation is exacerbated by the ongoing turbulence in the financial markets and the persistence of global imbalances, which complicates the task for macroeconomic policy. Indeed, the measures that would seem to offer the best possibilities for the restoration of smoothly functioning financial markets may not be consistent with the longer-term macroeconomic objectives of fiscal soundness and price stability.

There is no doubt that the commodity price shocks and the economic slowdown are having a more pronounced impact on highly open economies and developing countries. A continuation of present trends risks undoing the progress made in recent years towards the Millennium Development Goals. As higher commodity prices, lower external demand and the automatic stabilizers continue to weigh on the public finances of developing countries there is a risk that they will not be able to undertake public sector projects that are necessary to deliver sustainable economic growth. Developing countries' external reserves are also bound to experience erosion as most of them are net commodity importers.

In this regard, we welcome the efforts undertaken by the Bretton Woods institutions to make their financial assistance more promptly available to those countries most affected by the energy and food shocks, and to encourage the resumption of trade liberalisation talks. This should contribute to a faster recovery in economic growth worldwide. It should be emphasised, however, that the upward trend in commodity prices also reflects structural factors. Consequently the financial assistance available from the Fund and the Bank can only offer temporary respite to an adjustment process that in the medium- to longer-term will imply an inevitable change in consumption patterns.

We believe that the IMF and the World Bank can facilitate adjustment in these countries, first by allowing temporary deviations

from preestablished targets in country programs, provided that end objectives are not redefined and time frames are set for reverting to optimal policy paths as soon as this is feasible for the borrowing countries concerned.

Second, as the institution responsible for international monetary stability, the IMF must also ensure that the short-term response to the financial crisis is conducted without amplifying global imbalances. The combination of housing market shocks, elevated commodity prices and ongoing financial turmoil highlights the need for a more resolute implementation of the policy commitments aimed at ensuring an orderly correction of these imbalances.

Third, the advice and capacity-building initiatives of the Fund and the Bank can be formulated so as to encourage the adoption of new consumption patterns, a more efficient use of energy resources and a faster switch to renewable sources of energy.

This, however, has to be achieved with due consideration being given not only to the two institutions' respective mandates and comparative advantage, but also bearing in mind the availability of knowledge bases of other institutions that have expertise in energy and related environmental issues, such as climate change. Through the combined expertise synergies will be achieved, ensuring an efficient utilisation of resources.

This principle should also guide the activities of the IMF in low income countries in general, possibly the area of the Fund's responsibilities where there is the greatest risk of overlap with World Bank operations. The recently concluded review of this aspect of the Fund's work offers a good opportunity to identify those areas where there might be room to rationalize its noncore activities and focus instead on those areas where its efforts can add value.

It will also be important to ensure, however, that the Fund's lending policy as it applies to LICs takes due account of its implications in terms of debt sustainability as well as the overall objectives of the broader review that is underway with regard to the other lending instruments available at the Fund.

In a sense, the current international situation has rendered such a broad review timely. It has brought to the fore weaknesses in the accounting and regulatory framework, as well as channels of financial contagion that were previously unforeseen. Moreover, unlike the more recent financial and currency crises, the current one does not have its origins in emerging market economies, but in the sophisticated financial markets of the advanced economies.

At this juncture, therefore, it may be relevant to consider whether the Fund's current lending framework only remains relevant to a small

subset of members under a limited set of circumstances or whether it could be rendered more relevant to the membership of the Fund as a whole by being endowed with the capacity to respond to a broader range of potential events.

We believe that the papers presented by the Fund staff provide a useful first step towards a simpler and more transparent lending framework. However, further reflection is required, not least on what instruments should be terminated and what new instruments and financing terms would be compatible with the Fund's mandate. In this regard we note that some of the proposals put forward, such as the idea of making financial assistance subject to collateral, do not seem to be consistent with the Fund's mandate and do not really offer a workable alternative. Furthermore the proposed 'quiet' facility would bring into question the Fund's efforts to enhance its institutional transparency. In addition we believe that further analysis should be undertaken by the Fund to see how conditionality could be streamlined and tailored to the circumstances of different countries without departing from the principle of uniformity of treatment and without impinging on the revolving nature of the Fund's resources.

Recent financial market events confirm the continued importance of the Fund's surveillance activities and the need for an even handed and transparent approach towards its implementation. To a large extent, the Triennial Review of bilateral surveillance correctly identifies those areas where there seems to be the greatest scope for modification. Here it would be pertinent to mention the need for more attention to low probability events with potentially significant regional or global effects, the links between the financial and nonfinancial sectors, and regional and multilateral spillover effects.

We also see a role for the systematic reporting on the follow-up to past surveillance activities in Article IV Reports. For many members, particularly nonprogram countries that are not considered to be of systemic importance and that are not subject to some form of peer pressure from other institutions, IMF surveillance remains the best available framework for conveying relevant policy advice and ensuring it is implemented in a timely and meaningful manner. For this reason too we share the view of the Managing Director that the newly launched '*ad hoc*' consultation procedure should not replace, but complement regular Article IV Missions. We also welcome the draft Statement of Surveillance Priorities but reiterate our view that its implementation should not result in an increase in administrative burden.

I conclude by assuring the management and staff of the Fund and the Bank of our continued support as they continue to press ahead with their efforts to refocus and restructure, and in their broader efforts in

promoting international financial stability and poverty reduction in an increasingly global challenging environment.

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

Mariana Durleaşteanu

Mr. Chairman, distinguished Governors, Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, Mr. Robert Zoellick, President of the World Bank Group, delegation members, ladies and gentlemen:

It is an honor for me to participate at this important event and a privilege to be here during the most challenging and worrisome times for the global economy.

Allow me to start with a few words about the recent economic developments in my country.

The Moldovan economy

Despite a series of exogenous shocks and the severe natural calamities experienced during the last three years, the Moldovan economy has been growing at an average annual rate of 5 percent since 2005. Despite current challenges, the overall performance is expected to improve in 2008:

- The GDP will increase by 7.5 percent.
- The budget deficit is targeted at 0.5 percent of GDP.
- Poverty will continue declining to 26 percent from 30 percent in 2006.

Also, FDI increased further in recent years: in 2008 alone, the FDI inflows increased by 2.4 times compared to 2007 and reached 15 percent of GDP, due to improved investment environment. Remittances inflows continue to be strong, they exceeded 30 percent of GDP in the last 3 years. This proves the fact that the Moldovan economy is getting more and more integrated into the global economy, with the resulting positive and also negative consequences.

The huge inflow of foreign exchange exerts significant pressure on the Moldovan currency leading to its appreciation. During the last two

years, the Moldovan Leu appreciated by over 25 percent against the US dollar. In turn, this affected the competitiveness of our exports and, as a consequence, we have a continuously growing trade deficit.

Together with the National Bank, the government of Moldova has been conducting a tough fight against inflation. The increase in international energy and food prices, combined with the significant inflow of foreign exchange makes this fight extremely difficult. Nevertheless, we have managed to reduce the annual inflation rate from 16.9 percent in May to 10.7 percent in September and hope to bring this indicator to below 10 percent by the end of the year.

The fiscal performance has been strong. The National Public Budget revenues increased from 38.6 percent of GDP in 2005 to 41.8 percent in 2007. Strong revenue performance allowed the government to implement a three-fold “liberalization” initiative, which includes capital legalization, tax amnesty, and introduction of a zero corporate tax rate on the reinvested income. The reform aims at reducing the tax burden and creating a better business environment.

In the meantime, we are continuing public expenditure reforms with the objective to improve resource allocation for investments and increase the efficiency and accountability of public spending. Prudent debt management policy has allowed us to reduce the public external debt to GDP ratio from 22 percent in 2005 to 12 percent in 2008.

In the last eight years, the Moldovan economy registered important achievements in all areas, but serious challenges continue to threaten the sustainability of these achievements. To deal with these challenges, in 2008, the Moldovan Government began the implementation of the National Development Strategy for 2008–2011, which aims at:

- (i) Enhancing the competitiveness of the national economy,
- (ii) Development of human resource, enhancing employment and promoting social inclusion and
- (iii) Regional development.

Both, IMF and World Bank support the new Strategy.

Relations with the Fund

Moldova’s cooperation with the IMF has been on an ascending trend in the last few years. Since 2006, we have benefited from about 77 million SDR, which were used to build up Moldova’s international reserves, which are now covering more than 4 months of import. In addition, we have benefited from important technical assistance, including on strengthening tax administration, strengthening banking supervision, and improving national statistics.

Talking about our future cooperation, I would like to raise a few issues. And, as a Minister of Finance, I will start with fiscal issues. All these years, the government of Moldova has been maintaining the budget deficit below 0.5 percent of GDP, and we are committed to stick to a sound fiscal policy in the future.

However, given the current global challenges that will affect us as well, we consider that a more balanced approach toward the fiscal policy is needed. The current challenges call for the fiscal policy to draw a fine line between balancing the need to help contain inflation, while at the same time, ensure economic growth and continued decline in poverty. The risks to the latter two tasks are currently on the downside. Moreover, we do have the resources (from privatization revenues) and we do not intend to spend on consumption needs. A slight increase in deficit would allow us to finance investment projects that are geopolitically important and socially targeted.

I would also like to call for more flexibility with Fund conditionality which envisages privatizations of high values assets. We all know that these kinds of transactions have to take place at right time, and the right time for the market might not always be the one envisaged in the program.

I would also like to request the support of the IMF in helping us to manage the growing inflows of foreign exchange. I think we all agree that there are only a very few small open economies in the world that, like Moldova, have strong inflows of remittances and of FDI and there is not much we can learn from the international experience on this. We would appreciate the support of the IMF staff in identifying additional financial instruments to withdraw the excessive foreign exchange from the market.

Another issue that we would need assistance with is the creation of a Risk Mitigation Fund to provide support to poor people in the situation of food crisis, increase in energy prices, climate change, financial crisis, etc. We would like to ask for advice on the best practices regarding establishing and managing such a fund.

Relations with the Bank

Regarding our cooperation with the World Bank, we have recently completed the implementation of the previous country assistance strategy and are currently defining the new partnership program. We appreciate the Bank's decision to keep the next program flexible and to increase the share of the budget support.

I would like to say a few more words about policy conditioned budget support. Starting with 1999, we are implementing nationally

owned reform programs (PRSPs) which should also serve as a basis for IFIs support. Indeed, the policy conditionalities negotiated with the World Bank do fit the general objectives formulated in our national documents. However, these days, more and more donors are coming up with policy conditions. Although we understand that conditionalities are needed to push for the implementation of unpopular reforms, having too many of them might be counterproductive.. Maybe you could unify your efforts with other donors (like EU) and have one single document that will define the policy conditions? This will make our life much easier in terms of managing the process and implementing the commitments. Also, very often, little money is accompanied by lots of conditions.

The second issue that I would like to raise is the need to improve the planning of resources. First, we believe that, in many cases, the Bank disbursement procedures continue to take too much time. In addition, the disbursement of budget support is conditioned by the fulfillment of policy commitments which are not entirely in the government's hands (like approval by Parliament), which can cause significant delays in disbursing the money. Both these factors are making our expenditure planning exercise very difficult.

Finally, I would like to stress that the IMF and WB relations with small countries like Moldova should be more flexible, and allow for ongoing adaptation of the range of instruments, tailored to the country's needs and capable of providing effective assistance with finding the right response to global challenges.

STATEMENT BY THE GOVERNOR OF THE FUND ON BEHALF OF THE
GOVERNOR OF THE FUND AND THE BANK FOR MYANMAR

U Than Nyein

I would like to express our appreciation to the host government and the people of the United States for the hospitality extended to our delegation. I would also like to thank the managements of the Bank and the Fund for their excellent arrangements made for this meeting.

At this point, I wish to congratulate Mr. Zoellick and Mr. Strauss-Kahn for their able leadership. Under their leadership and guidance, the institutions have made considerable contribution to the promotion of international cooperation and development.

I would like to take this opportunity to extend my deepest sympathies to all the governments and peoples of the countries that had faced natural as well as man-created disasters during this year. As a country that has suffered an unprecedented natural disaster, we sincerely can identify well the hardships and sorrows that those countries had to face.

In contrast to last year, we meet here at a time when the global economy remains bleak as down side risks remain. Due to high commodity prices, natural disasters and the recent financial turmoil, the global economy remains weak.

There is no denying that there is still much to be done in order to have the global economy on the path to sustainable growth. In this context, collaboration and cooperation, not only between advanced countries, but also between advanced countries and emerging economies, are essential for global macroeconomic stability and prosperity. Effective, focused, and flexible macroeconomic measures may be needed. The present issues of importance are to maintain the pace of growth, lower inflationary pressures and lessen the impact of the financial turbulence.

I would now like to brief the Meeting on recent developments of the Myanmar economy. As have been stated in previous year, we have been formulating and implementing short-term plans since 1992-93. 2007-2008 was the second year of the Fourth Five-Year plan and we have been able to maintain the momentum of the growth rates that have been previously achieved. The agriculture sector is still the mainstay of the economy as its share in GDP is around 44 percent, while the industry sector's share is 20 percent and the services sector's share is 36 percent. It can be said that our economy is on the right path to sustainable growth momentum.

On the external front, the current account is in surplus, due mainly to surplus in the trade account. The surplus can be attributable to increases in exports and remittances from abroad. As such, our foreign exchange reserves have also risen considerably.

In the fiscal front, although the budget is still in deficit, the deficit is on a declining trend. We intended and were trying to have a balanced budget this year. However, as we have to spend for relief, rehabilitation, and prevention of contagious diseases for the victims of the cyclone, we expect this year's expenditure would be quite large. We are making efforts and taking necessary measures to increase revenue that we hope will help us offset some of the increase in expenditure.

On the monetary front, supervisory and regulatory powers of the Central Bank have been strengthened and due diligence and care had

been taken to ensure that the banking sector is not used for improper transactions, including money laundering and financing of terrorism.

The only thing that remains to be tackled is the inflation rate, which is still relatively high but is gradually declining.

In May, the second month of this fiscal year 2008-2009, Myanmar was struck severely by Cyclone Nargis with unprecedented force, concentrating mainly on the region most important for agriculture, fishery, and salttens. The cyclone also destroyed and damaged an enormous amount of households and displaced hundreds of thousands of people. Thousands of lives were lost while thousands are still missing. According to the Post- Nargis Joint Assessment (PONJA) report, the impact of the cyclone on the economy and people has been severe due in part to the fact that it happened right after the harvest of the summer paddy. As such, the recovery needs are significant and span all sectors and the estimation of the total economic losses amounted to about 2.7 percent of the projected 2008 GDP. Internal and external assistances have been prompt, and timely assistance was rendered to us. I would like to take this opportunity to thank all the organizations that have provided us with humanitarian assistances.

