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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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Statement by the Hon. **GIULIO TREMONTI**,
Governor of the Fund for **ITALY**,
at the Joint Annual Discussion

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The Global Economic Outlook

The global economy has gone through a process of adjusting to the bursting of the asset price bubble and to other adverse shocks over the past few years. The easing of macroeconomic policies has provided support to demand and activity in the short run, although it has also tended to exacerbate global macroeconomic imbalances.

While fiscal consolidation in many countries is indispensable, it needs to be supported by adequate flexibility in the exchange rate policies of all countries, including the emerging market economies in Asia and Latin America, in order to ensure a fair burden sharing of the necessary adjustment process. Exchange rates should reflect economic fundamentals and be consistent at regional and global levels. To minimize the risk that the recovery will be aborted. the adjustments in exchange rates should be smooth, progressive, orderly and fairly shared.

In the euro area**,** there are good reasons for expecting a modest pickup during the second half of 2003, with the recovery strengthening further in 2004. Confidence is showing signs of improvement, and the macroeconomic stance remains highly supportive of growth. The outlook for inflation has continued to improve.

Prospects for an acceleration of economic growth are more solid in the United States than in the other major advanced countries or economic areas. This reflects in part the fact that the cumulative monetary and fiscal stimulus over the past few years has been extraordinarily large. In the short run, this strategy has had positive spillover effects on the rest of the world. However, it has also led to a deterioration of the US fiscal position and a widening of the external current account deficit, while adding to recent upward pressure on bond yields.

In Japan**,** despite growth in the second quarter significantly exceeded expectations**,** the outlook remains rather weak and risks are mainly on the downside. Bold action is required to promote corporate restructuring and address fragilities in the financial system. In addition, continued aggressive steps to combat deflation are indispensable.

We are encouraged by the continued comparatively strong performance of emerging market economies in Asia, the signs of an upturn in Latin America, the solid growth of the largest CIS countries, and the increased resilience of many countries in Africa.

The MENA region's poor economic performance reflects mainly declining low growth rates in oil exporting countries while, by contrast, the performance of the non-oil exporters is comparable to that of other developing countries. Governments in the region must retrench from their direct involvement in the economy; the quality of institutions must improve; the domestic economies must be opened up; and modern financial infrastructure must be established.

In many developing countries, and particularly in Africa, growth has been far too low with respect to what is needed to achieve the MDGs and to halve poverty by 2015.

Implementing the Monterrey Consensus

As it has been underlined in the Monterrey Consensus, the developing countries have a crucial role to play in ensuring, through appropriate structural reforms and policy measures, that a stable and enabling environment is in place for generating, attracting and channeling adequate resources to foster development and poverty reduction. This requires strong ownership on the strategy to foster growth and reduce poverty. The PRSP, formulated through a participatory process with the involvement of the civil society, is pivotal in aligning donors' contributions with developing countries priorities.

Strong ownership on the strategy to achieve the MDGs and to reduce poverty is essential. It is key also for the success of IMF supported programmes and it is crucial ingredient of any decision aimed at strengthening the voice of developing countries in the Bretton Woods institutions through increased participation in the decision making process and enhanced capacity of their representatives in the Fund. The Fund and the Bank should continue to explore ways to strengthen developing country voices. They should assess also the usefulness of an increase in basic votes of member countries while safeguarding the principle that members' voting power should derive from their capacity to contribute and, ultimately, from their relative weight in the world economy.

Better policies and institutions play a central role, but they are not enough. World Bank estimates on the resource requirements to achieve the MDGs by 2015, although very preliminary, show that good policies alone will not allow developing countries to achieve the MDG targets. Health and environment targets are most at risk. And Sub-Saharan African countries are likely to be left behind. What is required therefore is a well-balanced combination of good policies and increased resources to finance growth, development and poverty reduction in developing countries.

ODA, domestic resource mobilization, private flows and increased trade opportunities are fundamental sources of sustainable growth. The Bank and the Fund can help create the enabling conditions for enhanced resource mobilization, while donors have to live up with the commitments they made at Monterrey. Italy is committed to make any effort to gradually increase its ODA so as to achieve the 0.33 target by 2006 as announced.

