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Statement by the Hon. **JOSE PARDO**,
Governor of the Bank for the **PHILIPPINES**,
at the Joint Annual Discussion

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Chairman Trevor Manuel, Honorable Pavel Mertlik, World Bank President James Wolfenson, IMF Managing Director Horst Koehler, honorable members of the Board of Governors, distinguished officials of the delegations to this Annual Meeting, ladies and gentlemen.

Allow me to first express my delegation's gratitude to the Government of the Czech Republic and the people of this wonderful country for the excellent preparations for this year's Annual Meeting of the International Monetary Fund and World Bank Group. This is the first Annual Meeting of the millennium and the choice of the Czech Republic, I think is a most fitting recognition of its successful efforts in transitioning to a robust market economy on the one hand, and the important role played by the Bretton Woods institutions in these transition efforts on the other. The Czech Republic today is a good model of a country successfully preserving and enhancing its rich culture and history, and facing the modern economic and social challenges of the times.

For the World Bank and the IMF, this year's meetings offer a unique opportunity to have a fresh appreciation of the many important lessons of the past decade and a wiser view of the challenges that lay ahead. Global economic and financial conditions have significantly improved from the Asian crisis years and global growth prospects continue to be encouraging. The United States economy remains robust while fundamentals in the Euro area support a healthy growth momentum. Encouraging signs early this year give hope that the Japanese economy is recovering from recession years. Growth in Latin America and Eastern Europe is expected to be on the upturn while the Asian economies are rebounding strongly. These bright signs however should not reduce our vigilance against threats that loom in the horizon. With the world presently enduring the pains of successive oil price increases, the worrisome foreign exchange volatility, the sputtering corporate and financial restructuring in East Asia, and debt overhang still threatening Japan and Latin America, a concerted but well-targeted multilateral effort is very much needed to put in place more efficient stabilization and adjustment arrangements.

While the realities of an increasingly global economy are clearly providing significant benefits to all countries, these have likewise made the economies particularly of developing countries more vulnerable to external shocks. Given that the structural transition of many developing economies are in various stages of progress, the more efficient transmission of adverse market disruptions; as well as the severe deterioration in terms of trade of non-oil developing countries, as oil prices rise amid the continuous decline in non-oil commodity prices; have made it more difficult for these countries to pursue structural reform while confronting external shocks. More responsive international financial mechanisms need to be instituted to allow real economic complementation between developed and developing economies in a liberalized international environment.

In this light, we welcome the progress being made in strengthening the Architecture of the International Financial System and Reform of the IMF. An important feature of this exercise is the adoption of policy and regulatory standards based on best practices. For this exercise to be credible, it should entail meaningful consultation with developing countries, and the application of codes and standards to be adopted must be prescriptive rather than coercive in nature—serving more as beacons to navigate the financial sector of a country towards safer waters. Built-in measures must be present to encourage good performers in pursuing deeper reform. Nonetheless, the nature of involvement by multilateral agencies in such initiative should be contingent on their institutional specialization and mandate to avoid duplication and waste of resources.

As we continually review the current international arrangements, many of us are becoming convinced that regional initiatives may offer better monitoring of regional economies and financial relief may be provided more efficiently by regional institutions in responding to external disruptions. The ASEAN Surveillance Process and Swap Arrangement, agreed to be established by Finance Ministers of ASEAN and three major East Asian economies, are notable examples of regional cooperation directed to provide closer regional surveillance and short term liquidity support for member countries that experience balance of payment difficulties. As we continue to be perplexed by the connundrum and note that investors remain unresponsive to good fundamentals, we are also coordinating efforts towards creating a more favorable climate to attract greater foreign direct investments.

In the area of financing development, the debate continues on how the World Bank can best mobilize development resources amidst overwhelming demands from poorer member countries. In this regard, while we welcome and encourage recent initiatives in the World Bank to focus resources to the poorest countries, we view with concern the inability to mobilize adequate resources to finance these initiatives as well as the tendency of the Bretton Woods institutions to increase charges on the use of their financial resources to partly make up for such inadequacy. Middle-income developing countries are contributing to a growing share in international economic expansion and markets. While their development requirements are becoming more complex, the open and market-oriented environments provide more opportunities for private sector participation. The Bretton Woods Institutions must be able to demonstrate its readiness to nurture this trend by providing adequate financial and technical assistance.