Even with this unfortunate occurrence, I am very much pleased to report to the meeting that during the first quarter of this year we have been able to achieve a relatively good growth rate. We are ready to put all out efforts to maintain our targets and are hopeful that we will be able to overcome whatever difficult tasks that lay ahead in order to achieve macroeconomic stability and growth. In doing so we will be giving due consideration for the development of the social sectors in order to meet all the MDGs in time.

We have been lucky in one way, as we do not have developed capital or financial markets yet and therefore we will not have direct impact of the recent financial crisis on our economy. However, in this globalized world where a country cannot stand alone, we understand that there would be some indirect impact on Myanmar. We stand ready to cooperate with all the countries in the region in order to overcome whatever challenges and risks that we might face in the future.

Myanmar has been a member of both organizations for over (56) years. We have always worked closely with these organizations and we will continue to do so in the future.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

Baburam Bhattarai

It is a pleasure and honor for me to address this noble gathering of the eminent officials of the World Bank Group and IMF as well as my fellow governors and colleagues as a Finance Minister and Governor of the newly born Federal Democratic Republic of Nepal. This annual global assembly of development professionals and practitioners provides an appropriate platform that can best be utilized for discussing and deciding on how we can wipe out the curse of absolute poverty from the face of the earth and create a decent, egalitarian, peaceful, and prosperous society in all parts of the world.

Let me briefly explain the recent political development in Nepal. We have fought and won the political war—a war to emancipate the people of Nepal from all forms of feudal exploitations. Feudal monarchy that represented stagnation and underdevelopment has come to an end. People of Nepal have become fully sovereign. We have achieved this through collective efforts and consensus of all political parties. For the first time in Nepal's history, people's representatives are going to write the new constitution. After a decade of peoples' war, the peace process now is moving in right direction and we will collectively steer this to success.

Internal conflict is now over and the country is heading towards lasting peace. The steps that we have traversed so far starting from the signing of Comprehensive Peace Accord between the Communist Party of Nepal (Maoist) and the then government in November 2006 to the formation of the present coalition government headed by the Maoist party following the Constituent Assembly Election mean that political instability will no longer remain as a problem. The writing of new constitution of the nation within two years will complete the political transition of establishing People's Republic of Nepal.

While we have made progress on the political front, we now have to fight the economic war— a war against economic stagnation and deprivation of masses from even the basic necessities of life. This is the challenge that we have to face head on. And we must aim to take big leaps. It is time that we take high ambitions and put all-out efforts to achieve them.

During the past 50 years of planning, the growth rate of the Nepalese economy has been very low, or barely sufficient to keep pace with the population growth rate. The rate of savings is just about 11.5

percent of GDP, which means high dependence on foreign assistance to meet the investment requirement for the targeted rate of growth. We realize that poor governance has been one of the fundamental constraints for Nepal's rapid development. We have focused our efforts on improving governance, minimizing leakages in expenditures and properly targeting public expenditures so that we get maximum out of government's investments.

Nepal is now in a phase of economic transition from feudalism to industrial capitalism, with appropriate blend of social welfare. And we want to complete this transition as fast as possible. In this process, we will have to demolish old growth inhibiting rules, structures and institutions and initiate new growth promoting strategies wherein each individual will be able to realize his/her production potentials. Our vision is to build a '**New Nepal**' through rapid socio-economic transformation. We have set out the economic agenda with a goal of achieving double-digit economic growth rate in the next two years with, of course, proper distribution. For this, we have opted for a three-pronged strategy: promotion of private sector investment in growth-propelling sectors, public-private partnership in large infrastructure projects and cooperatives in rural areas in agriculture, agro-processing, marketing activities and in operating public distribution system.

Our development priority is on water resources and hydropower, and agriculture and tourism as these are the areas in which Nepal has comparative and competitive advantage. We would be creating investment-friendly environment for foreign direct investment in these areas. For this, we would need rapid expansion of physical infrastructures and accelerated investments in education and health.

As we are embarking upon a challenging journey of rapid economic growth focusing on improving the lives of millions of poor people, the rising commodity prices have made our development efforts costlier. Commodity prices have also made poor people's lives even more miserable. Just when the world community was tackling the rising commodity prices, there is now the other crisis propelled primarily by falling asset prices. The exact magnitude of current financial crisis is not yet known as each day banks, one after the other in advanced countries, are reporting financial distress. We are not quite sure where this all will lead to, but the world economic outlook looks bleak for the foreseeable future. I think we have all gathered here at the right time to debate on these issues and I hope that, collectively, we will find proper solutions.

I urge that when advanced countries focus on correcting their domestic economic woes, they should not lose sight of the need of under-developed and developing countries.

I take this opportunity to express our sincere thanks to all those who have extended support to our peace process and in rebuilding Nepal. I would also like to thank the Bank and the Fund for their renewed commitment to help achieve our vision of New Nepal.

Before I close, I would like to thank the government and the people of United States for the hospitality. I also thank the Bank and the Fund for the excellent arrangements made for the Annual Meetings. I wish the Annual Meetings a grand success and thank you all for your gracious presence.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR OF THE FUND
AND THE BANK FOR THE KINGDOM OF THE NETHERLANDS—
NETHERLANDS

Ruud Treffers

Dear colleagues. We meet in exceptionally turbulent times, affecting all our countries one way or the other. In recent weeks we have seen that the current multilateral system has proven unable to offer a sufficient response to the complex combination of the financial, climate, food and energy crises. The world is globalized in terms of risks and opportunities, but hardly in terms of effectively responding to global crises. If every country works on a solution only for its own problems, the most vulnerable countries and groups draw the shortest draw.

We must change that, and ensure that the current response to the crises contributes to a structural change in the way we do business at the multilateral level. First, I would like to focus on the role of the International Monetary Fund as guardian of international financial stability. Subsequently I will speak about the challenges for the World Bank.

Strengthening the role of the IMF as guardian of international financial stability

The Fund can play an important role to improve the international financial architecture. A role that should be complementary to that of other international financial fora, such as the Financial Stability Forum and the Bank of International Settlements. A strengthened financial

stability role of the IMF needs to be reflected in all its tasks, including surveillance, its lending framework and in its Technical Assistance.

Enhancing surveillance

The Fund has a unique position within the international financial architecture. Not only does it have an almost universal membership, it also is in active dialogue with member states through its bilateral surveillance. This dialogue goes further than just offering local authorities feedback on their policies. Indeed, the Fund's advisory role is firmly anchored in its mandate to survey macrofinancial conditions and policies in member states with the purpose to foster open economic relations and prevent negative spillover effects. This close relationship with so many countries makes the IMF a potentially great source of knowledge on issues of local, regional and global financial stability. In order to live up to this potential, surveillance should further be tailored to assessing risks and vulnerabilities in financial sectors and markets from a macro perspective. Although the Fund has made important strides in this respect, I think there is still room for improvement.

First, the Fund can sharpen its focus on financial sector issues in bilateral surveillance and address them more systematically. Such enhanced focus requires that the IMF has sufficient financial expertise. Moreover, the statement on surveillance priorities is a step toward a more systematic approach in surveillance. A further step could include developing a framework or "checklist" of macro risks and sector specific vulnerabilities that should be assessed. I see this as a means to quickly incorporate lessons learned through the surveillance of countries and through multilateral surveillance. Moreover, a more systematic approach in surveillance can also support the implementation of policy advice of other relevant bodies, such as the FSF, and provide feedback on the adequacy of these policy responses.

But stepping up financial sector surveillance also requires the commitment from member states. The current credit crisis shows how disequilibria within and between large economies can threaten world-wide financial stability. Therefore, all systemically important economies should reach out to the Fund and sign up for an FSAP or an FSAP update.

Second, the Fund's multilateral surveillance should be aimed at identifying cross-border financial linkages and risks. The current crisis has shown how closely international financial markets and institutions are connected. Even though many of us have pointed to the risks of highly leveraged and complex financial products, none of us had foreseen the severity of the chain reactions that followed, when defaults

on US subprime mortgages started to rise. We should not have the illusion that the next crisis can be predicted by the IMF or any other organisation, but we can strive to develop “early warning systems” that can at least mitigate the impact of shocks. The Fund can enhance our understanding how financial shocks ripple through the financial system and how this system interacts with the real economy.

Third, I think that financial stability considerations should also be at the forefront when the IMF is analyzing the sustainability of a country’s exchange rate. Clearly, the related global imbalances have been—and continue to be—a factor in the current financial turmoil. The 2007 surveillance Decision has been an important step in redefining the Fund’s exchange rate surveillance and I support a firm implementation of this Decision. However, I think that from a financial stability perspective there is a difference between a potentially overvalued and undervalued exchange rate. History has shown how a sudden downward correction of the exchange rate, sometimes triggered by speculative attacks, can be the cause of a deep rooted economic crisis. Even when discounting for large methodological problems in assessing exchange rates, I think that the IMF should be very careful in its approach toward restoring equilibrium in a country with an overvalued exchange rate, both in policy advice and in communication.

Adapting the Fund lending framework

The Fund is currently reviewing its lending framework. Also in this area there might be room for better compatibility with financial stability challenges. The world-wide credit crisis reflects the vast size of cross-border capital flows and also reminds us of the importance of investor confidence, not only towards individual financial institutions, but also towards specific countries that for example have relatively large financial sectors.

Adapting the Fund’s lending framework to these challenges is not easy. In a world with large capital flows, confidence could be underpinned by the possibility for the Fund to extend large amounts of financial support. This might call for an increase in access limits or the development of an insurance type of instrument. However, Fund support only works if it addresses the root causes of a crisis. This requires adequate conditionality, in order to signal a credible adjustment of economic policies. But any instrument that quickly disburses large financial packages erodes the Fund’s possibility to capture appropriate policy responses. It will be a challenge to find the right balance between conditionality and access to financing. In the regard, I think the IMF should also further exploit its role as financial catalyst.

Technical assistance

This brings me to the third task of the Fund, technical assistance. In the midst of a credit crisis, it is easy to forget the important upsides of international capital flows for economic growth and prosperity. I remain fully convinced of the merits of cross-border financing. Therefore, we should help developing countries in opening-up to outside investment. Together with the World Bank, the IMF can use its technical assistance toolkit to help build institutions that are strong enough to absorb the roars of international capital markets, while benefiting from foreign investment.

World Bank: Playing the anti-cyclical role

The World Bank and other MDBs must now act to mitigate the risks of the current crises, and support the developing countries to grab available opportunities, actually helping them to sustain their growth. I appreciate the initiatives taken by President Zoellick in this regard. Over the last years, the World Bank and other MDBs have created large reserves. These reserves now can and should be used for extra financing and further mobilisation of private money flows to countercycle negative consequences for poor and vulnerable countries. And, even more than money, these countries need knowledge and top-of-the-bill, on-time advice. To deliver that, a bank has to be close to its clients. It's the local response of the World Bank that will make the difference and enable us to think out of the box.

World Bank: Linking strategy to reform on the ground

We strongly support the six strategic themes chosen as the World Bank's priorities. Now, we have to act on a translation of these priorities into the day-to-day operations of the Bank. How will the Bank change its procedures to be better able to address the challenges linked to each of the priorities?

Two examples. We definitely subscribe to the view of president Zoellick, that the Bank has an essential role to play in fragile states. His recent speech in Geneva on this topic contains a number of very interesting thoughts on this issue. But how is the Bank going to change its procedures in such a way that it will be able to react faster to the urgent needs of fragile states in a post-conflict situation, such as for example Liberia? Some progress has been made, but especially in the case of fragile states, the Bank needs to be able to act firmly and swiftly in order to help materialize the peace dividend, and we, as donors, should support the Bank in adapting its procedures and make that possible.

Another example lies within the priority area Global Public Goods. The Netherlands welcomes the approval of the new Climate Investment Funds and the Strategic Framework on Climate Change and Development as positive first steps towards a more sustained multilateral response, within the framework of the UNFCCC. Now we need to move from theory to practice and to put both funds and the Strategic Framework into concrete action on the ground. Combating climate change and fostering development require an integrated approach in Country Assistance Strategies, and in their implementation.

World Bank: Enhancing the voice and participation of DTCs in the World Bank Group

As requested by the Development Committee during its recent Spring meeting, an initial reform package on Voice & participation has been prepared by Management, and agreed upon yesterday by the Development Committee. The Netherlands welcomes the decision to add an additional African chair to the Board and to double the basic votes, as a first step. Moreover, I am pleased with our agreement that all shareholders will uphold the principles of a merit-based, open and transparent process for selecting future Presidents of the World Bank. We simply want the best woman, or perhaps even a man for that job, irrespective of her or his passport or political affiliation.

Now, we must keep the momentum and move towards a significant realignment of shares, reflecting the global mandate of the WBG: we don't need static blocs. Shares and voting weights should therefore be determined by the relative weight of a country's economy, and also by a shareholder's use of the institution, be it through IDA donations and trust fund support or through the procurement of the WBG's financial and advisory services. That is only fair.

Accountability and effectiveness are closely intertwined. I am therefore pleased to see that the document on voice and participation pays sufficient attention to improving effectiveness through strengthening internal governance and accelerating decentralisation.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEW ZEALAND

John Whitehead

*Developments in the Global Economy and Financial Markets and
Implications for New Zealand*

The Annual Meetings this year are taking place at a very challenging time for all member countries. The implications for economic activity and global growth from the current financial market turmoil and high commodity prices are serious—addressing these implications will require the concerted focus of our governments, with support from the Fund and the Bank as appropriate.

The New Zealand economy, like a number of others, is currently facing imbalances in the areas of inflation, household debt, house prices, and the current account. As a result of drought, higher consumer prices, and previous monetary tightening, output declined in the first two quarters of 2008 and is expected to have declined marginally in the September quarter.

Like others, the New Zealand economy is not immune to international developments, which we are expecting to be transmitted to New Zealand through the cost and availability of credit, business, and consumer confidence, lower terms of trade, and exchange rates.

There are signs the economy is beginning to turn and growth is forecast to be positive in the final quarter of 2008 thanks to the recovery from the drought and tax cuts, but will remain subdued throughout most of 2009 as negative influences continue to affect the economy.

Maintaining Momentum of Reforms

New Zealand is pleased to see concrete steps in the last few years taken by both the Fund and the Bank, which are aimed at enhancing their effectiveness, legitimacy, and credibility. In particular, New Zealand welcomes the Fund's quota and voice reform package, which includes a built-in regular review mechanism, the Fund's efforts to ensure that it will operate on a financially sustainable footing, and its ongoing efforts to reform its internal governance. In terms of the Bank, we have been supportive of its efforts to renew its strategic direction and we look forward to agreement on a comprehensive package on voice and participation reforms in the near future.