Cancun has further underscored that all parties must be willing to engage with each other openly and fairly in order to harness the significant benefits of multilateral trade. The Fund can support the process of trade liberalization offering financial assistance in those limited cases where measures to implement the Doha Agenda may give rise to temporary difficulties in the balance of payments. The Bank has comparative advantages to play a critical role in supporting trade-related initiatives. In addition to sensitizing parties to the long-term benefits that would result from a successful round of multilateral trade negotiations, the Bank must help enhance trade-related capacities and infrastructure in developing countries.

Low-income countries

The Fund and the Bank, through their financial and technical assistance, can play an important role in helping developing countries establish the necessary preconditions—in terms of institutions, policy and investments—for economic growth and poverty reduction, which in turn are essential for achieving the MDGs. However it is important that the efforts by multilateral agencies be grounded in the commitment of developing countries to implement their home-grown reform strategies. At the same time it is essential that developed countries provide more ODA resources and open their markets to developing country products

Thus, it is in this spirit, that Italy supports initiatives such as the establishment by the IMF of two centers for Africa Capacity Building (AFRITACs). This Initiative represents a concrete move of the international community and donor countries to fulfill their pledges. Through the provision of effective technical assistance by fostering ownership, enhancing accountability and increasing responsiveness, the AFRITAC Centres are meant to operate side by side with the African governments in their effort towards strengthening growth and reducing poverty. We are looking forward to the evaluation of these centers by next year.

Collaboration between the Fund the World Bank is a key factor in the strategy towards low-income member countries and should be further strengthened. In particular, the Bretton Woods institutions should not only aim to a clear division of labor, but also to effective information sharing. The latter should concern the structure and timing of program conditionality, the progress attained in key economic reforms, and the impact of the program on the poor. The PRSP approach is the right framework for strengthening this cooperation.

The PRSP has proved to be an effective vehicle to fight poverty and to foster a constructive dialogue between authorities and civil society. However much more needs to be done to alleviate poverty, especially in terms of increasing institutional capacity. Better coordination between the PRSP process, the PRGF programs and the Poverty Reduction Structural credits by the World Bank is needed. In particular, PRGF programs should be more closely aligned with the priorities put forward in the PRSP, while the Fund and the Bank should set conditionality requirements more strictly related with the PRSP objectives.

We are aware that the PRGF funding is being put at severe test and that, starting from 2006, it will shift to a self-sustained regime that will limit the ability to support poor countries unless additional bilateral resources are provided.

PRGF countries have scored better than other low-income economies in terms of macroeconomic growth and stability. However more analysis is needed to understand to what extent these have been able to attract more ODA flows with respect to other low-income countries and whether higher economic growth has translated into poverty reduction. At the same time, surveillance should be more effectively tailored to the specifics of low-income economies. More emphasis should be placed on the analysis of sources of growth and on the assessment of the poverty reduction strategy, as well as on the social impact of relevant macroeconomic policies..

We welcome the remarkable progress already achieved by the Enhanced HIPC Initiative. Results in terms of debt and debt service reduction as well as in terms of social expenditure increase are quite satisfactory, though significant challenges remain. The Initiative has now to face difficult countries, some showing poor macroeconomic performances and others in conflict or with substantial amounts of arrears. These countries must be recalled of their commitments and helped to find peaceful and agreed solutions to their problems, but the Initiative's eligibility criteria cannot be relaxed.

The governance requirements remain an essential feature in the HIPC framework. Attaining macroeconomic stability, strengthening public expenditures management, satisfactorily implementing PRSPs as well as meeting other social and structural completion point triggers remain critical for achieving the objectives envisaged through the Initiative.

On creditors' participation, some progress has been achieved. However, our objective is full creditor participation and we believe that actions should be taken to put political pressure on non-compliant creditors. Reaching a fair burden sharing through full creditors participation would also pave the way for reaching a consensus on the change in the methodology for topping up debt relief to those countries facing an unsustainable debt situation at the completion point due to exogenous shocks beyond the country's control. For the countries that under the current framework would qualify for topping up assistance, we are ready to discuss with the IFIs and other donors possible changes in the methodology for calculating such additional debt relief as well as ways to fill the resulting financing gap for the IFIs themselves.