

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. 15

October 3, 2004

Statement by the Hon. **LUIS MIGUEL MORAIS LEITAO**,
Governor of the Bank for **PORTUGAL**,
at the Joint Annual Discussion

**Statement by the Hon. Luis Miguel Morais Leitao,
Governor of the Bank for Portugal,
at the Joint Annual Discussion**

Mr. Chairman, Governors, Ladies and Gentlemen.

It is a great pleasure for me to be here.

In Portugal, the economy is recovering, with domestic demand contributing to expand economic activity. For 2005, we expect a GDP growth above 2%, a rate that has not been recorded for the last five years.

We are also on the way to collect the benefits of important structural reforms adopted in the last two years - **health, education, social security, public administration, labour market and tax system** - allowing us now to focus on growth as the major goal of our policies. Concerning fiscal policy, we continue strongly committed to fulfilling the objectives of the Stability and Growth Pact. In 2004 the deficit will remain below 3% of the Gross Domestic Product and the debt ratio will be 60% of GDP. Keeping in mind last years' negative economic growth of -1.3%, these results show the strong commitment of the Portuguese government to the budgetary consolidation process. Inflation has been decreasing, more in line with the European Central Bank's objective, and is presently contained.

As recent events have shown, promoting peace and security worldwide must be a priority and requires global co-ordinated action. Defending the integrity of the World's Financial System and avoiding its mismanagement for irregular purposes are crucial features for Peace, as well as creating conditions for access to better living standards and freedom of faith.

Portugal has stood at the forefront of the fight against the financing of terrorism and money laundering, having ensured that legal measures to make our financial system resilient to these phenomena are swiftly implemented, and cases are quickly detected and addressed. Full adherence to the Financial Action Task Force's recommendations on money laundering and on the prevention of terrorism financing is crucial, and this is an area where the success of our action is highly dependent on strong co-ordination, both among domestic institutions and at the international level.

Portugal remains fully committed with the global effort to fight poverty. As the World Development Report 2005 highlights, the promotion of a better investment climate in developing countries is central – it allows official development assistance to be leveraged by private sector development. We firmly believe that economic growth is the key for poverty reduction and that is the combined result of good governance, improvements in health and education systems and private investment.

As a measure of our common efforts, the Millennium Development Goals (MDGs) continue to provide the major framework for our action. We look forward to discussing our major achievements and shortcomings next year.

The new partnership for development between developed and developing countries established during the Monterrey, Johannesburg and Doha summits remains the best way to provide urgent, concerted and sustained action in order to make faster progress towards the achievement of the MDGs. The first of the MDGs, poverty reduction, has been the Bank's overreaching objective for many years and it is also the priority of Portuguese cooperation.

The Comprehensive Development Framework that includes the Poverty Reduction Strategy Papers (PRSP) and the Country Assistance Strategies is, in our opinion, a useful tool for the definition of national development strategies and we reaffirm the importance of a closer link of these documents with the budget process. The World Bank plays a crucial role in providing technical assistance and capacity building for the implementation, monitoring and evaluation of this framework.

Portugal encourages the World Bank to fully implement its Infrastructure Action Plan and its growth agenda, as economic growth is the driving force for development. In this context, we welcome the Bank's renewed commitment to infrastructure and private sector development.

Strengthening aid effectiveness requires concerted efforts and coordination of donor actions. We support the efforts made for the definition of a framework for monitoring coherence, coordination and cooperation of the World Bank with other multilateral organizations. It's a tool that can contribute to enhancing the overall development impact of aid, as well as provide feedback in real time to influence key decision-making processes.

Emphasis should be given to the importance of aligning aid resources more closely with countries' priorities and processes and of harmonizing donors' requirements and practices. This exercise is particularly relevant for Portuguese cooperation, which has made efforts to concentrate its assistance in a small group of countries with whom Portugal has strong historical and cultural ties, namely in the Portuguese speaking countries in Africa and Timor-Leste.

We are aware that developed countries will need to provide stronger support through increased market access. The breakthrough achieved on August the 1st in the Geneva World Trade Organization negotiations gives hope to a positive outcome of the Doha Development round. Its benefits will be felt worldwide, particularly in developing countries. In order to be prepared to take full advantage of a new trade regime, developing countries should also reform their government structures, improve governance, enhance democratic and participatory decision-making and implement sound and coherent macroeconomic policies.

When it comes to aid, we should be prudent not to create misguided expectations, promising additional resources beyond those we can commit, especially at a time when national budgets are under severe constraints. We must focus on the need to make aid flows more effective, namely through a better alignment of donors' aid with the countries' development priorities.

In terms of Official Development Assistance (ODA), Portugal is firmly determined to reach at least 0,33 percent of Gross National Income to Official Development

Assistance (ODA) by 2006, thus contributing to the EU collective commitment of reaching an EU average ODA of 0,39 percent of Gross National Income (GNI) by 2006.

With respect to debt, we encourage the World Bank and the Fund to continue exploring new solutions that provide a tool for ensuring long-term debt sustainability. After the positive results of the HIPC Initiative, we must remain vigilant to avoid the repetition of debt distressed situations. Developing countries must improve institutional capacity, develop good governance and above all seek peace and security conditions. For low-income countries, especially those that benefited from HIPC, where the challenge to maintain macroeconomic stability is greater, due mainly to being more exposed to external economic shocks, access to financing on appropriate terms is clearly needed. It is important to appropriately tailor the mix of grants and loans to the countries' circumstances so as not to increase the risk of debt distress in already highly indebted countries.

I would like to finish by thanking the Bank and the Fund Staff and Management for their excellent work, the Boards of Directors for their strategic view and guidance and President Wolfensohn, for his marked leadership.

I would also like to welcome and congratulate Mr. Rodrigo Rato for his recent appointment as IMF Managing Director. I wish him every success in his new assignment.

Thank you.