BOARDS OF GOVERNORS ● 2002 ANNUAL MEETINGS ● WASHINGTON, D.C.

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 62 (Revised)

September 29, 2002

Statement by the Hon. **GIULIO TREMONTI**,
Governor of the Fund for **ITALY**
at the Joint Annual Discussion

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At the outset, I would like to welcome East Timor to the Bank and the Fund and to our constituency. When a new member joins the Bretton Woods Institutions it is a particularly relevant event for the world community. We look forward to working together with the East Timorese authorities.

A more challenging global environment

Over the past twelve months new challenges have emerged, involving industrial, emerging, and poor countries.

In industrial countries fragilities and imbalances put into question the sustainability of recovery. To stimulate growth and gradually correct international imbalances, maximum effort should be exerted by all major industrial economies. In the US, regaining a budget balance in the medium term would be desirable. In the EU, policy makers should step up the process of structural reforms to increase the potential for growth in the long run, while in Japan deep-rooted structural difficulties in the banking and corporate sector need to be effectively addressed.

In the face of slower growth and a substantial decrease in private financing flows many emerging markets are finding it increasingly difficult to maintain debt sustainability. Poor countries with limited or no access to private financing are also suffering from lower global growth as well as from a decline in commodity prices.

Enhanced trade openness is a key element for stronger and sustainable growth. We are encouraged by the progress made within the Doha process. The European Union has already made significant contributions in this respect with the “Everything but Arms” and other initiatives. We urge other industrial countries, and the US in particular, to remain committed to free trade principles and practice.

To cope with global challenges, the Bank and the Fund are adapting their policies, strengthening their collaboration and expanding their interaction with other international institutions. In this perspective an important step forward was made in Monterrey and Johannesburg.

Implementing the Monterrey Consensus and the Johannesburg recommendations.

At the conference of Monterrey and Johannesburg a consensus was reached on the mutual responsibilities of donor and recipient countries and on complementary policy actions to be undertaken, in pursuit of the Millennium Development Goals.

In order to meet the expectations that have now been generated, there is a need for a "quantum leap" in terms of commitments of developing countries, efforts of donors, as well as innovative thinking and approaches by development agencies. The additional bilateral aid pledged by the EU and the US, the recent replenishment of IDA and the GEF represent concrete replies from the international community to these expectations.

Italy is committed to additional aid flows and to contribute to the process of enhancing development effectiveness. It is crucial that different agencies and donors better coordinate their activities, and harmonize their procedures. The high level Forum on Aid Harmonization that Italy will host next February in Rome will provide an opportunity to enhance aid effectiveness.

Poor Countries

The PRSP approach has proved to be an effective vehicle to fight poverty and to foster a constructive dialogue between authorities and civil society. However much more needs to be done to alleviate poverty, especially in terms of increasing institutional capacity. Better coordination between the PRSP process, the PRGF programs and the Poverty Reduction Structural credits by the World Bank is needed. In particular, PRGF programs should be more closed aligned with the priorities put forward in the PRSP, while the Fund and the Bank should set conditionality requirements more strictly related with the PRSP objectives. We are aware that the PRGF funding is being put to severe test and that, starting from 2006, it will shift to a self-sustained regime that will limit the ability to support poor countries unless additional bilateral resources are provided. Italy has contributed with 550 million SDR, in addition to 250 million that had been previously committed.

We welcome the progress already made under the Enhanced HIPC Initiative. However, the effectiveness of the HIPC initiative seems to have weakened somewhat recently, because of two factors. First, the global slowdown and the fall in commodity prices have negatively affected growth and debt sustainability in a number of HIPC countries, including countries reaching the completion point. In taking this issue into consideration we must avoid generating wrong incentives that would undermine the credibility of the initiative. In this respect, topping-up at the completion point must remain an exceptional event linked to exogenous factors beyond the country's control. It cannot compensate for other shortcomings. Furthermore, more realistic debt sustainability analysis must be a key element. Secondly, all creditors, must provide their share of debt relief, as committed to. Italy is writing off 100 percent of its debt and cannot accept that its additional voluntary bilateral relief be diverted to repay other creditors instead of being channeled to provide supplementary resources to stimulate growth and reduce poverty. Finally, the commitment to provide new financing to HIPC countries only through grants or highly concessional credits must be reaffirmed. IFIs should watch closely that commercial loans do not begin to flow again into the HIPC countries.

Conditionality

We welcome the results of the recent review of conditionality and the new guidelines aimed at streamlining and focusing conditionality on those areas that fall more squarely within the institutional responsibility of the Fund. We note progress in national ownership of programs, consideration of country-specific circumstances (including administrative capacity), and openness to domestic policy preferences.

A key component of the new conditionality is the intensified cooperation between the Fund and the World Bank. This should result in better design and monitoring of conditionality and should allow each institution to specialize in its own core areas of business, thus improving the quality of program design. A sharper division of labor, especially in those areas where responsibilities are shared, is essential. Also, full information to the Boards of the two institutions is crucial in order for Directors to monitor developments.

Anti-Money Laundering and Combating Financing of Terrorism

In the last few months the fight against money laundering and the financing of terrorism has received new impetus and we commend the IMF and the World Bank for their extensive work in this area.

The impressive results already achieved have been made possible also by the decision of a large number of countries to endorse the FATF recommendations and to join the self-assessment process

We welcome the collaboration with the FATF that has resulted in the inclusion of the 40+8 recommendations to the Fund/Bank list of standards and codes: we are confident that the high degree of convergence on the comprehensive AML/CFT methodology will allow for its finalization by October 2002, so that the ROSC process can get started. We are looking forward to a comprehensive review of the experience at the next Annual Meetings.

We also commend efforts in providing and coordinating Technical Assistance. Several initiatives are in place but, to be fully operational they will require further efforts by bilateral donors. Italy has contributed by establishing a Trust Fund to provide TA. A part of these resources are earmarked for TA in AML/CFT. We urge other donors to do the same.