Reform is an ongoing and long-term process at both institutions and it is important for all members to ensure that the momentum to continue, firstly for proposed reform on different aspects to be progressed, and secondly for agreed proposals to be implemented.

World Bank Voice and Participation

New Zealand fully supported the Bank's commitment to develop a comprehensive package on voice and participation reforms for consideration by Governors at this meeting.

The eventual package needs to be comprehensive, achieve its aim of increasing voice and participation, be based on an inclusive and transparent process, and take into account the distinct nature of the Bank's development mandate.

We would like to specifically note that we see comprehensiveness as meaning that the package covers more than just shareholding issues, but includes aspects such as the merit-based appointment of the President, strengthening Board effectiveness and efficiency, and enhancing voice and participation in the Bank's operational work. New Zealand has supported and continues to support an open and transparent process for the appointment of senior positions at International Financial Institutions, which should be open to candidates from all regions of the world based on merit.

The different components of an eventual package are important in ensuring that all members continue to have a Bank that will be able to deliver effectively on its mandate. We look forward to further discussion on the package in the coming months, with the hope that agreement will be reached on its key elements along the agreed timeline.

IMF Principles for Sovereign Wealth Funds

New Zealand is pleased with the consultation, effort and thought that has gone into the development of the *Santiago Principles*.

We believe that the practices and principles covered in the document will help ensure that Sovereign Wealth Funds (SWFs) have the appropriate legal framework, objectives, and coordination with macroeconomic policies; institutional framework and governance structure; and investment and risk management framework.

IFIs Work on Food and Fuel Prices

New Zealand appreciates the extensive analytical work that has been undertaken by the Bank and the Fund on the food and fuel price increases. We are supportive the policy options put together to assist

countries facing particular challenges as a result of price inflation. We believe it would be extremely valuable if various regional departments could undertake work more specifically tailored to their particular region, taking the regional and country-based contexts into account.

We also support the financial measures being offered by the Bank and Fund to those countries most affected by the price increases.

Development Effectiveness

New Zealand welcomes the Accra Agenda for Action and encourages the Bank to work closely with donor and country partners to implement it. Addressing these aid effectiveness challenges will also require an internal focus on culture, incentives, systems, and practices.

New Zealand acknowledges the encouraging progress in the Bank's work on development effectiveness, as noted by the 2008 Annual Review of Development Effectiveness (ARDE). The use of impact evaluations and the results management system for IDA are promising developments in corporate-level monitoring and evaluation.

We note that project performance for low-income countries (LICs) continues to show a rising disconnect between the Bank's optimistic self-ratings of project performance and IEG's final ratings of development outcomes. It is highly important to achieve the necessary improvements in the Bank performance management system including strengthened results frameworks with robust baseline data, for realistic assessments of development results.

The challenge for the Bank to improve performance management is partly one of changing the incentives and culture of staff towards more accurate reporting. This is common to most development agencies. The persistence of incentives for staff to work on the preparation of projects rather than implementing them is a well-recognized major issue. This supply-driven culture in project preparation tends to stimulate over-optimism in assessing the likely outcome at the start of a project in order to get it approved. As shown by the 2008 ARDE, often only after the project has been completed, are more realistic assessments taken.

World Bank Engagement in the Pacific

New Zealand welcomes the increasing World Bank engagement in the Pacific. We anticipate the growing regional presence will facilitate better coordination and cooperation efforts for Pacific governments. In expanding its outreach it is important that the Bank draws fully on the resources available through other donors' existing relationships with developing member countries, and adds value to these rather than attempting to replicate them. The challenge is to ensure that donors work

collectively with each other and our Pacific partners to improve efficiency, responsiveness, and accountability of economic advice and program delivery.

In this respect, we urge the Bank to expedite further harmonization efforts in the Pacific by finalizing plans for shared country offices with the ADB in Samoa, the Solomon Islands, and Tonga. We welcome confirmation of the decision to co-locate two experts in the IMF's regional technical assistance facility, PFTAC, in Suva, and look forward to seeing their impact on strengthened efforts to improve SoE management and the follow-up of public financial management surveys across the region.

New Zealand is pleased to be part of the Pacific Regional Infrastructure Facility (PRIF) and we look forward to the upcoming design and prioritization process in phase one. Our interest is particularly in the potential for improved technical assistance, donor coordination, and a greater emphasis on infrastructure maintenance.

Global Public Goods

New Zealand stresses the need to identify the Bank's comparative advantage in global public goods (GPGs), especially given the Bank's increasing array of global programs, notably in climate change. Going forward it will be necessary for the Bank to strengthen incentives to deliver GPGs at the country level. This could include the provision of clearer organizational arrangements to best select and link responses at country, regional, and global levels; enhance the delivery of knowledge to country teams working on GPGs; and ensure that the perspectives of developing countries are effectively connected with global responses. It will be important to draw on the existing knowledge of all development partners in such situations.

Where GPGs are in conflict with a country's expressed interest, questions of cost burden and ownership need to be fully considered, while carefully avoiding conditionality- and supply-driven approaches (especially given the substantial increase in GPG trust funds). New Zealand encourages the development of global-level frameworks, which provide incentives to countries including financial mechanisms for incremental costs, as a positive response. We look forward to more concrete recommendations on how to address this challenge, and assurances that this issue will be seriously considered.

World Bank New Zealand-Pacific Remittance Project

During the past year a number of New Zealand government agencies, in conjunction with the World Bank, have funded and worked

on the New Zealand-Pacific Remittance Project, aimed at reducing the transactional costs of remittances in the Pacific region. These costs can be anywhere from 15 percent to 25 percent of the value of the remittance and the World Bank has identified that remittances to the Pacific region have tripled over the past decade to reach US\$425 million.

As an outcome of this project, the government recently approved a new regulation under the Financial Transactions Reporting Act to encourage the development of a more competitive remittance market, with greater transparency, a wider use of formal channels and better informed consumers. This should result in a significant reduction in the costs of remitting money and represents a very practical way to contribute to the well-being and quality of family life in the Pacific.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

Shaukat Tarin

It is a matter of great privilege and honor for me to address this august gathering.

We are meeting at perhaps the most tumultuous times the world is witnessing since the establishment of Bretton Woods institutions. For the last more than one year we have seen a series of successive shocks that were unleashed in the wake of sub-prime crisis. Oil and food prices shocks have affected the developing countries most profoundly, and we are still reeling under their aftermath. In the days ahead, the situation is likely to be compounded by the second round effects of the on-going financial crisis.

In the case of Pakistan, we are not merely facing the economic consequences of the global crises but are playing the role of a frontline state against the war on terror. If on the one hand, more than 100,000 of our troops are battling a ferocious militancy, on other, our peoples in the main cities and federal capital are becoming victims of the suicide bombings. The loss of lives and economic cost imposed by this war are now rising to an unbearable level. There is a very negligible portion of these costs that is defrayed by our partners.

We also had to face the challenge of democratic revival as well. Our people gave a resounding verdict in favor of democracy as the principal instrument that would rid the country not only of militancy but of their economic deprivation also. The battle of democracy has been won after

great sacrifices, the most notable is that of our great leader Shaheed Mohtarma Benazir Bhutto, who bravely sacrificed her life but has kindled a light that would show us the way in dark alleys of war on terror. But unfortunately, the elected leaders have inherited an economy that was encumbered by the burden of subsidies accumulated due to unanticipated shocks of oil and food prices.

I take pride in stating that despite the gravity of the challenges, the democratic government has not abandoned country's resolve to move forward and to do things right both in standing up to the call of fighting the militancy as well as in preserving the market economy that we have evolved during the last two decades. We may be amongst the few countries who have successfully adjusted to the unprecedented increases in petroleum and electricity prices by eliminating nearly all the subsidies. The pain inherent in this adjustment can be gauged by the fact that these prices have nearly doubled or will be doubled at the close of the adjustment. We have also successfully met the challenges of food shortages both through timely imports as well as by aligning domestic agriculture prices with international prices. On the monetary side, we are fighting rising inflation by interest rates adjustment and by containing the monetary growth. We have also set the goal to adhere to a zero net government borrowings target from the central bank.

However, Mr. Chairman, these measures have not been accompanied by the support from our development partners that was needed to fully meet the needs of the economy. Even as the measures have helped contain the rapidly deteriorating macroeconomic framework the challenges remain on the horizon, and for this reason are equally determined to rise to their needs.

It should be understandable that adjusting to these shocks was a painful process, particularly for the most vulnerable segments of our population. To mitigate their sufferings we are launching a major program of cash transfers to the poorest households in the country. We are conscious of the challenges that are typically faced in targeting this group, and for this reason we will seek Bank's assistance from its vast experience in this field.

Mr. Chairman, although the multiple crises have been difficult to face, they have given us an opportunity to undertake a soul-searching exercise and identify the vulnerabilities that characterized our economy and society. Accordingly, we are drawing fundamental programs to further restructure our economy and strengthen our institutions of governance so that we are better prepared to face such challenges in the future.

Besides ensuring macroeconomic stability, our new program will be primarily aimed at poverty reduction. For this purpose, apart from cash

transfers to the poorest households, we will provide health insurance, skills development opportunity for at least one member of the family, and a suitable development support that will create temporary employment opportunities for each union council, which is the smallest administrative unit. This program will be supported by initiatives to revitalize agriculture, make the industry competitive, meet the growing energy needs, raise capital and finance for development, remove infrastructure bottlenecks through public-private partnership and reinvigorate the institutions of governance so that a just and fair administrative machinery serves as the anchor for the implementation of a vigorous and ambitious economic program.

Mr. Chairman, we look up to our development partnership, especially the IFIs, to help us lead this program, through both their advisory and financial assistance. We would also recommend that our bilateral partners also play their role within the larger framework that will evolve through active consultation with the IFIs.

In closing, let me acknowledge the effective role both IMF and World Bank are playing in the economic development of Pakistan. We are looking forward to even stronger ties in the coming days so that Pakistan successfully meets the challenges posed by multiple global crises.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

Margarito B. Teves

Fellow Governors, this year's meeting is taking place amidst tumultuous economic events. And our intensified collective and cooperative efforts are necessary to overcome these challenges that threaten to reverse the gains we have achieved in improving the levels of income and social welfare and reducing poverty incidence.

Such stormy horizon imposes a sense of urgency and significance in the gathering of international financial leaders here in Washington. We need a strong and coordinated action to steer and mobilize resources to meaningfully respond to these exceptional challenges. The exchange of views facilitated among distinguished financial managers and experts should enlighten and guide each of us in pursuing effective measures to combat financial and economic contagion.

The IMF is well positioned to forge a multilateral response to arrest the deteriorating atmosphere and restore order and discipline in the global financial system. Likewise, enhancement of the Fund's financing facilities and easier access thereof are necessary to better assist developing economies insulate themselves against the adverse effects of the financial turmoil. We welcome a comprehensive review of the Fund's financial instruments including reforming its Exogenous Shocks Facility to cater more effectively to the needs of its developing members under the current volatile environment. A more proactive surveillance of economic developments in developed economies and deeper analysis of policy and regulatory interventions would be most useful in setting appropriate macroeconomic and financial responses.

The external shocks from the global financial crisis and economic slowdown likewise pose daunting challenges to the World Bank. While efforts to preserve its strong capital position and financial standing should be strongly pursued, the Bank needs to design more innovative and quick-response products to sharpen its developmental role for its developing constituents. The pricing reforms and various innovative products earlier introduced by the Bank are significant steps to address the demand for more cost efficient ways of doing business with this institution. Such initiatives serve as incentive for the Bank's developing members in addressing the growing and more complex financial and economic risks created by the current hostile global conditions.

Although global commodity prices have started to ease, current levels remain historically high. Food supply and price levels, particularly those of rice, continue to be a priority concern for most developing countries given its immediate impact on the poor. Prospects for a benign oil price environment, including those for other critical commodities, still do not appear firm. This uncertainty in the supply and price of basic commodities imposes a new responsibility for the Bank in view of its mandate to reduce poverty. We therefore fully appreciate the endorsement of the World Bank's Group's "New Deal on Global Food Policy" and the establishment of the new \$1.2 billion rapid financing facility. As a middle-income country, we are pleased to have made an indirect contribution to the plight of the low-income countries through the use of the IBRD surplus in the setting up of a Trust Fund for the poorest and most vulnerable countries as part of the "Global Food Crisis Response Program." Acknowledging the funding limitation of the Program, strong coordination with other development partners and within the World Bank Group is essential to mobilize greater resources and expand the reach of the Program. We also call on the International Finance Corporation to generate greater and more enthusiasm for private sector engagement in agriculture and infrastructure development to

achieve our multiple development priorities for economic expansion and competitiveness.

We likewise reiterate our strong advocacy for the Bank's active collaboration and faster harmonization process with other development parties converging towards the adoption of country systems. The broader adoption of country systems would promote country ownership and streamline processing and implementation of foreign-assisted development projects.

The Bank should demonstrate its leadership in adopting good governance principles. Accelerating the Reform in Voice and Participation in the Bank would be a solid manifestation of this commitment. With an agreement reached on the Quota and Voice Reform, we hope that the Bank can show progress soon, in many aspects of the reforms on Voice and Participation, including their timely implementation. We fully subscribe that the developing countries' need to be given voting strength factoring into the equation such variable as poverty.

Mr. Chairman, the tasks at hand are daunting but not insurmountable. But the episodes of previous crisis point to the important lesson for all of us to work closely together to successfully navigate through this turbulent journey and return to a path of robust growth and significantly reduce poverty.

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

Pawel Samecki

It is a great honor for me to participate in the Annual Meetings of the World Bank and International Monetary Fund. It is extremely important to gather here and I am grateful to the staff of the Bank and the Fund for their efforts in organizing this event.

When we met last year, we reflected on potential risks linked to the turmoil on financial markets. Today we know that most of these risks have turned, unfortunately, into real problems that we need to face. We are observing diminishing confidence to and within the banking sector, massive support actions by central banks and governments, as well as decreasing growth rates across the developed world.

Developing economies have been rather resilient, but they are still faced with the huge challenges of food and oil prices. Inflation has reached double-digit rates in many parts of the world. Tighter credit and liquidity conditions are expected to limit investments. These problems complicate significantly the task of monetary authorities worldwide. They may also slow the pace of growth that has helped in lifting many people out of poverty in the last decade. In brief, we have just entered a global uncertainty, and although the roots of the problems lie in the policies and behavior of financial entities in certain countries, the global institutions should help put things back to order.

The severity of the current financial turmoil showed that there was no clear warning system that could have identified symptoms of forthcoming turbulences and help mitigate negative spillovers. Such a system would require effective regulations for financial sector and cooperation between national financial supervisors. At the same time, the depth of the crisis provoked an intensive debate on how far the national institutions can go with using taxpayer's money for reforming country financial systems. Nevertheless, the uncertainty surrounding the potential economic consequences calls for rethinking the role of the global institutions. The question arises how challenges linked to the international consequences of internal financial crises should be monitored and analyzed.

