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Statement by the Hon. **KHUDAIBERDY ORAZOV**,
Governor of the Fund for **TURKMENISTAN**,
at the Joint Annual Discussion

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It is a great pleasure and honor for me to address the Annual Meetings of the World Bank and the International Monetary Fund.

The continuing efforts of both organizations to implement reforms of the international financial system in order to avoid future global financial crises are well appreciated. Significant financial and technical assistance from these organizations enables developing member countries to implement the reform process and to create a basis for strengthening their economies. However, the global crisis is undermining the efforts of developing countries to achieve economic growth. This is particularly true for Central Asian and CIS countries that have much work to do to complete the transition process.

The economic development process depends more on factors of regional character, than on existing global problems. Countries whose economies are largely dependent on external trade deserve special attention. Turkmenistan has been particularly impacted by the economic crisis in our region with a combination of falling commodity prices, slower growth in trading partner countries and chronic non-payment of debts by debtor countries.

I will not try to discuss all the problems of our economy at this time, many of which are within our own capacity to control, but would like to draw the attention of my fellow Governors and the Fund staff to the need to make urgent progress in improving the external payment arrangements in the FSU countries.

A smooth working payment system is vital to the future development of this region. While the region as a whole is likely to run a considerable current account deficit with the rest of the world in the coming future, this should not blind us to the fact that some countries—such as Turkmenistan—are inherently creditor countries within the region and need to be paid in cash on time for their exports if they, in turn, are to meet their trade and debt obligations to the rest of the world.

Resolution of this issue would also assist the Fund's goal to stamp out inefficient and inequitable barter trade. Turkmenistan agrees with this objective and has made considerable strides in reducing barter trade within its own borders. However, in attempting to apply that same principle to trade and payment relations with our neighbors, we find that the system does not work. Therefore, with no basis for enforcing payment for exports, we must often fall back on barter payments as a second best alternative.

I would like to highlight three areas where urgent action is needed to improve the payments system.

First, attention needs to be given to the rules of conduct of inter-government trade transactions. In our early period of independence, exports of gas and other commodity exports within our region were always regarded as being an intergovernmental transaction between sovereign states. Such transactions were given a special status that provided some protection to the exporter, since collection of payments for such exports could be enforced under Fund programs. In a sense, it acted as a substitute for the export insurance facilities available to western countries. While countries in this region may eventually also move in the insurance direction, the stability of intergovernmental arrangements provides important glue for exiting trade arrangements.

Unfortunately, we saw a disturbing abrogation of this long-standing principle, when Ukraine declared that its obligations under the agreement on gas supplies signed by the governments of two countries, were not the state's obligations, referring to the status of the organizations responsible for the execution of this agreement. In fact, these organizations are operated and managed within the state management system. This has led to the strange outcome whereby the Fund is formally unable to assist the Turkmenistan authorities in collecting vital export payments because of a mere technicality.

Indeed, we now see the hugely inequitable outcome from the fact that high interest debt owed to international banks--on the assumption that the Fund would always bail them out through its program--is required to be paid back by the Fund, whereas debt owed to an impoverished nation like Turkmenistan is not subject to the same condition.

The need for early action to correct this anomaly should be evident to all, as other countries throughout the region are trying to follow such an example. Already we have been informed by Tajikistan and Kazakhstan that debts formerly conceded as being of an intergovernmental nature were in fact "private sector" transactions even where the entities involved were owned and controlled by the nation concerned.

The second principle relates to the need to provide a mechanism to enforce previously agreed debt payment schedules. In 1996 Turkmenistan bilaterally agreed to reschedule about \$400 million of debt owed from Georgia. However this agreement was not honored. At present, the amount of outstanding arrears has risen to USD 120 million.

This situation does not allow us to address our social and economic development issues and complicates the servicing of our external debt. While larger creditors can afford to adopt a benevolent approach to this issue, Turkmenistan's financial position--worsened by nonpayment for our exports--does not permit such an approach.

In that context, we have welcomed efforts by the Fund to establish an orderly and certain approach to settlement, but are concerned that the fund will not pay adequate regard to the economic situation of individual creditors.

Clearly, it is one thing for the US, EU, or Japan to offer debt relief and restructuring to countries such as Georgia for well-intentioned reasons. However, in the case of Georgia, it is more difficult for us to take such decisions, because being the largest creditor, Turkmenistan has been in fact receiving fewer payments than other creditors.

If debt relief is to be provided in such circumstances, we see it as essential that the burden be borne equitably and that the larger nations be asked to make a more than proportionate contribution to the relief provided.

Third, the Fund needs to assist a quick resolution of the correspondent account debts among former Soviet states – most of which were incurred before the introduction of independent central banks and currencies in our countries.

The existence of debts is a running sore in country relationships often impeding more fundamental agreements on what trade and investment arrangements should be in place in the future. In fact, irresponsible approaches to the solution of correspondent account debts, incurred in the early stages of independence, have led to more complex issues of increasing amounts of external debt and outstanding arrears on bilateral and multilateral credits. It would be most useful, therefore, if the Fund could require resolution of these debts in the normal course of program design and implementation.

The Annual Meetings and regular discussions with two major development organizations provide us with an appreciation of the need for unity in the international community and the genuine desire by that community for outcomes which benefit all countries of the world and further strengthen the international financial system. My purpose here today has been to highlight the need to ensure that the financial architecture being put in place takes into account the needs of countries such as Turkmenistan.

Thank you for your attention.