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. 29

September 29, 2002

Statement by the Hon. **JOHN MANLEY**,
Governor of the Fund and the Bank for **CANADA**,
at the Joint Annual Discussion

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The global economy has weathered the uncertainty in the wake of September 11, 2001, better than expected. However, economic activity has slowed in a number of countries in the last few months and some uncertainties have emerged which have moderated growth forecasts.

Canadian Economic Prospects

Against a background of weaker global economic performance, Canada's economy has performed exceptionally well. In the first half of the year, the Canadian economy expanded at an average rate of more than 5 per cent. Moreover, this growth was coupled with the strongest expansion in employment in almost a decade. Strong consumer and business confidence is apparent in household spending and growth in investment in machinery and equipment. Canada's strong economic performance is the result of a commitment to sound public finances, including balanced budgets, and low and stable inflation. Looking forward, Canada's outlook is bright; the Fund forecasts that Canada will lead the G-7 countries in economic growth this year and next.

Risks to the Global Outlook

Prompt policy responses in industrial countries to the impacts of the tragic events of last year helped ensure that the economic impacts were less severe than initially feared. Although the global economic recovery is expected to continue, concerns have emerged recently about the strength and durability of the expansion. Projections for growth next year in industrial countries, especially the US and Euro area, have been revised down. This reflects a number of factors. In particular, the recent collapse of major US companies, amid accounting irregularities, has adversely affected investor and consumer confidence. It has also contributed to a sharp weakening in stock prices that may well ultimately affect private spending decisions.

The weakness in stock markets has reduced investor appetite for risk across a wide range of assets, including emerging market debt. In this respect, the outlook for the global economy has been further clouded by recent developments in Latin America. The situation in Argentina, which has been in crisis for some time, continues to be critical. Other countries in the region have sought IMF assistance. And while the Argentine crisis has had some impact on economies in the region, in most cases, domestic policy imbalances have also contributed to financial difficulties. While the IMF and World Bank can help, it is essential that national authorities address these domestic policy problems.

Strengthening Crisis Prevention and Crisis Management

Strengthening investor confidence and market integrity will require actions in a number of areas. The recent corporate scandals in the US make increased vigilance by policy makers all the more important. Sound monetary and fiscal policy frameworks reduce uncertainty and bolster confidence. But this is not enough. Effective governance arrangements that allow markets to access, weigh and evaluate risks are also required. In Canada, federal and provincial regulators, accounting standard bodies and industry are taking steps to review corporate governance practices, including the creation of a new auditor oversight body to improve the quality and integrity of public company accounts.

For emerging market and developing economies, recent events are a stern reminder of the need for strong policy frameworks based on sound monetary policy, strengthened financial sector supervision and regulation and the adoption of prudent public debt and fiscal management. The IMF has an important role to play through its surveillance function and in providing technical assistance to its members. We will work with all countries to enhance the Fund's ability to play an important role in crisis prevention. Progress has already been achieved as a result of joint Fund/Bank work on Reports on Observance of Standards and Codes (ROSCs) and the Financial Sector Assessment Program (FSAP). But, more needs to be done – in particular, in the area of identifying and avoiding currency mismatches.

International financial stability benefits all countries – from the richest to the poorest – and we must all work to promote it. However, we must recognize that, despite our best efforts, financial crises will occur. Our efforts to promote financial stability should be based on three complementary elements: (a) a contractual approach involving the development and adoption of new contingency clauses in sovereign debt contracts; (b) ongoing work by Fund staff to design a sovereign debt restructuring mechanism to complement the contractual approach and (c) greater discipline in adhering to presumptive limits on official financing.

The Monterrey Consensus

In Monterrey and Johannesburg, world leaders stressed the importance of a development partnership to work towards the Multilateral Development Goals for dramatically reducing global poverty. This partnership is grounded in mutual responsibility and accountability of both developed and developing countries. The Monterrey Consensus recognizes country ownership and a commitment to stronger economic policies and improved governance as key developing country responsibilities. This partnership will see donors do a better job to harmonize their actions among themselves and work more closely with developing countries. For their part, developing countries will commit to improve macroeconomic policies and governance. Our challenge is to act on this new momentum to move from a theoretical framework to sustained implementation of the new development agenda.