There is a crucial role to play for the International Monetary Fund in restoring confidence and proper functioning of the world financial markets. It is important to underline the Fund's role that is to be based on effective surveillance. This should cover fundamental macroeconomic linkages between the financial sector and the real economy. The IMF's cooperation with the Financial Stability Forum should result in a strengthened prudential financial regulatory framework, implemented and adhered to across the whole membership. Against this backdrop we consider the Financial Sector Assessment Programs (FSAP) to be one of the key elements in the Fund's toolbox, which provides the governments with clear guidance on preventing and coping with the crisis. As a sign of the importance of the FSAPs we note that the FSAP-recommended enhancement of the cross-border cooperation between the national financial regulators has been thoroughly tested in the recent days.

The Polish financial system still appears to be highly resilient to the turmoil, with no evidence of contagion effects. Nevertheless, there are risks that the slowdown in the euro area will negatively impact the near term growth prospects of all Central and Eastern European countries.

Unfortunately, the problems of the financial markets have coincided with a global rise in oil and food prices, as well as with the need to counteract global warming. We highly appreciate the World Bank

Group's work on global public goods, and, in particular, on reconciling development and climate issues. We welcome the country-led, knowledge-based, and results-oriented approach presented in the Bank's Strategic Framework. We share the opinion that taking steps against climate change should not compromise progress towards achieving the Millennium Development Goals. It should also take into account the specific situation of both developed and developing countries that heavily depend on carbon-intensive energy sector.

Global development issues are broadly related to the global governance. We welcome the process of the reform at the Bretton Woods institutions, with its objective to enhance the voice and representation of developing and transition countries. We also note with satisfaction the ongoing IMF governance reform, as well as the review of the Fund's lending framework, which aim at reducing overlaps and making financial instruments more coherent.

Thanking once again the staff of both the Bank and the Fund for their work, I believe that these Annual Meetings will conclude in providing guidelines necessary to find appropriate solutions to the economic challenges we currently face.

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

Aleksei L. Kudrin

Our Annual Meetings are taking place during an unprecedented crisis, which has shaken the very foundations of the modern financial system. The problems in the U.S. financial sector, stemming from the flaws in the regulation of financial institutions, caused a chain reaction around the world. The simultaneous movement of markets in various regions, regardless of the countries' macroeconomic positions, provides clear evidence of high interconnection of the financial systems and economies all over the world. It is obvious that the crisis can be resolved only through coordinated international efforts. Decisions taken without due consideration of the consequences for other countries could make the situation worse.

The coordinated actions to lower interest rates undertaken by the main central banks on October 8 showed an example of international cooperation, but they were not sufficient to calm the markets. The

situation required a more systemic and comprehensive response. Further steps agreed over the past few days, such as the commitment by the G-7 countries to provide support to the financial systems in accordance with the agreed action plan and the agreement among 15 euro-area countries to act in coordinated manner provide a chance to start restoring confidence in the global financial system.

The recent actions of the Russian authorities were broadly similar to the approach finally adopted by the G-7 and the euro area countries. The Russian Central Bank and the Ministry of Finance have allocated significant funds to maintain the liquidity of the banking system. In addition, the Central Bank has lowered the reserve requirements by a substantial margin. The parliament has significantly raised the level of deposit guarantees provided, introduced partial state guarantees for inter-bank credits, and allowed the use of public funds for the recapitalization of commercial banks. Because of the difficulties being experienced by Russian banks and corporations with gaining access to external financing, the government has made a decision to provide public credits for refinancing private external liabilities. It should be underlined that the level of foreign exchange reserves exceeds the total amount of Russia's external liabilities (private and public), which means we can be confident in the country's financial stability.

One positive aspect for the global economy is the likelihood that the steady growth in domestic demand in major emerging markets will continue. The financial institutions of these countries have not accumulated troubled assets, but their banks and equity markets nevertheless turned out to be vulnerable because of the limited access to external financing and the withdrawal of funds by international investors on a scale reminiscent of the 1997–1998 crisis. This time, however, the emerging markets are better prepared for this sort of developments as a result of their adherence to responsible macroeconomic policies and the accumulation of significant foreign exchange reserves. Furthermore, the relatively low dependence of consumer demand in these countries on credit means that one can expect this consumer demand to be more resilient to volatility in the financial markets.

Despite the fact that the financial crisis is at the center of our attention, we must not neglect the problems of low-income countries, for which the steep rise in fuel and food prices is a more significant factor contributing to the worsening of their economic situation. Many countries that import food and fuel have experienced a serious deterioration in their balance of payments as well as a decline in reserves, while the majority of low-income countries are now facing higher inflation. The rise in import spending threatens the gains in reducing poverty that have been made in recent years. Low-income commodity-

importing countries need help from the international community to ease their adjustment to the new situation. We, therefore, welcome the attention that the Fund is giving to low-income countries, especially those that find themselves in a difficult situation owing to a drastic deterioration of the terms of trade. In particular, the reform of the Exogenous Shocks Facility (ESF), which streamlines the conditions for access to the Fund's resources for countries that have experienced such shocks, is a timely step. We also welcome the concrete actions taken by the World Bank within the framework of the \$1.2 billion Rapid Financing Facility to provide assistance to low-income countries that have been hit by higher fuel and food prices.

One thing is clear to us: No matter how the current financial crisis ends, it is obvious that the world will be a different place afterwards. There needs to be a complete reassessment of the role of financial markets and approaches to their regulation and to international cooperation in this realm. It is already clear now that the ideology of deregulation of the financial sector as a means of increasing its effectiveness reached a dead-end. Approaches to liberalization of capital transactions also need to be re-examined in view of the destabilizing effect that emerging market economies may experience as a result of large-scale capital inflows as well as similarly massive outflows for reasons arising exclusively from external circumstances. We need to figure out whether the principles of targeting inflation without taking asset prices into account were correct, and analyze the reasons for the appearance of excess global liquidity and the occurrence of speculative "bubbles."

The system of economic and financial regulation currently in place falls short of the one needed for the development of the world economy in the context of globalization. The performance of the world economy is too dependent on the financial and economic policies of a few countries and clearly places many of its participants at a disadvantage. The existing mechanisms for the coordination of financial and economic policies are not working properly. It also seems that the Bretton Woods institutions are reacting more to accomplished facts rather than playing an active coordinating role in strengthening the international financial architecture. And this is in spite of the fact that maintaining global financial stability was at the center of attention of the Bretton Woods institutions following the crises of the 1990s.

In this connection, we support the idea proposed by the World Bank President Robert Zoellick to establish a New Multilateral Network for a New Global Economy, within the framework of which a new steering group could be created. We believe that this approach will allow us to strengthen the stability of the international financial architecture through

the design of effective mechanisms for the coordination of financial and economic policies, and thus to be more successful in addressing other global problems, such as combating adverse climate changes.

We believe that the World Bank and the IMF can and should play an important role in setting up these mechanisms. We also believe that the Bretton Woods institutions, and the IMF in particular, should devote more attention to the oversight of financial and economic policies of large advanced countries, which have demonstrated serious weaknesses. Thought should be given to comprehensive measures aimed at minimizing contagion across countries so as to reduce the high price that emerging market and developing countries are forced to pay for crises that arise through no fault of their own.

We believe that it is not possible to strengthen the role of the Bretton Woods institutions and increase their legitimacy without profound changes in their governance. These changes should lead to a genuine increase in the voice, influence, and participation of emerging market and developing countries in the decision-making process. In this regard, the recent quota and voice reform that was carried out at the IMF was clearly inadequate. These countries should be assigned a larger role within the World Bank and the IMF, both by increasing the number of votes they hold and by expanding their participation in the management and staff, based on fairness and transparency. We should stress that an increase in the voice and representation of individual emerging market and developing countries should not take place at the expense of reducing the votes of other countries in this same group.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR
SIERRA LEONE, ON BEHALF OF THE AFRICAN GOVERNORS

David O. Carew

Africa's economic expansion is expected to continue this year, although the external environment is showing less favorable signs. The global economy has slowed down, oil and food prices have reached record-high levels, and global financial markets are strained. The deterioration of the external environment poses significant challenges causing great concern to many countries in our region.

We are particularly concerned about the severe impact that high global food and oil prices are exerting on our economies and the welfare

of our populations. These have already taken a heavy toll on the hard-won macroeconomic stability, economic growth, and poverty reduction gains in our countries. Riots have threatened peace and stability in many of our countries, which are still grappling with deep scars on the social fabric.

The current financial turmoil in the advanced economies indicate that the real economy is decelerating faster than earlier envisaged, with consumption, labor and housing markets weakening in both the USA and Europe. The confidence shocks continue to exert intense pressure on these economies, with money markets and lending standards tightening further. We have witnessed the crisis evolving from one of liquidity into that of solvency, in the process, creating a systemic problem of recapitalizing the financial institutions. While we share the view that public money should be used when there is a solvency problem, we urge the Fund to quickly develop a set of systematic principles that should govern such policy recourse for all countries alike.

Africa has so far been relatively resilient to the current global financial crisis, but there are serious downside risks. The resilience has stemmed from, among others, solid macroeconomic fundamentals, prudent macroeconomic policies, and higher commodity prices. However, the sharper-than-expected downturn for advanced economies and its likely spillovers on emerging market economies such as China and India would have a negative bearing on the growth prospects of Africa.

We would like, nonetheless, to reaffirm our commitment to prudent policies and structural reforms, especially those that would help the least able to cope with these external shocks, while consolidating the gains from macroeconomic stability. However, given the magnitude of the crisis, our countries cannot achieve the desired outcome unless and until the World Bank and the Fund step up their support to our policy frameworks, and help us address the short- and long-term impact of rising food and oil prices.

In this regard, we welcome the IMF's immediate responses that include some augmented access to the Poverty Reduction and Growth Facility (PRGF) for countries under this program and whose balance-of-payments has been severely affected by the current shocks. We also welcome the recent review of the Exogenous Shocks Facility (ESF) and we urge the Fund to expeditiously implement the facility in order to enable greater and faster access by countries in need of resources from this instrument.

In the World Bank Group, we welcome the New Deal on Global Food Policy, including the Global Food Crisis Response Facility, which provides \$1.2 billion as a rapid response financing, from which several of

our countries have already benefited. We also support the intention of the World Bank Group to boost its overall assistance for global agriculture to \$6 billion from \$4 billion over the coming year and increase its agriculture lending to Africa from US\$450 million to over US\$800 million.

Despite these efforts, we would still like to underscore that more financial and technical support is required to meet the needs of our countries in the present environment. In this regard, we urge the World Bank to increase its financing to scale-up Africa's investment in agriculture, infrastructure, and other related areas, with the view to help reduce transaction cost and improve productivity. The World Bank Group needs to strategically take a comprehensive approach that encompasses the whole value chain of the agriculture sector, and to identify and remove all constraints from farm level all the way to transformation and export.

The main cause of Africa's low agricultural productivity lies on the limited irrigation and use of productivity-enhancing inputs, including fertilizers, improved seeds, and pesticides. Thus, we call on the Bank and IFC to step up their support in irrigation and land management, and to facilitate access to inputs by farmers at affordable prices.

The World Bank should also assist our countries in building marketing and distribution infrastructure facilities in the context of regional integration, by providing adequate financing and technical assistance in support of our Regional Economic Communities (RECs).

We continue to underscore the critical importance of lowering global tariffs imposed on our agricultural commodities, and eliminating subsidies introduced by the developed countries on their products. The distorting developed countries' agriculture subsidies and tariffs have left Africa at a comparative disadvantage, and will have to be tackled first if one aims to exploit the continent's agricultural resources and the related processing and manufacturing activities. The current hikes in food prices provide a suitable environment to make a breakthrough in removing subsidies since the developed countries' producers are already getting the best returns.

More generally, there is a need to reverse the marginalization of Africa in global trade. To this end, we seek the IMF and the Bank's advocacy role in unblocking the WTO talks to allow a quick resumption and a successful conclusion of the multilateral trade negotiations on issues under the Doha Round in order to ensure fair and balanced international trade, and urge all members of the WTO to stay on course.

Let me now turn to two important issues that are also of concern to us, related to the ongoing reform agenda at the IMF and the World Bank, namely, *voice and representation*, and *technical assistance*.

We are encouraged by the promising prospects of the ongoing dialogue in the World Bank Group to facilitate consensus building by stakeholders on a voice and representation reform package. In particular, we welcome the establishment of a third chair for Africa, and urge its immediate implementation. While acknowledging the doubling of basic votes proposed in the package, we are still calling for tripling of basic votes, or better, restoring their 1944 level. Furthermore, we call on the Bank to facilitate the increase of our countries' voting power in the IDA Board, moving towards achieving parity between developed and developing countries in the long run.

We would also like to welcome the package adopted by the IMF Board of Governors on April 28, 2008 on quota and voice reform. However, while the agreement is broadly in the right direction, we consider it as an initial step towards enhancing and strengthening voice and representation of the African countries in the IMF Board. More needs to be done to enable a more effective voice and participation of African countries in the decision-making process of the IMF in particular, and the Bretton Woods institutions in general, to restore their legitimacy, including the establishment of a third chair for Africa at the Executive Board of the IMF.

We acknowledge the progress made in enhancing diversity at the managerial level in the Bank, and we urge both the Bank and the IMF to do the same at all staff levels. A merit-based selection of the Heads of the Bretton Woods institutions, regardless of their nationality, also forms an important voice issue that needs to be achieved. Furthermore, the appointment of an African national as Deputy Managing Director of the IMF is long overdue.

Regarding technical assistance, we reaffirm that the technical assistance provided by the Bretton Woods institutions is vital to our countries' efforts to promote institutional capacity, macroeconomic stability, growth, and poverty reduction. In this regard, we welcome the increasing positive role played by the African Technical Assistance Centers (AFRITACs). However, we are deeply concerned about the potential impact of the current restructuring and refocusing of the IMF's activities on the delivery of technical assistance. In particular, we caution that any decision to impose fees on technical assistance on countries should take into consideration the fact that IMF's technical assistance is a public good, and should therefore be financed, as a matter of principle, by the general membership.

Finally, although our countries contribute the least to the carbon emission, they are the hardest hit by the climate change. Nonetheless, we are determined to play our role in the global effort to reduce the GHG emissions. We, therefore, call for availing us with adequate financial

resources, mainly on grant basis, to enable us play our role effectively. We urge all the stakeholders to expeditiously reach a new deal on the post-Kyoto Protocol under the auspices of the United Nations Framework for Climate Change. While we welcome the recent initiative by the World Bank to scale up its climate change activities, we urge the Institution not to compromise its growth and poverty reduction focus.

