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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **GIULIANO AMATO**,
Governor of the Fund for **ITALY**,
at the Joint Annual Discussion

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Mr. Chairman,

International economic conditions have considerably improved since our last meeting. The US economy continues to perform strongly. Economic activity in the euro-area is accelerating. Signs of an upturn are coming from Japan. The financial and real instability that has recently characterized the emerging markets has been subdued.

While the risks for the world economy seem to have diminished, steadier economic growth continues to be burdened by the imbalances in the current account positions of the main industrial countries and delays in structural reform and fiscal consolidation in several developing and transition countries.

Structural policies are required:

- in the US, to increase private savings while ensuring a soft landing of the economy, and
- in Europe, to improve the functioning of markets -- in particular in the product and labor sector -- and thus sustain economic recovery.

In Japan the efforts to sustain aggregate demand and press ahead with structural reforms are key for the turnaround of the economy.

At the close of this decade, inflation has been driven to very low levels in almost all industrial countries. This is the result of appropriate monetary policies and of structural factors, including increased competition and technological advances. Somewhat paradoxically, price stability has been accompanied by more, not less, exchange rate volatility between the major currencies.

We must be aware that such volatility produces repercussions on other countries' economies. This does not mean, however, that we should introduce some form of exchange rate rigidity between the three major currencies, which would only come at the expense of domestic stability.

Emerging market economies must be careful in choosing their exchange rate regimes. With increased capital mobility, countries should peg their exchange rate only if they can implement economic policies that are consistent with both domestic and external requirements. The Fund has the responsibility to assist countries in devising the most appropriate exchange rate regime and supporting policies.

Mr. Chairman, major challenges remain for achieving a stable international financial system.

First, the efforts should be renewed to preventing financial crises. Standards and codes of good practice have been designed by the Fund and the Bank, in collaboration with other standard-setting bodies in a number of areas. They should now be implemented by all countries on a voluntary basis, but according to an agreed-upon and transparent timetable. The Fund has a major responsibility in monitoring the implementation of these standards. In this endeavor, the Fund and the Bank must strengthen cooperation among themselves and with other relevant international organizations as well.

Second, important progress has been made in involving the private sector in crisis resolution. Building on this experience, and on the broad principles that have been agreed upon, the Fund must now design the "rules of the game" for a consistent approach to crisis management.

Third, poverty reduction must come at the core of the activities of the international financial institutions. The enhanced HIPC initiative provides deeper, faster and broader debt relief and establishes a close link between debt relief and poverty reduction. The funding of the initiative needs to preserve the principles of additionality and the financial integrity of the international institutions. Multilateral institutions thus need additional support on a bilateral basis to cover the costs associated with the enhanced framework. Italy has already made a substantial contribution to a stronger link between debt relief and poverty reduction by canceling all commercial and ODA debt to HIPC countries with a per capita income lower than 300 dollars. In addition, Italy has contributed its full SCA-2 share, around US$ 60 million, to the ESAF-HIPC Trust of the IMF. Italy will contribute US$ 70 million to the HIPC Trust managed by the World Bank.

Let me stress again, economic and social progress must proceed *pari passu* with poverty reduction. Priority must be given to assist countries affected by conflicts. Marginalization, social unrest and external conflicts always have their roots in inadequate economic development and inequality. The World Bank, which is engaged in efforts to help countries that are in post-conflict transition, must use its resources to provide assistance for reconstruction thereby reestablishing stability and growth in these countries.

These are ambitious tasks. I am nevertheless optimistic. The significant progress achieved in these days is the result of effective and meaningful cooperation among the member countries. In this respect, Italy fully supports the institutional changes proposed to the Board of Governors. They will strengthen the role of the IFIs and make them better equipped to meet the challenges ahead.

Thank you.