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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **KASPAR VILLIGER**,
Alternate Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

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At the outset, I would like to thank the Chinese authorities for their kind hospitality and excellent organization of our meetings.

The present situation of the world economy and the outlook for the coming years are bright. In most of the advanced economies, stability-oriented macroeconomic policies over the past years have led to historically low inflation rates and substantial fiscal consolidation. Economic growth is picking up in all countries. In most developing countries, strong adjustment efforts and ambitious reforms are bearing fruit. Solid economic growth is now a wide-spread phenomenon and emerging market economies have continued to forge ahead. In most transition economies, positive signs now prevail before the figures for economic growth.

However, as it is always the case with statistics, averages hide a large part of the economic reality. While some advanced economies continue to struggle with high unemployment rates, currencies of various emerging market and transition economies have come under severe pressure. Furthermore, a number of these countries have experienced severe setbacks stemming from unresolved political and economic problems.

Turning to the International Monetary Fund, I note with satisfaction the progress that has been made in strengthening surveillance. By enhancing the focus of bilateral and multilateral surveillance and by paying increased attention to crucial areas such as the soundness of the financial sector and good governance, the Fund’s role has been strengthened. Important steps have been taken to achieve the goals we have set in the Declaration on Partnership for Sustainable Global Growth. In this context, we should remind ourselves that sustainable growth also means taking into account the effects of policy measures on a country’s natural resource base. I would like to invite the Fund to include this aspect in its surveillance activities.

I welcome the efforts made to increase the Fund’s transparency. In this respect, I appreciate the initiative to release Press Information Notices summarizing Article IV consultations upon request of the interested countries. The success of this initiative shows that it fills a true gap in the information policy of the Fund. Further steps should be made in direction of more transparency.

I note with satisfaction that the Executive Board has reached, after years of intense discussions, an agreement on a special one time allocation of SDRs, which will put all member countries on the same footing. I hope for a swift amendment of the Fund's Articles.

The recent years have been characterized by a huge increase of international capital movements. Many emerging economies have strongly benefited from large capital inflows. We should be careful not to condemn this phenomenon in the wake of the recent developments in Southeast Asia. These have only underscored how crucial a number of preconditions are for a successful capital account liberalization. We fully support the Statement on the Liberalization of Capital Movements, which stresses this point. The Fund is well placed to assist in the establishment of an orderly liberalization and I encourage the Executive Board to speed-up the conclusion of this important issue.

I welcome the recent decision to increase quotas. In order for the Fund to be able to fulfill its mandate, resources should broadly keep pace with the world economy. As the recent developments have shown, demand for Fund resources can increase unexpectedly.

I warmly welcome the rapid progress in the implementation of the HIPC Initiative. Six countries have embarked on the process. This underscores that the HIPC Initiative is now really under way. However, I am worried both about the rising cost and the fact that financing assurances for the ESAF-HIPC Trust have not been as forthcoming as expected. I urge all members to contribute in order to ensure a fair burden-sharing.

I would also like to reiterate that the Initiative represents an exceptional effort by the international community for countries who are ready to deepen their adjustment efforts. Debt relief under the Initiative should mark the completion of comprehensive structural reforms, which should enable the country concerned to eliminate growth-impeding debt overhang. In this respect, it is important to carefully and objectively assess and to provide the necessary debt relief to accomplish this goal.

Since the last Annual Meetings, the World Bank has decided to embark on a far-reaching program called the Strategic Compact to effectively further its capacity to fight poverty. This reform program affects not only the organization of the Bank, but almost all its activities. Three aspects appear to us to be particularly relevant: first the development of new lending and assistance instruments, second the increase of operational resources having a direct impact on project quality, and third the focusing on tasks for which the Bank has comparative advantages. As to this last point, I would like to encourage the Bank to take into account the work done by other multilateral organizations, especially in the area of capacity building.

One important goal of the Strategic Compact is to fight corruption. I welcome the initiative of the Bank to put corruption on the international agenda and to address this issue in a comprehensive way.

The Bank will have to make sure that its procurement rules are rigorously applied and assist the borrowing countries in strengthening their implementing capacity. But it will also need to keep a close eye on the dynamic nature of corruption. This requires the Bank to scrutinize its policy and adapt it frequently.

Turning to the Development Committee, we should seize the opportunity which these meetings offer to discuss important matters affecting the Bank, such as IDA allocations, share allocations or grants to countries and regions in need of reconstruction. To give guidance on such important subjects to the Board of Executive Directors would not impair its prerogative because the Board would retain the right to make proposals to the Ministers and to act on the guidelines as the Executive Directors deem necessary.

Finally, I would like to mention a subject of constantly growing concern to our chair: the increasing disparity of income in the countries of Eastern Europe and Central Asia. We have all seen that there is no magic solution to the transformation process and that it is very painful for large segments of the populations concerned. The ongoing deterioration of social indicators in this region, however, is particularly troublesome. There is a danger that some countries in this part of the world will evolve into a two-tier society leading to social turmoil and consequently endanger the modest economic progress achieved so far. Accelerating structural reforms in order to obtain sustainable economic recovery and putting in place in parallel targeted social safety nets is therefore crucial in those countries.

Let me end by expressing the appreciation of the Swiss authorities to management and staff of both institutions for their dedication, their skill, and for the impressive quality of the work performed during the past year. Our concern is that these institutions could be submitted to political interferences. In order to preserve their efficiency and reliability, they have to be governed by their Articles of Agreement and not by the current political agenda.