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

Pedro Solbes Mira

My address comes to you at a difficult time for the global economy. It is also a time at which our coordination is of vital importance in order to face the common problems we are experiencing, together.

International Economic Prospects

Global economic prospects have deteriorated since the last Annual Meetings, with a global growth projection of 3.9 percent, which is sharply declining. While industrialized countries have been hardest hit by this economic slowdown, the crisis is increasingly spreading to emerging economies as well.

Financial Crisis

In light of the developments in recent weeks, the international financial crisis has entered a critical phase, with a sharp decline in confidence, the consequence of which is the virtual paralysis of credit and interbank markets.

As a result of the financial interdependence and the interconnectedness of banks, countries are being affected by the turmoil, hence the need, now more than ever, to coordinate the policies we must implement to avoid a worsening of the impact on the real economy.

Against this backdrop, consideration of how best to tackle the difficult situation without losing sight of the long term is needed. Macroeconomic policies must regain their effectiveness and maintain stability—achieving these objectives entails, first and foremost, the re-establishment of confidence. To this end, a broad-based, comprehensive action plan with the highest level of coordination and participation possible is necessary.

In the short term, therefore, it is critical to avoid an exacerbation of problems related to the credit squeeze, which result in solvency problems that would not otherwise have arisen. It is critical that ordinary financial channels rebound, and the public sector has a key role to play in this difficult task.

Europe

The European financial and banking system is reeling from the impact of the crisis and the effects on the real economy will be felt. Under these circumstances, Europe has demonstrated the capacity to take unified and coordinated action. The staging of the first summit of Heads of State and Government of the Euro Zone in Paris yesterday is a demonstration of the unequivocal commitment to act in a coordinated manner when facing systemic problems. The action plan agreed will help restore confidence and stability in markets.

Also, the participation of the European Central Bank in the recent coordinated slashing of interest rates is another example of an effort to provide joint solutions to common problems.

Spain's Economy

Inevitably, Spain's economy is also being affected by the turmoil discussed. Based on our projections, the decline in activity will last into the coming quarters, with a major adjustment in the housing sector.

Nevertheless, Spain's economy has structural strengths owing to the economic policies implemented during years of robust economic growth, which gives us reason to believe that Spain will return to its potential growth path in the medium term.

These strengths include substantial capital accumulation in recent years, with significant improvements in infrastructure, human capital, and research and development; a very open economy, with companies capable of competing on international markets; healthy government accounts; and a robust financial system.

Spain's financial system is solvent, efficient, and profitable, and we believe that it is well placed to weather the global financial crisis. Despite robust credit growth in recent years, lending practices have remained prudent under the strict supervision of the Bank of Spain. Provisions set aside in boom periods have been generous and have been bolstered by a counter-cyclical system of requirements imposed by the regulator.

To avoid liquidity problems, the government approved the establishment of a fund of up to EUR 50 billion to buy healthy assets from financial institutions, in accordance with market criteria. This fund

supplements the measures adopted yesterday by the Eurogroup heads of government, which were approved today by the government of Spain. These measures include the possibility of temporarily guaranteeing the debt of banks for periods longer than six months, which, for 2008, may amount to EUR 100,000 million, as well as the possibility of providing capital contributions to financial institutions. While the latter measure is being adopted in conjunction with the decisions adopted in Paris, it is not expected to be implemented at this time.

IMF Reform

The most important item on the IMF agenda must be the response to the crisis, which poses challenges of a magnitude not seen in many years. It is important to review the best short- and long-term economic policy responses, as well as the lessons to be learned from the financial crisis. We firmly believe that the IMF is in an ideal position to face these challenges, without jeopardizing collaboration with the international institutions in question.

The IMF's comparative advantage is derived from its supranational and multilateral character. Specifically, it is the best-placed institution to identify overall inconsistencies when the sum of individual decisions may not be advantageous at the collective level.

It is for these reasons that we believe that it is important to give the IMF a clear mandate, assigning it a key role as the multilateral organization tasked with supervising and monitoring international financial stability. Furthermore, the credibility of its supervision must be burnished, thus enhancing its financial outlook and regional and multilateral prospects.

Lastly, the Fund must be mindful of its role as financier and adapt it to the current situation.

World Bank

I would now like to discuss the World Bank's agenda.

In an international context where changes are occurring at a rapid pace, the World Bank must prioritize its strategic guidelines and seek to promote coordinated actions among the various World Bank Group institutions and with other IFIs.

We endorse the voice and representation process in which the World Bank Group is currently engaged. It is necessary to continue moving this process forward without delay, thereby enhancing the representation of the developing and transition countries. However, I also believe that the World Bank's capital structure and the representation of its members must be adapted to reflect their weight in the global

economy and their commitment to development. We therefore welcome the progress already achieved in the reform process, and will continue efforts to reach an agreement as quickly as possible.

Esteemed colleagues, we are confident that joint efforts will enable us to meet these challenges.

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

Sarath Amunugama

The current economic crisis has many dimensions, including the bursting of the housing bubble, high energy costs and food prices, large macroeconomic imbalances among major players in the world economy, regulatory and supervisory failures, and the weaknesses of our early warning systems. Although the latest financial market turmoil began in advanced financial markets, the contagion of this crisis will not be confined to the boundaries of developed countries. Due to the increased economic interdependency among nations through trade, investment and sophisticated capital markets, it is clear likely that many countries will have to go through a difficult period in the near future.

In that context, we believe that the IMF and the World Bank has an important role to play to safeguard global financial system stability and help maintain a sustainable level of development. At the country level all possible options should be explored to minimize the adverse consequences. In this regard a balanced approach of monetary, fiscal and other policies to help maintain productive investment is required. These policies need to be assisted by sufficient flexibility on the part of the Fund and the Bank to help those countries that may need urgent liquidity support and development assistance at this stage.

We take positive note of the progressive steps taken by the management of the IMF and the World Bank particularly in regard to its reforms and new development financing initiatives. We cannot stress enough the importance of a contingent liquidity support facility for emerging economies. Similarly, we are confident that the issues relating to quota reforms of the World Bank group will be resolved taking into consideration the claims of developing and emerging market countries that are under represented in the current quota structure.

Mr. Chairman, let me now turn to my own country of Sri Lanka. Given the high degree of openness of our economy we are by no means an exception to the pattern of our peers in the developing world. Sri Lanka is a net importer of commodities particularly oil. Our recent gains from commodity exports have been more than absorbed by the sharply increased cost of the oil bill, which showed a threefold increase within a matter of two years. High food and energy costs have been the main cause of high inflation in the country. Thanks to the tight monetary policy measures taken and good harvests, inflation, which reached a peak a few months ago, is now on the decline. A drop in oil prices to a reasonable level would be a great advantage.

Sri Lanka's financial system has shown strong resilience to adverse global developments. With the implementation of Basel II in 2008, the regulatory framework of banks has been further strengthened.

The comprehensive development programs that has been launched by the government to address the key constraints for more equitable growth has already raised the GDP growth rate to a satisfactory level of around 6.5 percent compared to the historical average of around 4.5 percent in the past. There has been a sharp reduction in unemployment. Our growth momentum is expected to continue and register around 7 percent in 2008, particularly benefiting from improved performance in the agriculture sector. The poverty indicators as well as many other indicators relating to MDGs in Sri Lanka have shown remarkable progress in recent years and we need to sustain these achievements. My country has achieved most of the MDG goals. We are pleased that the World Bank has already committed US\$900 million through the new country Assistance Strategy.

I conclude with the wish that through the concerted efforts by all parties, particularly the key players in the world economy, we will be able to recover from this crisis and continue the effort to give a better life for all our people.

STATEMENT BY THE GOVERNOR OF THE BANK FOR SUDAN, ON BEHALF
OF THE ARAB GOVERNORS

Awad Ahmed Elgaz

It is an honor for me to deliver this year's joint Arab speech on behalf of my colleagues the Group of Arab Governors for the

International Monetary Fund (IMF) and the World Bank. We welcome the states that joined our two institutions during the last year.

At the outset, we would like to express our concern in respect of the current serious conditions of the global economy not experienced since the 1930s. Economic activity is going through a sharp downturn in many developed economies, with some of such economies entering real economic recession. Developing country and emerging economies have started to be impacted by financial turbulence, leading to downturn in growth rates lately. Such downturn resulted from the prolonged problem, increased external financing crunch, and inflationary pressures. Moreover, markets have become careful to distinguish among countries according to external imbalances affecting them. Global economic downturn emanated from financial crisis caused by the real estate market in the United States and the vicious cycle involving the financial sector and the real economy. Consequently, economic policy makers are facing increased difficulty in tradeoff choices between inflation, growth and financial stabilization.

Credit risks are still high despite measures taken by developed economies—including assistance extended by respective governments and steps taken by central banks—to curb difficulties in finance markets. Consequently, we stress the need for swift addressing of current crisis at the international level with close coordination among countries. Comprehensive measures need to be taken to ensure restoration of trust and confidence to the financial sector. A crucial measure to be taken in the short term involves making liquidity available, addressing bad assets, and injecting capital into the financial markets. Supervisory and regulatory systems must be enhanced to ensure financial market stability and obviate recurrence of such crises.

In addition to efforts aimed at addressing this international financial crisis, we call on the world community to increase attention to addressing the current crisis experienced worldwide in the form of soaring commodity prices, particularly food prices, which may lead to increasing the number of poor people by about 100 million persons, leading to enormous financial burdens for low-income countries, particularly in Africa. As we welcome the various efforts taken to tackle the different aspects and root causes of the current crisis, we note initiatives taken by the World Bank in support of such efforts. Yet, we look forward to further effective measures such as increased assistance to World Food Program, helping developing countries to modernize their agricultural sectors and increase production and productivity with a view to achieving desired food security. We also note the role contributed by IMF to support balances of payment and extend additional financial

assistance. Further, we welcome updating streamlining of “External Shock Response Facility” to make it more useful for member countries.

Donor Arab countries have contributed their role in mitigating suffering of the poor and increasing investments in agricultural sector. Special mention should be made of the \$500 million grant extended by the Kingdom of Saudi Arabia to the World Food Program as well as the generous aid extended by: Kuwait, Qatar, and the United Arab Emirates. In this context, we call on industrial countries to contribute a vital role to address the current crisis and take the initiative in reducing subsidies for their agricultural products as well as restrictions imposed on their imports of the same. Such subsidies and restrictions are stifling development of agricultural sectors in developing countries. Further, we call for cessation of using agricultural products for biofuel production as this has led to escalation of the crisis and increased food prices.

Turning to the role contributed by IMF to achieve monetary and financial stability worldwide, particularly in light of potential adverse impact on global economy due to current financial crisis, we believe that, to enhance that role, developing and emerging countries should have a clear and obvious voice at IMF. In this respect, we welcome selection of a first chairman from a developing country to head the International Financial And Monetary Committee. Moreover, IMF should enhance its oversight role and apply the same in an equitable manner to policies of all member countries, including developed countries. As far as emerging economies are concerned, we encourage IMF to explore new mechanisms that provide to such economies rapid finance to protect such economies from adverse economic crises. Further we believe that IMF should adopt a budget that will facilitate undertaking such a required role. In this respect, we call for swift adoption and implementation of resolutions related to enhancement of IMF income. We are apprised of a decision to charge fees for technical support IMF extends to member countries. This may lead to alienating developing countries from IMF and denying such countries necessary technical assistance. Accordingly, we stress the need to reverse application of such a decision as soon as possible to prevent any resulting adverse impact.

In view of growing importance of sovereign funds to international financial system, we note the positive role contributed by such funds through providing capital to markets of developed economies during this year’s financial turbulence. These funds target long-term investments and shun speculation and noncommercial objectives. In this context, we stress again the importance of preserving voluntary nature of principles and practices agreed in respect of such funds, without any mandatory control. Respective principles should be subject to laws, obligations and

practices effective in countries to which each such sovereign fund belongs.

The Arab group of states is attentively monitoring increased activity by the World Bank in support of developing country efforts to address consequences of climate change and risks emanating from it. We stress that such increased attention to such issues by the Bank should not have adverse consequences for remaining development priorities and programs of the Bank, particularly efforts related to support for growth and poverty reduction in developing countries. Moreover, we stress the importance of coordination with specialized international organizations in this respect, especially the need for respecting ratified international covenants and conventions.

We appreciate efforts aimed at reaching a consensus that may enhance role of developing countries in decision making as well as outcomes of Development Committee deliberations about proposals in this regard. We look forward to real improvement in developing country voice in the coming Spring Meetings of the World Bank Group. We particularly refer to increase of total developing country voting rights towards parity with those of developed countries, without adverse impact on the voting rights of any other developing country. We also look forward to more diversification in World Bank Group staff, particularly an increase in staff members from developing country group. We would like to applaud the decision to create an additional chair in the World Bank Board of Executive Directors for Sub-Saharan Africa. We also call for a more open mechanism for selection of World Bank Group presidents and IMF Directors.

Turning to developments in our Arab region, we note the fact that most countries in the region experienced continued good growth rates in the past year despite global conditions of instability. Fruitful efforts continued in various areas of reform as well as adoption of sound policies leading to more open trade and obvious progress in areas of governance, accountability, and improved investment climate where some of our countries achieved top rankings. Moreover, increased inflows of financial resources into oil exporting countries led to increased investment outflows to developing countries, enhancing south-south economic relations.

Careful to achieve world oil market stability, Arab oil-producing countries increased investments with a view to increasing oil production and exports. They also continued close cooperation with oil consuming countries. It should be noted that oil price increases did not result from constraints related to the supply-side. They emanated from factors related to: world demand and limited refining capacity due to weak investments in refining capacity, unfair taxes imposed by developed countries on

energy resources, as well as speculation, which have become an outstanding characteristic of oil markets.

Economic growth in Arab countries coincided with accelerated inflation rates emanating from: higher world prices of commodities, local demand increases, and bottlenecks in local production capacity particularly in housing sectors. The challenge facing policies of Arab countries, especially low and middle-income countries, lies in: securing food requirements of their peoples, strengthening of growth and containment of inflation, and retaining proper levels of foreign exchange reserves. Many Arab countries have taken measures, including social assistance, to protect low-income groups from the impact of world price increases.

Varying conditions of our countries exposed many of them to impacts of lower global economy growth and commodity price crisis, particularly food prices, as well as instability of world markets and recurrent droughts. In addition to efforts made by our countries to address such challenges, we commend efforts made by the World Bank Group in our region through increased loans and credits as well as initiative included in World Bank strategy to support economic activity in the Arab World. We particularly commend the initiative presented by Mr. Zoellick. We look forward to a comprehensive plan identifying respective priorities, accelerated implementation of this initiative, and allocating more attention to regional projects that lead to more openness as well as projects aimed at addressing unemployment and expanding private sector development.

