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Statement by the Hon. **VASYL ROHOVYI**,
Governor of the Bank for **UKRAINE**,
at the Joint Annual Discussion

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The benefits and risks of the global economy are being actively discussed by the international community for several years now. Agreements and initiatives launched in Monterrey and Johannesburg are increasing expectations for better cooperation among the developed nations and other groups of countries in addressing the challenges faced by the modern world. But at this forum we may want to devote more attention to increased financial instability and instances of trade protectionism which might threaten the hopes for implementing the honorable principles of the Monterrey Consensus.

In addition to the still depressed level of net capital flows to emerging markets (if compared with the mid-1990s), there has been another round of capital flows volatility recently. Additionally, a synchronized and so far continuous downward adjustment of the developed nations' stock markets is occurring. This adjustment will have its impact on the rest of the world economy.

International finances, therefore, are not becoming more stable, and we have to face this challenge. Volatility testifies that anti-crisis immunity among some emerging markets has not been established to a necessary extent. But volatility also reveals that the strengthening of the international financial architecture seems to be lagging somewhat behind current developments.

In this light, it would not be entirely prudent to place the responsibility for volatile capital flows predominantly on the policy weaknesses of recipient countries. Such a view is not balanced enough. Capital account volatility together with difficult global restructuring in such sectors, as telecommunications, information technology, and energy, can affect practically every country, not always respecting the strength of local macroeconomic fundamentals.

Instability can affect not only systemically important emerging markets, but practically any other country. This is why all countries deserve equal treatment, systemically important emerging markets, developing countries which are struggling to overcome poverty, and countries undergoing transformation from a centralized towards a market economy. The principle of equal treatment should cover market access, access to multilateral financing, and conditionality. Rules and practice of access to IMF financing, in particular, should become more transparent and understandable. We welcome some achievements in this respect and urge further progress in streamlining conditionality, strengthening ownership and securing sufficient access.

Avoiding risks is currently dominating investor's behavior, as was clearly emphasized in the IFI's recent research on global financial stability. The IFI's important work on financial markets as well as on anti-money laundering best practices, deserves the full support of the international community. Practical recommendations on reducing vulnerabilities and reaching debt sustainability have to go side by side with reforming market mechanisms and regulations. Making such mechanisms more manageable and predictable is important for crises prevention as well as for crises resolution. The attempts to create mechanisms for reasonable burden sharing between the official and private sectors in crises cases have to be developed further in order to avoid sudden developments, which are undermining investor confidence and negatively affecting broad support for reforms in member countries, stricken by crisis, or by contagion spillover.

Reaching Millennium Development Goals, gradually approaching ODA target levels of 0.7 percent of GDP, while improving market access, will be the best possible contribution to shielding the more vulnerable nations of the world from the effects of global financial and economic instability. Addressing the challenges of poverty will also be greatly helped by the further mutually beneficial trade liberalization. To this end, we fully support the emphasis placed by President Wolfensohn and Managing Director Köhler on the utmost importance of the success of the Doha Round. We would also urge more publicity around the recent studies by the IFIs on the negative effects of trade protection and trade subsidies on international trade and on investment and consumption in both developed and developing nations. Trade distortions may, in our view, become an even more prominent feature in surveillance.

Improving the investment climate remains an ongoing challenge for many nations, including Ukraine. Our country hopes for new positive achievements in this area and we count on continuous support from the World Bank Group and the Fund in strengthening our market institutions. Transition has been harder and more challenging than anyone assumed ten years ago. By now, the most difficult times for East European countries, including Ukraine, seem to have been put behind. Transition economies have so far been weathering the global slowdown rather well.

In Ukraine, the evidence of regained confidence in our sound policies manifests itself in lesser dollarization of the economy, in the informal economy coming out of the shadow, in improved indicators of the monetization of the economy, in further moderation of a single digit annual inflation, and in reduced levels of external debt. After reaching high growth rates of 9 and 6 percent respectively in 2000 and 2001, we target a more modest 5 to 6 percent for the next few years. An increased emphasis on transparency in both the WB and the IMF coincided with our national effort in improving the transparency of government operations, including privatization.

Among structural reforms we are proud of our strengthening of the budget constraints throughout the economy, as well as the first results of our agrarian reform, which allowed Ukraine to regain its historical position as a grain exporter. We are not yet fully satisfied with progress on some other important structural fronts. Reforming the tax system, removing distortionary exemptions and incentives, better budget expenditure management, and further sectoral reforms are among our priorities for the immediate future along with the modernization of the country's infrastructure. We are currently somewhat concerned with difficulties in meeting the goals of our privatization program. We planned to privatize some industries and enterprises belonging to sectors which are experiencing difficulties throughout the world. Corporate accounting and governance scandals in one part of the world can apparently influence systemic transformation even in a different hemisphere.

Finally, we would like to emphasize, that IFIs as well as many sovereign nations need to better adjust to the realities of the increasingly integrated global economy and fluid financial markets. We fully share the view that there are no viable alternatives to globalization, but the global economy needs to be inclusive, mutually beneficial, and should work for the entire membership.