

**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. **GERRIT ZALM**,  
Governor of the Bank for the Netherlands,  
at the Joint Annual Discussion

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Mr Chairman, fellow Governors, Ladies and Gentlemen,

The uncertainties in the world economy seem to have diminished, but the turnaround remains fragile. The slow and moderate recovery reflects the existence of fundamental imbalances that grow deeper than the short-term outlook suggests. One of the most prominent examples today are the fiscal imbalances we face in the US, Europe and Japan. In a similar way the dot-com hype blinded us for economic truisms, we now seem to step in a pitfall with regard to fiscal policies. The fiscal expansion in the three regions is larger than can be attributed to the economic downturn: structural deficits rise. This might be a painkiller for the short term, but I am convinced that it is no recipe for sustained growth. In order to unwind global imbalances and to address the budgetary consequences of ageing, credible consolidation efforts are needed in all three regions.

In the case of the US, this will translate in a lower external deficit, which reduces the risk of a sudden correction in terms of exchange rates and capital flows. At the same time, especially Asian countries that finance the US current account deficit will need to play their part by allowing exchange rates to work as a gradual adjustment mechanism. This will also help reduce excess liquidity growth and inflationary pressures in their asset markets, which now tend to fuel financial instability. In this sense, an exchange rate adjustment works both ways: serving national as well as international goals.

Short term considerations also seem to dominate fiscal policies in Europe. But again, let us not fool ourselves. Taking a longer term perspective, higher structural deficits today will require painful measures tomorrow. The public costs of ageing are – on average – expected to double over the next generation. Therefore, an ambitious strategy is needed to put us on the right track: reforming pension systems, enhancing productivity, increasing labour market participation and reducing public debt. With regard to the latter, the budgetary and the debt targets of the *Stability and Growth Pact* should be considered as a minimum for meeting the budgetary challenges of ageing. With authorities in each region doing their homework, together we should be able to tackle global imbalances and foster global prosperity. To strive after that common understanding is the basic rationale of the Bretton Woods Institutions, which are now heading towards their sixtieth anniversary. To underline that these organizations are truly global, I very much welcome that the Annual Meetings are now – for the first time – taking place in the Middle East.

The notion of global interdependence was also clearly reflected in the Monterrey consensus, which was based on the concept of mutual responsibility of developing and

developed countries. Many developing countries have shown, in a transparent manner, their progress towards achieving the Millennium Development Goals. Now we, the developed countries, need to do the same and be accountable in realizing our commitments. First of all, our commitment should be to save the Doha development round, after the setback in Cancun. I consider it as a missed opportunity to enhance the recovery of the world economy and to lift millions of people out of poverty. We have to make a careful analysis of why Cancun failed. I think we did not fully appreciate the position and the concerns of developing countries. A better inclusion of their concerns in the multilateral trading system will give the system a truly global character.

Apart from trade, developed countries still have an obligation to fulfil the international target for Official Development Assistance of 0.7 percent of GNP. Next to aid volumes we also need to improve aid effectiveness. I invite donors to further harmonize their aid procedures and policies and improve the coherence of national policies with development objectives.

On a final note, I would like to stress the importance of peace and stability for sustainable development. All of us are aware of the huge obstacles to reconstruction and development, especially in countries like Iraq and Afghanistan. Wherever a conflict erupts, achievements in the development process are wiped out and basic services and institutions need to be restored. The Bretton Woods institutions, the United Nations and bilateral donors need to intensify their contributions and cooperation in this area, based on their respective mandates and competences. It is our hope that our common efforts can help ensure that countries affected by conflict and instability recover from their predicament. If we work together towards that end, we will all be better off.

Thank you!