We call for increased attention to Arab countries suffering effects of conflicts. We recommend more flexibility in dealing with such countries and the need for combined efforts and cooperation between all organizations and agencies concerned to spread benefits and ensure maximum impact of aid extended. While commending the role contributed by IMF and the World Bank in this respect amid difficult circumstances, we call for continued efforts by the World Bank Group in our region to provide effective support to address sufferings of the Palestinian people under occupation, building their economy and ending the blockade and closures. We call for reconstruction of Iraq, re-engagement with Somalia and eliminating debt burdens of the Sudan, especially since peace agreements have been concluded. Progress and stability in those countries will undoubtedly benefit all in the region and the world at large.

We reiterate our urgent call to IMF and the World Bank Group to recruit appropriate numbers of Arab country nationals at all management levels, particularly higher management levels. It is important that Arab country nationals be accorded appropriate career advancement

opportunities as current recruitment and professional promotion ratios are very low compared to those from other similar regions, especially as many staff members from our region lost their jobs due to restructuring at IMF this year.

Finally, Mr. Chairman, we understand well that we still have a long way to go in our efforts to overcome challenges and achieve more progress because our Arab region is characterized by different circumstances and conditions and faces many of the challenges affecting developing countries. We look forward in this respect to continued close cooperation with IMF and the World Bank Group as well as all our development partners.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SWITZERLAND

Jean-Pierre Roth

The global economy faces its most difficult period for decades as the turmoil engulfing financial markets and institutions has intensified. The deep crisis of confidence in financial markets represents extraordinary challenges for macroeconomic and regulatory policies. An adequate and internationally coordinated response to these challenges is more important than ever. It should aim at mitigating the short-term impact of the current turmoil, while ensuring that the right lessons are learned for the global financial system to function more smoothly and consistently in the future.

Confronted with this challenge, the immediate response to the financial market turmoil by various public authorities in recent months has been adequate. They did their best to strengthen the financial system by providing liquidity, lowering interest rates and intervening in markets during critical moments. Unprecedented systemic challenges have prompted unprecedented government measures. In the medium and long term, however, crisis containment measures should be accompanied by more forceful regulatory measures. Three measures in particular ought to be mentioned here. Capital requirements—risk-weighted capital requirements—must be increased. The leverage ratio of large international banks must be contained. And finally, liquidity buffers must be reinforced.

Dealing with the crisis has been made more difficult by the absence of coordination of government interventions. A more pronounced

collective effort might prove useful now, or in the future, once this crisis is over. The Fund should be a partner in such a collective effort. Its contribution should build on the close cooperation with other international fora, the Financial Stability Forum (FSF) in particular. The Fund should contribute to this effort by building upon its comparative advantage. The Fund has a global membership. This will allow the Fund to identify more easily global financial risks; to disseminate policy lessons and best practices; and to provide feedback to international standard setters. More fundamentally, the Fund has the unique capacity of being at the crossroads of financial sector surveillance and macroeconomic surveillance. Macrofinancial linkages should become the bread-and-butter of the Fund.

While the outlook for the global economy is worrying, it would be wrong to succumb to pessimism. The same dynamic forces that weigh on the global economy today will eventually allow countries and their financial sectors to recover. This is not the first and will not be the last difficult period of economic disruption with global repercussions. We are firmly of the view that we must not underestimate, and should be confident in, the fundamental strength of market forces to improve economic welfare.

In the months to come, the Fund and the World Bank must jointly and in line with their respective mandate undertake a deeper assessment of the impact of the crisis on growth and poverty at a country level, both from a short and medium-term perspective. They should provide vulnerable countries with policy advice and capacity building, as well as quick and flexible financial assistance where necessary, to mitigate the negative impact on macroeconomic stability, growth and poverty reduction.

The Annual Meetings provide a welcome opportunity to briefly take stock of the work done by the Fund and the World Bank. At the Fund, good progress has been made in assessing its role and the adequacy of its instruments in all main areas of its activity: surveillance, lending, and technical assistance and training. However, much remains to be done.

The Fund's Policy Agenda

Surveillance remains the most important pillar of Fund activity. The just completed triennial review of surveillance has confirmed that Article IV consultations—and the analysis and advice they offer—are highly valued by country authorities and market participants. These consultations should be further adapted to the global challenges and enhance their focus on core areas. And one of these core areas is the

linkages between the financial sector and the real economy. It is in this area that the Fund, as mentioned above, adds particular value.

The surveillance framework has been reinforced by the adoption of the 2007 Surveillance Decision. The Decision has given more prominent focus to external stability. This is welcome, as are the newly agreed procedures, which clarify how this Decision will be implemented in cases where further fact-finding and dialogue is needed. A key but not the only element of the focus on external stability is the focus on exchange rate issues. In this regard, two aspects are worth mentioning. First, more effort should be devoted to assessing exchange rate regimes rather than to exchange rate levels; fact is that it is notoriously more difficult to assess exchange rate levels than regimes. Second, exchange rate assessment should be better integrated with the overall assessment of macroeconomic and external stability.

Fund lending is likely to resume because of the current financial difficulties that have started to spread to emerging markets. The current lending instruments together with the activation of the emergency procedure put the Fund in a good position to respond to today's challenges. This being said, we remain ready to discuss new lending instruments.

As regards technical assistance, there has undoubtedly been progress in establishing an accurate and transparent costing that reflects international best practice. The new policy for country contributions, although limited in scope, will enhance ownership by recipients and encourage careful use of limited resources.

Finally, the work on a new sustainable income model has taken a big step forward. Nonetheless, not all the uncertainties have been resolved so far. The Resolution allowing the broadening of the Fund's investment authority has yet to be ratified by all members. And members ought to formally consent to gold sales as soon as possible.

Commodities Crisis

The World Bank and the Fund have an important role to play in helping countries to respond to the high and food and fuel prices. The Fund is appropriately addressing the macroeconomic implications, including through balance of payments support. The World Bank Group, with its strong presence at country levels worldwide, is very well positioned to address the short and long-term components of the crisis. Since April both institutions have demonstrated through the Global Food Crisis Response Program their ability to tailor appropriate policy responses to the needs of developing countries affected by the food price crisis. As many partner countries are also affected by the impact of fuel

prices, additional interventions are necessary and useful such as the Energy for the Poor Initiative. Given the extent of the challenges ahead, both institutions must remain vigilant. Close coordination with the United Nations will be paramount. Possible trade-offs between emergency needs and long-term sustainability must be assessed.

At the same time, the prospects for higher and more stable food prices also represent an opportunity for further poverty reduction in rural areas, and incentives for higher production. Small farmers should also be able to benefit from higher market prices. The Bank has an important role to play in tapping these opportunities. I welcome the planned increase in resource allocation to the agriculture sector, as part of the strategic directions of the World Bank Group.

Voice and Participation

Enhancing the voice, participation, and representation of developing and transition countries (DTC) in the World Bank Group is essential to better reflect today's realities. Switzerland is ready to join a consensus on the adoption of the proposed first stage of concrete options, provided that we do not re-consider this outcome later on. In addition, the sequencing and deadlines for the work program of the second stage relating to completion of the review of IBRD shareholding must be further clarified. We strongly believe that the actual outcome of the IMF quotas negotiation must remain the starting point of such a review.

We look forward to periodic reviews of the progress and concrete proposals for realignment of Bank shareholding as part of a comprehensive reform package.

Strategic Framework for the World Bank Group on Development and Climate Change

The poorest countries will suffer most from global warming; we welcome the integration by the World Bank Group of the climate change dimension in its core mandate of development and poverty reduction.

We agree with the *guiding principles* of the Strategic Framework, which acknowledge the primacy of the UNFCCC process and ensure consistency with the recommendations of the Bali Action Plan. Other key principles, such as focusing on World Bank group comparative advantages, partnering with other multilateral and bilateral actors, and mobilizing the private sector, are also important.

We welcome the multi-sector dimension of the Strategic Framework; we thus expect sectors such as agriculture, land use, rural development, as well as water management and use to become more prominent in the Bank Group's operations. We encourage in particular

the Bank to pay more attention to regional water and energy issues, especially in Central Asia.

In view of the huge *financing needs* for mitigating and adapting to climate change, we support the Bank Group efforts to mobilize and leverage resources from the public and private sector. Creating sound regulatory frameworks and structuring innovative instruments to crowd in private sector investments is critical; we are convinced that the Bank Group has a key role to play in this respect.

The new Climate Investment Funds are a significant channel to scale up resources. We commend the Bank for its instrumental role in setting up the CIFs. Switzerland is participating in the setting up of the Strategic Climate Fund and is looking forward to being part of the ‘Scaling-up Renewable Energy Program’ in low-income countries. In addition, we strongly encourage the World Bank group to increase its engagement in renewable energies.

Strategic directions of the World Bank

At a time of increasing global uncertainties and great challenges, we believe that a renewed discussion on the Bank’s priorities is paramount, with a view to reaching consensus on a concrete, concise, and results-oriented strategic framework. The foreseen discussion on the medium-to-long-term IBRD capital use provides a renewed opportunity for close interaction between management and the board to advance this agenda.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Suchart Thada-Thamrongvech

I am honored to have an opportunity to address at this 2008 World Bank/IMF Board of Governors’ Annual Meeting today. On behalf of the Thai delegation, I would like to express my appreciation to the World Bank Group and International Monetary Fund (IMF) for hosting this meeting.

This year’s meetings take place at a challenging time for the world economy, particularly amid the financial turmoil in the US and Europe. Thailand and Asian countries had experienced similar and severe pain in 1997 crisis. We fully understand and realize the hardship and severity as

well as consequences of the financial meltdown. We would like to give our full support and encouragement towards the great efforts already made by the US administration on the bailout packages, which hopefully will keep such a financial upheaval at bay in the near future.

We are now faced with increasing financial volatility and every economy will unavoidably be affected more or less. Global financial volatility is likely to have crucial impacts on our growth, economic stability, and development for years to come. So, there must be cohesive and cooperative visible hands that assist and play pivotal role in preventing or lessening the detrimental effect of financial volatility on growth, stability, and economic development. The IMF and the World Bank should actively take part in this endeavor.

As when the volatility spreads, it will hit the developing countries harder with a longer period of suffering. We would like to urge that more assistances and relaxation in terms of funds and trade should be given to those smaller economies. More importantly, the developed countries should make every effort to resolve this crisis rapidly and introduce preventive measures to avoid stagnation on trade and development of the developing world.

To tackle the imminent effect of current outbreak, Thailand at the outset has been in full alert and abruptly laid down precautions and proactive measures through extensively engaging ourselves in regional financial cooperation with ASEAN and ASEAN plus 3. These, for example, include an acceleration of economic integration in ASEAN plus 3 region to cushion the impacts of the financial turmoil. Specifically, measures include CMI Multilateralisation process, which will help ASEAN, plus 3 member countries address short-term liquidity problem or the balance of payments difficulties. A study on bond financing for infrastructure projects under the Asian Bond Markets Initiative (ABMI) and Credit Guarantee and Investment Mechanism (CGIM) in the form of a trust fund are also in the pipeline.

I would like to reiterate on the objective of the World Bank, which is to create “a world free of poverty.” Today, the objective is still going strong with the World Bank bolstering the reduction of poverty as an overarching goal. Within this effort, I praise the World Bank in their strives to alleviate poverty in developing countries with sustainable economic growth by encouraging the poor to take part in development.

Thailand also considers poverty eradication a serious and utmost urgent target to be achieved. This evidence on eradicating poverty has been placed amongst the top priority missions as mirrored in the government’s national agenda.

I cannot deny that the problem of poverty in Thailand had long been accumulating with the real causes deeply rooted. Past attempts to fight

poverty had mostly addressed the symptoms and not the real causes. Approaches tended to be piecemeal and unfocused rather than comprehensive and sustainable. Thailand believes that in order to reduce poverty, we must bestow opportunity upon the poor and less fortunate group of people.

Since Thailand has declared war on poverty, many programs to help the poor have been implemented. These are targeted towards People's Opportunity policy. These include debt suspension program, People's Budget Project or SML, the establishment of the "Village Fund" for villages and urban communities, and the "People's Bank" to give the poor better access to formal financial services and funding. We have also aimed at creating jobs and enhancing productivity in the communities through the establishment of the "One Village, One Product" Project.

We are confident that we are on the right track of combating poverty and hope to alleviate and eliminate the poor distress permanently.

Let me now turn to matters relating to the World Bank Group.

Thailand and the World Bank have been in a development partnership for many years now. As time evolved, the relationships between Thailand and the Bank Group have also progressed from primarily a borrower-lender relationship toward a knowledge sharing development partnership.

We are pleased to note that this year the World Bank has just completed "Thailand Country Partnership Strategy Completion Report" which represents an assessment of the World Bank's 5 years contributions in Thailand under the current Country Partnership Strategy (CPS) endorsed by the Board of Executive Directors in December 2002.

Under the CPS, the World Bank has provided support and implementation of the overall reform program through technical support, capacity building and specific project interventions that align with Thailand's national development agenda built around 5 pillars; these include Human and Social Capital, Competitiveness, Poverty and Inequality, Natural Resources and the Environment and Public Reform and Governance.

On this regard, we would like to thank the World Bank for your continuous and constructive efforts made throughout this project. We look forward to working closely in partnership with the Bank again to implement the next level of the CPS in the years to come as this partnership showed to be a successful and significant step to effectively contribute towards poverty alleviation and economic growth in Thailand.

The World Bank this year has released the 2009 Doing Business report. From the outcome, Thailand has moved six places up the ranking from 19th position to 13th. This higher rank in the Doing Business report

was largely due to the recent reforms in registering properties, protecting investors, trade across border through the adoption of e-customs, paying taxes through e-revenues as well as the improvement of our business climate by easing the cost and days of doing business in the country.

We would like to praise the Doing Business team for their consistent efforts and hard work throughout. It is no doubt that the Doing Business indicators have proved to be very useful source of input to policies makers, business owners, as well as foreign and Thai investors that intend to do business in Thailand. Policy makers especially can use these indicators to improve their business environment and making every country becoming more competitive. I therefore, would like to complement this excellent initiative.

This year the donor community has marked yet another astonishment. The funding contributed for the 15th replenishment of the International Development Association (IDA 15) has been marked as one of the largest donor funding since. It is recorded that IDA 15 represents a 43 percent increase from IDA 14, complemented by US\$16.5 billion in internal financing from the World Bank Group and prior donor pledges for financing debt forgiveness.