The Heavily Indebted Poor Country (HIPC) Initiative

Reducing debt burdens of HIPC countries is an important component of our broader struggle against global poverty. We must make good on our existing commitments to fully implement the enhanced HIPC Initiative. The existing HIPC framework is flexible enough to provide HIPC countries with a strong basis for a sustainable exit from debt problems. However, four major outstanding issues remain to be addressed:

1. getting all creditors to participate in debt relief;

2. ensuring that donors provide sufficient contributions to the HIPC Trust Fund to help pay the cost of debt reduction by the international financial institutions;

3. allowing for flexible consideration of additional debt relief for those countries completing the HIPC process, should their economic circumstances merit it, and

4. finally, making sure that debt sustainability analysis of the Bank and Fund is more realistic up front.

Debt relief provides an opportunity that HIPC countries themselves must exploit to further development and poverty reduction. By itself, debt relief cannot guarantee longer-term debt sustainability. It is clear that a sound policy environment, good governance, prudent new borrowing and sound debt management are essential to ensure that poor countries do not relapse into debt problems.

Strengthening Institutions in Developing Countries and Building Human Capacity

Robust institutions are crucial to empowering the poor and promoting longer-term development. Strong institutions can ensure that the benefits of debt relief and of investments accrue to all. The rule of law is critical for allowing investors, and especially the small investors that are important drivers of poverty reduction, a safe environment free from arbitrary actions by authorities. In many of the poorest developing countries institutional capacity is particularly weak. Moreover, institutions are often ineffective in overcoming strong resistance to reform from entrenched interests benefiting from the status quo. Development policy and development assistance, if they are to succeed, must attach priority to helping governments, and societies more broadly, create the institutions that foster growth and equity, that allow women and men to fully participate in civil society and make their needs known, and that hold authorities accountable for their actions.

While there is no single model for success, it is clear that determined political leadership can be effective in overcoming resistance to reform. Both the Bank and the Fund have strengths in analyzing institutional capacity gaps and in providing assistance for institution building. We will continue to look to both institutions to work with their partners in this critical development area.

Investment in institutions must be complemented by investments in human capital and universal access to basic education is the best avenue for ensuring that the poor have the opportunity to help themselves. We commend Bank staff for their continued efforts to work closely with its partners to develop an Action Plan and "fast tracking" initiative to help countries implementing good education plans achieve the MDGs on primary education. We believe that we must maintain the momentum on this important initiative. Thus, we encourage donors to provide financial support and would welcome future efforts to monitor progress on implementing the Action Plan.

Measuring, monitoring and analyzing the results of efforts to promote development are fundamental to helping both developing countries and their development partners assess whether development strategies are working. We welcome the Bank's recent work in strengthening its own results focus. We look to the Bank to assist members develop statistical and analytical capacity.

Freer Trade – An Important Element of the Monterrey Consensus

Development partnership implies freer trade. In Monterrey and Johannesburg, leaders reaffirmed that trade is key to development. We look to the World Bank and the IMF, in support of the WTO and the Doha Development Round, to enhance their own analysis of how developing countries can best take advantage of the global trading system.

Developing countries must have opportunities to trade in the global market place if they are to prosper. However, trade-distorting agricultural subsidies in the developed world continue to depress global markets for developing country products. Moreover, trade barriers, in both the developed and developing world, continue to depress exports from Least Developed Countries. We all must commit to work towards the elimination of trade-distorting subsidies and to improve market access for the world's poorest countries. Earlier this year, Canada announced that, effective January 1, 2003, it would provide duty-free and quota-free access to its market for virtually all products from Least Developed Countries.

Looking Forward

Looking forward, prospects for the Canadian economy are strong. The prospects for the global economy are promising, although policy makers need to remain vigilant to the risks. The international financial institutions are continuing to adapt their policies to ensure that they are better able to achieve their objectives of supporting growth and stability. In an increasingly integrated global economy, an important objective is a better model for the prevention and management of financial crises. Progress in this area will allow both developed and developing countries to fully benefit from the opportunities of globalization.

Nevertheless, the challenge that both developing and developed countries face will be to maintain our resolve, to keep our efforts focused where there will have maximum effect and to build actively a genuine and long-term partnership that will yield tangible results. But most importantly, this new partnership must rest on deeper mutual accountability that will produce development results on the ground that will better the lives of the poor in developing countries.