Given the socio-economic disparities between and among the middle- and lower-income groups of developing member countries, development interventions will necessarily vary depending on individual circumstances of each economy. The approach therefore prescribed in the Country Development Framework presents the flexibility for extending the appropriate assistance package that is truly relevant to the development priorities of a member country and is more likely to result to optimal impact. For middle-income developing countries, meeting the twin objectives of sustained economic growth and equitable distribution requires a more complex mix of development intervention. For lower-income countries, emphasis to augment capacity for the delivery of basic social services and providing social safety nets will more likely take precedence in development work. Thus, we fully subscribe to the Bank's reorientation towards a more holistic approach which seeks to strike the right balance for achieving macroeconomic stability and market-friendly reforms on one hand, and improving access to basic services and social protection on the other.

It is in this light that we take cognizance of this year's excellent report by the Bank on Attacking Poverty which validates the approach under the Comprehensive Development Framework and recommends key actions for success in fighting poverty through global, national and local efforts. The action themes which the study extensively developed, namely promoting opportunity, facilitating empowerment and enhancing security, convincingly validates the balance between growth and equity as essential for genuine development. As you may already be aware, the medium-term development plan of the Philippines is very much driven by the pursuit of this balance between growth and equity.

Before closing, allow me to present a short brief on the recent developments in the Philippines. For the first semester of the year, Gross National Product grew by 4.0 percent, substantially higher than 3.5 percent growth forecast by private sector analysts and the 3.6 to 3.8 percent growth target of Government. The industry and services sectors which expanded by 4.1 and 4.4 percent led the economic growth. Inflation for the first eight months remained within the lower single digit level at 3.7 percent, well within the full year inflation target of 5 to 6 percent. Exports increased by 11.7 percent in the first seven months continuing its sterling performance of double-digit growth for the past several years. The fiscal sector however remains vulnerable due to weak internal revenue performance. While strong revenue enhance measures are being put in place, the fiscal deficit forecast is being reviewed and may be adjusted to reflect a more realistic target for the whole year.

A more efficient Government decision making process is currently functioning with the creation of the Economic Coordinating Council headed by no less than the President. Significant progress has been achieved in many areas. In procurement administration, Government has installed processes and procedures that are transparent and fair. In the area of structural reform, the Philippines has achieved great advances in modernizing the economy to compete in an increasing open and electronic international economy. We have passed key legislation that have transformed the financial, corporate and trade sectors into ones that are open, market-oriented and private sector-led. We have passed legislation to integrate the economy in the digital age through the Electronic Commerce Law. The forthcoming passage of landmark legislation on the power sector will enable the largest privatization endeavor in the history of the country and establish a competitive environment in power generation and distribution. Other reform priorities of Government include those on financial sector taxation aimed at deepening the financial and capital markets and rationalizing taxation of the sector.

While first semester figures reflect an overall broadbased growth in our economy, our favorable macroeconomic performance is however threatened by the continuing rise in oil prices. As we are among the few non-oil developing economies that have fully deregulated the domestic oil sector in pursuit of our structural adjustment, we are now especially vulnerable to the continuing rise in oil prices. Our oil import bill has caused a rapid deterioration in our terms of trade. And political pressures to go back to regulation and control of domestic prices of oil products prevent us from focusing on other items in our reform agenda. I would therefore appeal to our oil-exporting countries and industrialized countries to undertake cooperative efforts to stabilize and lower oil prices. Perhaps, it would be timely to once again establish a facility to provide assistance to members adversely affected by higher oil prices.

In closing, let me convey and reiterate to you the deep commitment of the Philippine Government to the completion of its economic reform agenda. The Philippines has long demonstrated its capacity to withstand setbacks and crises. It has unfailingly rebounded to rebuild and take the next step forward.

Thank you.