On our part, Thailand being one of the subscribing countries has long been supportive and engaging in the funding of IDA, which aims at helping the world's poorest countries. We would like to thank the donor countries for the funding contributed for the IDA 15. This demonstrated that the donor community is fully committed to helping countries overcome poverty and achieve sustainable growth, especially in the world's poorest countries like Africa.

We hope to see that the fund will be accessible to all, especially those countries that are the poorest, post-conflict countries or weakly performed countries. Therefore, we urge the Bank and the donors to take this into account when reviewing the performance assessment. Criteria such as vulnerabilities and other factors should not be ignored.

Thailand has been an active participant and a major provider of financial and technical assistance to neighboring Greater Mekong Sub-region (GMS) countries through our Neighboring Countries Economic Development Cooperation Agency (NEDA) for the implementation of priority sub-regional projects. Scopes of activities, inter alia, trade facilitation, capacity building, and infrastructure financing. Currently, the assistance provided for these countries are still limited. Therefore, we urge the World Bank to consider assisting these countries in term of more financial support.

We welcome the progress on the Bank's reform to enhance voice and participation of developing and transition countries (DTCs) in the World Bank Group. In line with the spirit of the 2002 Monetary

Consensus, we believe that increasing voice and participation of DTCs is central to the Bank's reform. As such, we support the main objectives and the guiding principles set forth in the Bank's reform, to enhance the participation of all developing and transition countries in the Bank's governance; and to further enhance the legitimacy, credibility, and effectiveness of the World Bank Group.

Finally, we would like to stress to the World Bank and the IMF that diversity of staff will reflect the universality of its membership thereby enabling it to offer wide-ranging advice to countries from the perspective of staff with diverse background and experiences.

In this connection, I would like to touch upon the issues of the IMF.

We note the progress, welcome the staff's commitment to the reform of the IMF, and look forward to ongoing improvements in governance, as well as modernization of its operational structures to ensure this global financial organization is well equipped to face current and future challenges.

We welcome progress in the development of new income-expenditure framework to securely place IMF's finances on a more sustainable footing. We also note the progress achieved in strengthening the surveillance role of the IMF to help prevent crises and promote domestic and international financial stability. We must, however, reiterate the importance and call for firm and even-handed implementation of the surveillance framework, particularly, in view of the ongoing financial turmoil.

We welcome the broad agreement to have IMF's lending mandate revamped and adapted in order to better reflect the realities of today's global financial system, and to address the imperative needs of low-income countries. We look forward to the upcoming review of conditionality associated with IMF facilities, as well as to the overdue proposals for new liquidity instruments, to ensure that the lending apparatus is up-to-date and relevant to all members.

In light of the developments in the world economy, realignments of quota shares with members' relative economic positions remain on the IMF's reform agenda going forward. To this end, we welcome the agreement on the quota and voice reform package to recognize greater global weight of emerging economies, and urge for continuing consideration and work on this dynamic reform.

In conclusion, we hope to see in the near future that the role of the World Bank will be transformed to meet with the global challenges and urgent problems such as Food and Energy Crises and Climate Change etc. These risk factors will undeniably become the biggest threats to poverty eradication and development.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE DEMOCRATIC
REPUBLIC OF TIMOR-LESTE*Emilia Pires*

It is an honor and pleasure to address you all today. The rising energy cost, the growing demand for oil from industrialized countries and emerging economies, rising food prices, scarcity of land for agriculture and of water in many regions, climate change, are only some of the indicators of the serious challenges we have faced in 2008. Add to that the recent near meltdown in the global financial markets and 2008 may well be remembered as the year markets failed.

However, it has not been all bad news. The developing world continues to grow, albeit at a slower pace than before and therein may lie part of the solution to the current global crisis. When we in the developing world face these types of crisis, which we do on a more regular basis than our colleagues in more economically advanced nations—then we are repeatedly told to increase our openness to the global economy, to trust in the market but to regulate them well. To be honest this approach has worked. The economies of Asia, the Pacific, and Africa are still projected to grow and may well be part of the salvation of the current economic woes.

However, for that to happen, we must make sure that in the effort to correct the market failures that have led to some of today's challenges the world does not overreact and nations become more insular and protective rather than open and competitive. Improving the flow of capital, labor and financial resources from the developing world where economies are growing to the developed where they may stagnate will be an important part of the recovery process. That is not to say that targeted intervention cannot help.

Much like in the recent crisis where many Governments have seen the need for a large injection of liquidity into the financial system, many of us in the developing world have also had experiences (with equally mixed results) of trying to correct rapidly failing markets in a politically and economically charged atmosphere. Indeed, we may be able to share a lesson or two with some of our more developed partners in terms of how to intervene in markets. In Timor, we passed our own Economic Stabilization Act—but this was not in reaction to the recent financial crisis but the earlier rise in the price of basic commodities.

Through targeted but limited interventions, this year has seen some positive developments, mainly in the return of the internally displaced

peoples (IDPs) from the 2006 crisis; 25 out of 54 IDP camps have been closed. Cash transfers were made to vulnerable groups, including the elderly. Clear targets were set for improving basic health and education through the 2008 National Priority Program.

Responding to their genuine solidarity as a member of the international community, Timor-Leste (a least developed country) has also started to help other countries overcome hardships. Apart from donating emergency relief to victims of Tsunami in Indonesia, Timor-Leste will contribute \$1 million in support of the work of UNICEF globally, in 2009. In *per capita ratio*, this amount would exceed the assistance that has been provided by many developed countries.

We do this not out of a sense of pride but out of duty and a feeling of shared understanding and responsibility. In Timor we realize we are fortunate that we are somewhat insulated from the winds of market failures currently blowing around the world. This is because we have revenue from natural resources that have so far shielded us. But we know that as a global partner what affects our partners ultimately affects us and therefore we too, even though we may be a small nation, have our role to play.

Ultimately, global crisis like the current financial crisis will have to be dealt with by re-looking at global institutions like the IMF and World Bank to better prepare them for the challenges of the 21st century. 2008 has shown us that market failure and inability to regulate are not only problems for the developing world—but issues that deeply affect us all. Therefore, it is up to all of us in this room to look both collectively and individually at what can be done to create a more prosperous world for all its citizens.

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

‘Otenifi Afu’alo Matoto

It is an honor to address the Boards of Governors of the International Monetary Fund and the World Bank Group on behalf of the government of the Kingdom of Tonga.

I would like to congratulate and welcome Mr. Dominique Strauss-Kahn on his first Annual Meetings in his capacity as the Managing Director of the International Monetary Fund.

I acknowledge the work the IMF and the Bank are doing to help restore global macroeconomic and financial stability while bolstering growth and reducing poverty. It is at times of crisis many member countries look to these institutions for guidance and assistance.

Since the last Annual Meetings, the global economy continues to slow down markedly and the global economic prospects have split along two contrasting lines. The golden weather of economic growth that major industrialized countries enjoyed for several years has faded. The United States, the Euro zone, and Japan are now experiencing major economic slowdowns because of the deepening financial crisis. By contrast, the emerging and developing economies are expected to remain resilient with growth slowing slightly to around 7 percent in 2008 and 6 percent in 2009. With forecasters predicting that the slowdown of global economic growth will continue through 2009, Tonga joins other member countries in echoing its concern over the impact of the current financial crisis. In this current situation, Tonga shares the Fund's view for strong and coordinated policies to mitigate the spilling effects of the global crisis on the rest of the world.

While addressing the challenges of the global financial turmoil and economic stagnation, it is imperative that other short and long-term issues also receive attention. Global fuel and food prices have escalated sharply causing high inflation in many member countries. These price movements send important economic signals and we encourage continuing efforts by both the Fund and the Bank to soften the effects of these price movements on the most vulnerable member countries.

The determination by the Fund and the Bank not to lose sight of the long-term objectives because of today's crisis is a move in the right direction. Given time, financial markets will recover and food and fuel prices will stabilize albeit at higher levels. In that respect, I acknowledge the efforts from the Fund and the Bank to restore confidence and reduce the human cost of these adjustment processes.

Aid is another area where some coordination is occurring but much more action is needed. Effective aid occurs where needs are properly identified, and donors work together to complement each other in meeting the needs. Tonga notes the increasing coordination of aid activities between the Bank, Fund, and other aid agencies in their operation programs. We support the Fund's proposed reforms to the Exogenous Shocks Facility, which will provide more rapid and effective assistance to low income countries in the event of shocks.

The reforms undertaken by the Fund and the Bank are timely in order to respond more effectively to the global challenges now and in the future. The move to enhance the voice and participation of developing

countries will help improve the alignment of aid efforts and national needs. We therefore strongly agree with these initiatives.

Domestic Economic Developments

Tonga's economy has shown resilience in the face of internal and external shocks. Preliminary projections indicated that economic growth is expected to expand by 2.6 percent in 2008/09 from 1.2 percent in 2007/08, with construction, transport, and services providing the impetus. A number of tourism and agriculture initiatives are also in the pipeline. These initiatives allow Tonga to tap its unused economic potential and also bring some much-needed diversity into the Tongan economy. This will help address the problem of a narrow economic base and reliance on a few key exports that has been a constraint in expanding the Tongan economy. This economic growth is underpinned by strong remittances, increasing foreign aid and recovery in private investments. These favorable economic developments have allowed the government to maintain a balanced budget for 2008/09 financial year.

Furthermore, the government of Tonga continues to pursue its economic and public sector reforms to stimulate growth and promote private sector development. Major reforms include moving the taxation system from being heavily based on international trade towards an efficient low rate broad based taxation system. Public enterprises are being rationalized to improve financial performance and some are being privatized. Work is also continuing to ease and reduce the cost of doing business with good success. Having said that, I would like to acknowledge the ongoing technical and financial assistance from the Bank, the Fund and their agencies in supporting us in these reforms. Social and political reforms are ongoing and a fully democratic government is expected to be in place in 2010.

Tonga's relative high social development requires higher economic performance in order to achieve the Millennium Development Goals and sustain it at that level going forward. There is confidence that Tonga will be on target in areas such as gender equality, health, and education. Continued collaboration with external agencies in achieving the remaining goals is vital.

Notwithstanding the achievements to date, Tonga, like other small island states, is affected by the same economic tides that shift the major players. The economy is facing challenges from global surge in food and fuel prices, posing risks to the external account balance and escalating inflation, and vulnerability to climate change and natural disasters such as cyclones and earthquakes. These challenges could easily undermine

Tonga's economic growth. The current global financial turbulence raises the risk of a decline in remittances.

The Tongan Government is committed to maintain prudent fiscal and monetary policies to preserve macroeconomic stability and accelerate economic growth. The Government has given priority to climate change, which needs adaptation and mitigation measures with support from donor communities. Work is currently being done to explore alternative sources of energy, in addition to more efficient utilization of fuel. The financial and technical assistance towards this initiative from the Bank Global Facility for Climate Change will greatly assist.

Tonga is doing everything it can to manage these challenges. However, some of these are beyond our control. In this context, Tonga will continue to rely on the Fund, the Bank and other donors to assist the economy in addressing these challenges.

To improve aid effectiveness and coordination, Tonga has signed a joint Declaration of Aid Effectiveness with its development partners. To guide development, the government of Tonga has also produced a Strategic Development Priorities framework. This framework is being reviewed for the next three years commencing July 2009. The Strategic Development Plan and Declaration of Aid Effectiveness are the first steps, however, much remains to be done to effectively align and integrate aid within Tonga. This ultimately will bring all donors into the Declaration of Aid Effectiveness.

The Government of Tonga is pleased with the decision by the Bank to establish an office in Tonga, which will strengthen our relationship and enable better coordination with other donor partners. The Tongan Government is always grateful to the Fund for the continued cooperation on the Article IV Consultations and other technical assistance received.

In conclusion, Tonga strongly supports the efforts by the Fund and the Bank to address the challenges before us and their efforts to reform their institutions so they can respond quickly and appropriately to the needs of member countries. I look forward to a continued close working relationship with both institutions. I wish the Bank and the Fund continued success in dealing with existing and emerging challenges going forward.

STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKEY

Mehmet Şimşek

This year's annual meetings are taking place against a backdrop of dramatic changes in the global financial system. Devastating financial shocks continue to hit global markets. While the epicenter of the financial crisis has been the U.S., the problems quickly spilled over to Europe and elsewhere. Shaken by these financial shocks, the world economy is entering a difficult phase.

Emerging and developing economies, which have been the engine of economic growth, are facing economic slowdown mainly through trade and credit channels. While inflationary pressures are likely to ease, the risk of a significant slowdown in capital inflows appear high.

To deal with the fallout of the ongoing global crisis, it is clear that a coordinated response is required. We must devise a global fire-fighting strategy as well as ways of dealing with the impact of the crisis. We believe that the Fund is uniquely placed in this respect to coordinate a global response. Hence, we expect the IMF to play a more active role in coordinating the policy response.

In this rather gloomy background, I am pleased to tell you that the Turkish economy has so far been quite resilient to the global shock. Real GDP growth, for instance, was 4.2 percent in the first half of this year. This is lower than an average annual real GDP growth of 6.7 percent in the previous six years. For 2008, the growth is expected to settle around 4 percent. In the short-term, growth is likely to slow further. However, we remain positive on medium-long term growth outlook. Turkey's demographics are favorable and we are implementing reforms that would boost productivity.

Thanks to softening commodity prices and weakening domestic demand, inflation is likely to fall to 7.5 percent next year.

Turkey's current account deficit, which is likely to have reached 6.5 percent of GDP in 2008, looks set to narrow significantly in 2009. The deficit is partially financed by strong FDI inflows with nonbank corporate sector medium-long term borrowing providing a big chunk of financing. While the global backdrop has deteriorated in recent months, Turkey's strong medium-long term growth prospects should continue to help attract the necessary funding. In addition, central bank has about 80 billion US\$ reserves.

Fiscal discipline remains the cornerstone of our economic program. Thanks to sustained (and sizeable fiscal adjustment) over the past six

years, Turkey has lowered the public debt to GDP ratio to around 37 percent. We are committed to maintaining the fiscal discipline and keep the public debt to GDP ratio on a downward path. To enhance the credibility of our medium-term fiscal framework, we are planning to introduce a formal fiscal rule over the next few months.

Despite a relatively less favorable domestic and global backdrop, we have continued to implement structural reforms. We have adopted and implemented a number of critical reforms including a landmark social security reform, a labor market reform, and energy market reform. We have also introduced generous incentives to R&D to help Turkey move up the value chain.

Finally, Turkey's banking sector is sound and strong. It is well capitalized, with a capital adequacy ratio of around 17.5 percent as of June 2008. The sector has strong asset quality. Banking sector's net NPL ratio was a mere 0.6 percent as of end 1H08. The sector has been profitable with an ROE of 24.7 percent in 2007. The system also has no meaningful currency mismatch.

To sum up, Turkey's macroeconomic fundamentals are strong. While this does not make us immune to the on-going global shock, it should make us a lot more resilient.

Let me now turn to matters relating to the Fund's and the Bank agenda.

We commend the management for timely launching of a review of the Fund lending instruments, access policy and charges and maturities framework. We support removal of the redundant facilities from the toolkit. There is also a case for making existing instruments more flexible to address different needs of all membership. We closely follow the discussion on creation of a new liquidity instrument and would like to thank for different proposals. We should also substantially increase the access limits for the Fund financing. The Fund's charges and maturity framework also needs to be streamlined, in particular, the application of surcharges. Hence, we strongly expect the upcoming Fund work to address these issues.

On the World Bank side, we welcome the consensus reached by the Executive Directors on the Voice Reform. The agreement represents an important step in enhancing the voice and participation of developing and transition countries in the World Bank. This first step, however, should continue with a more ambitious second step, which should include, among others, a meaningful realignment of IBRD shareholding to reflect countries' relative position in the world economy.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR OF THE FUND
AND THE BANK ON BEHALF OF HENRY M. PAULSON, JR., GOVERNOR OF
THE FUND AND THE BANK FOR THE UNITED STATES

Clay Lowery

I welcome all of you to Washington.

In the last few days, we have witnessed some of the most extraordinary events in our careers as finance officials. The strains and stresses in global financial markets have deepened, posing a great challenge to the global economic and financial system.

Yet, these very stresses underscore the reality of why we come together annually. Since last Friday, Washington has been the staging ground for meetings of the G-7 and G-20 Finance Ministers, the International Monetary and Financial Committee and the World Bank Development Committee. The Financial Stability Forum and the IMF hosted a high-level meeting on global financial turmoil.

We have all united with determination and with the singular focus of overcoming the world's financial turmoil. We have exchanged views, shared experiences and set out an action plan. We have done so because we know that the problems we face are global, because the world economy and financial markets are more inter-connected than ever before, because we value multilateralism, and because the answer to overcoming challenges is international partnership, cooperation, and collaboration.

We must all act decisively, individually and collectively, according to our needs, to secure stability and growth for the world economic and financial order. None of us can afford to go it alone and each of us has our part to play. And we must remember that notwithstanding the temptation to resort to isolationism in the face of the current turmoil, we all benefit from free, open, competitive and soundly regulated financial markets.

The housing correction in the United States and the lack of confidence in mortgage assets has undermined investor confidence at here and abroad. It is profoundly affecting American families and businesses.

We have tackled this challenge vigorously and head-on.

We have acted boldly to provide liquidity to markets. The United States has created a number of innovative funding facilities to maintain the functioning of inter-bank markets, guarantee money market mutual funds, and we have extended dollar swap lines throughout the world.

We have worked vigilantly to strengthen our financial institutions. A number of significant institutional problems were addressed on a case-by-case basis over the last six months. This approach, while necessary, was not sufficient.

Thus, we adopted a systemic approach on a significant scale, to get at the underlying causes of the turmoil. With our new authority under the Emergency Economic Stability Act, the Treasury is empowered to use up to \$700 billion to purchase capital in financial institutions, to purchase or insure mortgage assets, and to purchase any other troubled assets that the Treasury and the Federal Reserve deem necessary to promote financial market stability.

We have also taken steps to ensure the integrity of our financial markets and penalize frauds and market manipulation. And we have also protected our retail savers by temporarily increasing deposit insurance, and thus buttressing stability.

Every step of the way, we have worked in lockstep with the international community. Last Wednesday many of the world's major central banks cut official interest rates in unison with the Fed. Our colleagues in Europe have nationalized or rescued specific financial institutions to restore confidence. They joined us in combating market abuse and they too have worked to create a more unified deposit insurance system.

Let me assure all of you that the United States will remain vigilant and committed to working with our global partners to take further action as needed to restore confidence in our markets.

That is why Treasury welcomes the initiatives taken by European nations as part of the G-7 action plan to strengthen their financial system and address funding issues for their financial institutions.

We in the United States are also moving forward on actions under the G-7 Action Plan announced Friday to improve availability of funding for our banks.

One area where we will continue our strong work with the international community is to build a new regulatory framework for the future to limit the chances that yesterday's mistakes will be repeated tomorrow. The President's Working Group on Financial Markets has taken important steps to improve market transparency and disclosure, risk awareness and management, capital and regulatory policies, practices regarding the use of credit ratings and market infrastructure for over-the-counter derivatives products. Our work has been undertaken in conjunction with the Financial Stability Forum and the IMF from day one.

The path ahead of us remains arduous. The current difficulties will not end tomorrow and even as confidence is restored, recovery will be

slow. But as a student of financial history, I have little doubt that the vigorous actions we are taking and our partnership—so readily symbolized by this gathering—will overcome the challenges we face and we will in time emerge stronger.

STATEMENT BY THE GOVERNOR OF THE FUND FOR VIETNAM

Nguyen Van Giau

First of all, I would like to express our high appreciation to our colleagues at the Bank and the Fund for their excellent arrangements of this important event.

Since the last time we met at the 2007 meetings, the global economy has experienced various complicated developments, albeit several advantages. Increasing food and oil prices, the spillover inflation and the current global financial turmoil have caused the slowdowns in the global economic and financial systems, especially the fledging financial systems of the developing and transitional economies.

Higher prices, particularly oil and food prices, have globally challenged the food and energy security. The U.S. crisis-led financial turmoil has brought about numerous global macroeconomic problems, higher inflation, demand imbalance, and a gloomy forecast of the global economic growth from 4.9 percent to 3.7 percent. Major economies, such as the U.S., Japan, and the E.U., have reset their economic growth goals. In the region, high and sustainable growth economies, including China and ASEAN economies might have growth respectively decreasing from 11.4 percent and 6.5 percent in 2007 to 10 percent and 5.7 percent in 2008. The global economic turmoil has caused countries, including Vietnam, to adjust their macroeconomic policies as well as financial and monetary policies in an effort to contain inflation pressure, and higher food and oil prices.

The current situation is setting new challenges for international institutions, including the Fund and the Bank to take bold actions in an effort to support their member countries, thereby, contributing to the continuation of economic stability and driving forces, and ensuring poverty reduction achievements. In this connection, Vietnam welcomes efforts made by the Fund and the Bank in safeguarding global financial stability, promoting sustainable growth and reducing poverty.

It is encouraging that the Fund has recently made substantial efforts in its governance, operational and financial reform. We welcome the Fund's success in the first step of strengthening member representation through quotas and voice enhancement. Policy dialogue between the IMF and its member countries is now more candid, and overall more effective, when better focused on how members' economic policies impact the stability of their economies and of the economies of their partners. Lending activities are also reformed in order to provide assistance faster, in larger amounts, to low-income countries, streamline policy commitments made by borrower governments and also help address commodity price changes, disasters and conflicts. We also highly appreciate significant benefits that IMF technical assistance brings to member countries, with a unique feature of strong surveillance-lending-technical assistance relationship. Those reform activities are much supported by the IMF's directions of diversifying revenue sources together with strengthening the effectiveness in resources allocation and utilization. However, regarding the issue of cost sharing in TA provision, we would like to note that the priority should be given toward developing countries, facilitating them to maintain their access and utilization of the Fund's assistance.

At the same time, we saw that soaring food and commodity prices over the past year reaffirmed the role the Bank plays in international economic development and poverty reduction worldwide. We highly appreciate the Bank's ability in tackling the global crises and supporting sustainable growth with care for the environment in its client countries while safeguarding and improving people's health, education, and other human development outcomes. We also highly appreciate the collaboration and partnership the Bank had with numerous other multilateral organizations and partners to realize the most far-reaching results possible. The Bank's quick response in May 2008 with a rapid financing facility¹ for food crisis is widely acknowledged by all as an immediate action addressing immediate needs. In the longer run, the Bank's recommendations on the focus of increasing agricultural productivity and narrowing the gap between the urban and rural areas will significantly contribute to the agricultural and rural development of the member countries, thus ensuring the sustainable economic development.

¹ The World Bank report shows the first grants under the facility were approved for Djibouti (\$5 million), Haiti (\$10 million), and Liberia (\$10 million).

On financial side, the borrowing member countries highly appreciate the great efforts made by the Board of Executive Directors to bring down the commitment fee on the outstanding credits of the IDA to zero percent. This decision helps the borrowers to reduce cost of resource significantly, hence increasing their capacity to invest for economic growth and poverty reduction. We also thank the IBRD for its biggest simplification and reduction in its loan pricing since the Asia financial crisis. It now makes borrowers to have access to IBRD loans at longer maturities and at price that are lower and more transparent than they had been.

On nonfinancial side, we endorse the Bank's efforts in introducing simple projects that can be easily replicated, mechanism for additional financing of successful projects and revision to emergency and rapid response lending policy. We also endorse the approval of the Board in April 2008 for piloting the use of country system for financial management and safeguards as it helps harmonize the procedures of both the Bank and the borrowing member countries.

However, much needs to be done without delay to alleviate global crises. An estimated 2.5 billion people are trying to survive on \$2 or less a day. Therefore, in the coming time the role of the IMF and the WB will be more significant in assisting their member countries to accomplish the cause of economic development and poverty reduction.

In addressing the adverse impact of the current global turmoil on the macroeconomy of the country, we welcome the coming focus of the IMF's activities on key issues of global economic and financial concern and its actions to help members to meet the potential global challenges. It would be good for all members that IMF will making substantial progress in the coming time to enable member countries deal with imminent crises and urgent tasks, including responding to the challenges posed by rising food and fuel prices, drawing lessons from financial market crises and advancing key surveillance issues. Regarding this, we totally support the call made by IMF Managing Director Dominique Strauss- Kahn for a global solution to the financial crisis, in which the Fund would play the coordination role to organize a global response to weaknesses in the global financial system.

Another IMF priority is to review its lending instruments. We agree that it is time for the Fund to revise some credit facilities so that it can provide a more accessible and appropriate source of capital for those countries in need. New organizational tools and working practices, especially enhancement of IMF consultations and local capacity building program are much welcomed. We also look forward to further advances of the Fund's governance agenda, including the next step beyond

strengthening membership representation through quotas and voice improvements.

We share the vision of the Bank, which is “to contribute to an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.” This vision reaffirms the commitment of the Bank to fight against poverty and ensure the equal and sustainable development. In this connection, we think that the Bank should continue to collaborate closely with its member countries and international partners to make further progress in addressing the above-mention challenges. Particularly, we strongly support the Bank’s policy to consider Africa, especially sub-Saharan Africa, where extreme poverty is expected to grow, as its priority for action. We also urge the Bank to continue to intensify its role in coordinating the necessary available resources both technical and financial ones to support and assist the other countries in all regions to confront their emerging vulnerabilities, including Vietnam.

Skyrocketing food prices are a harsh reality, resulting in even greater hunger and malnutrition worldwide. Climate change threatens agricultural productivity and consequently the world’s food supply as well as the income of most of the poorest people. Natural catastrophes, such as this year’s earthquake in China and cyclone in Myanmar, devastate millions who may not survive without immediate disaster relief. Communicable diseases, with HIV/AIDS and malaria being the most critical, continue to challenge us. Therefore, we commend the Bank to continue to push forward the Global Food Crisis Response Program in collaboration with the United Nation and other partners. We also encourage the Bank to advance work on all aspects of voice and participation, keeping in mind the distinct nature of the Bank’s development mandate, and the importance of enhancing voice and participation for all developing and transition countries in the World Bank Group. As the change in the climate spans multisectors and development issues, all the countries are at significant risk. Therefore, we urge the Bank to continue to scale up its actions like adopting a Strategic Framework for Climate Change, setting up specialized climate funds, in order to help member countries to adapt to climate change and mitigate its impacts as well as to turn the challenge of climate change into an opportunity for development leading to an inclusive and sustainable globalization.

Now let me take this chance to provide a briefing of the latest developments in my country since our last gathering. Over the past year, we have achieved the following significant achievements:

2007 was the year we effectively joined WTO, since then macroeconomic situation has been severely impacted by complex

volatilities of the world economy: inflation bounced back to 2 digit number (12.63 percent in 2007 and 21.87 percent for the first 9 months of 2008 compared with the end of 2007); trade deficit increased sharply to 29.1 percent the total exports in 2007 and 32.6 percent of the total exports in the first 9 months of 2008. Given rapidly increasing inflation and trade deficit exercise being threats to macroeconomic stability, the government considered inflation control as the first priority objective and focused on directing the implementation of 8 major comprehensive sets of policies, including : (i) tightening monetary policy and ensuring the liquidity for banking system and the whole economy; (ii) closely monitoring and enhancing efficiency of public spending; (iii) focusing on production development and ensuring balance of good supply and demand; (iv) promoting exports, strictly supervising imports to reduce trade deficit; (v) strictly practicing thrift in production and consumption; (vi) enhancing market management work to guard against speculation, smuggling and trade fraud; (vii) strengthening policies to stabilize people's life and expanding the coverage of implementation of social security policy; and (viii) promoting information and propagandization.

With the implementation of the government's policies, including monetary policy, macroeconomic developments have shown positive signals:

- GDP for the first 9 months reached 6.52 percent, still at a high level compared with many other countries.
- Inflation was reduced from a monthly average of 2.9 percent for the first 6 months to less than 1 percent for July, August, and September.
- The trade deficit narrowed from a monthly average of US\$2.3 billion in the first 6 months to the level of less than US\$1.0 billion/month in July, August, and September.
- Newly granted and added foreign direct investment in the first 9 months reached US\$57.1 billion, up by 398.5 percent from the same period of 2007.
- The money market and foreign exchange market are stable, and credit and total liquidity have a slower trend, ensuring the settlement safety for the credit institution system.

The Vietnamese economy still maintains the potential of stable development in medium and long term. However, from now to the end of 2008, the world and domestic economies may have many complex developments, especially the effects of the US financial turmoil, therefore, the government continues to implement tight monetary and

fiscal policy but in a flexible way in order to help control inflation, stabilize macroeconomic situation, ensure social security and sustainable development.

In addition to our own efforts, the support from WB and IMF is always appreciated by the government of Vietnam. Particularly, the financial support of the WB has contributed significantly to building up the key fundamentals for economic development of Vietnam. Over the past 15 years, WB has provided financial assistance of more than US\$ 8 billion for around 80 programs and projects in various areas. In fiscal year 2009, WB has committed more than US\$1.8 billion for 15 programs and projects, of which there will be an IBRD-financed project. Such financing program would make the Bank become one of the biggest ODA providers for Vietnam.

In concluding, I would like to convey our sincere thanks to the management and staff of the Fund and the Bank for efficient support extended to Vietnam thus far. I wish the Meetings a splendid success.