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Statement by the Hon. **NIKOLAOS CHRISTODOULAKIS**,
Governor of the Bank for **GREECE**,
at the Joint Annual Discussion

**Speech by Mr. Nikos Christodoulakis
Minister of Economy and Finance
of the Hellenic Republic,
at the 2003 World Bank – IMF Annual Meetings in Dubai**

Mr. Chairman, fellow governors,

Ladies and gentlemen,

This year's annual meetings are of some special historical significance, since they are the first to take place in the Middle East. I would like to congratulate the authorities of our host country for the excellent organization of the meetings, for the impressive facilities they have put at our disposal, and for their outstanding hospitality. I wish them success in their efforts to develop Dubai as a leading international trade and financial center, and to promote the prosperity of its people.

In my address today, I will touch briefly upon four topics. First, I will review global economic prospects, and the significant policy challenges that we need collectively to address. Second, I will offer a few comments on our ongoing efforts to strengthen the international financial architecture. Third, I will discuss the critical role that the Fund and the Bank can play in helping low income countries to combat poverty, promote economic development and reach the Millennium Development Goals. Finally, I will brief you on the economic developments and prospects of my own country, Greece.

1. Global Economic Prospects and Policy Challenges

The global economy appears now to be emerging from a long and difficult period of subdued economic activity. This is encouraging news to all of us and especially so to our colleagues in Latin America, Asia and other regions that have been confronted in recent years with devastating economic crises. But as both, the Managing Director of the IMF and the President of the World Bank reminded us this morning, the recovery remains fragile.

Economic activity is expected to recover in the second half of 2003 and gather momentum in 2004. The easing of geopolitical risks, the improved financial market conditions, and accommodative macro-economic policies in most major economies make the environment more conducive to growth. However, we are still facing some difficult challenges. We have to support an orderly correction of current account and fiscal imbalances, in such a way that growth prospects are not impaired, but also through smooth and regionally balanced exchange rate adjustments that reflect fundamentals. It is our view that Exchange rate regimes which are increasingly perceived as unsustainable, excessive current account imbalances and related changes in levels of foreign exchange reserves should be avoided, and adjustments in exchange rates should be orderly, gradual, and fairly shared. Furthermore, we have to support and consolidate a sustainable recovery over the short and medium terms through sound macro-economic and structural policies.

The Euro area has been adversely affected by global economic developments, and structural weaknesses. The recovery, which should start in the course of the second half of this year, is expected to gradually gather momentum. The protracted period of slow growth has led to a deterioration in the fiscal position and employment. However, several indicators already point to an improvement. The easing of the geopolitical tensions should be helpful. Lower and stable oil prices would also contribute to the global and Euro area recovery. The current monetary policy stance in the euro area is supportive to economic activity and helps to safeguard against downside risks to economic growth. Also, important steps have been taken in terms of structural reforms to foster flexibility and raise the growth potential of our economies.

Fiscal policy has also been accommodative. Automatic stabilisers have to a large extent operated, cushioning the slowdown in economic activity. This is expected to continue, within the framework of the Stability and Growth Pact. The longer-term sustainability of public finances is also a policy priority as part of our strategy to meet the challenges of ageing populations.

2. The International Financial Architecture

We welcome the progress made by the Fund to improve crisis prevention. The Fund should pursue its efforts to improve the surveillance framework. Progress achieved with implementing international standards and codes, is encouraging. However, the effort to enhance transparency should be further increased, to enable market participants to

better take into account the results of the actions undertaken. We also welcome the presumption of publication of Article IV reports, PINs, and program approval and review reports, starting July 1, 2004, as well as the suggestion for the Managing Director not to recommend an approval of a program or the completion of a review in exceptional access cases, unless the authorities concerned consent to the publication of the relevant staff report.

It is also important to strengthen the work on improving crisis resolution. In particular, it will be crucial to ensure that the IMF exceptional access policy is strictly implemented in practice. We are encouraged by the progress achieved so far on the use of collective action clauses (CACs) in international sovereign bonds. We welcome the discussions that have taken place between the private and official sectors on developing a Code of Conduct for creditor-debtor relations. However, further substantial work on developing a sovereign debt restructuring mechanism is also needed.

3. The Role of the Fund and the Bank in Low Income Countries

Since its launch, the enhanced HIPC Initiative has achieved substantial progress. However, the full financing of the Initiative still needs to be secured, in spite of progress achieved in the financing of the HIPC Trust Fund so far. The EU has provided more than half of the financing of the HIPC initiative. In addition, all EU Countries have announced their intention to go beyond HIPC targets by providing officially 100% bilateral pre-COD debt relief for all claims on HIPC countries. The IMF and the World

Bank should regularly report the compliance of their member countries with the HIPC commitments, including in the Article IV surveillance report.

We endorse the revised Forty Recommendations on Money Laundering approved by the Financial Action Task Force (FATF) at its Berlin meeting, which provide a renewed and strong international base to combat the abuse of the financial system. We have to take quick steps in order to comply with this revised standard, including through the transposition and implementation of the second EU anti money laundering Directive.

It is encouraging that a large number of countries worldwide have chosen to endorse the Eight FATF Special Recommendations on Terrorist Financing. We commend the IMF and the World Bank for their extensive work in this area.

4. Economic Developments and Prospects in Greece

Let me now refer briefly to recent economic developments in my own country, Greece.

Despite the economic slowdown in the Euro area, the performance of the Greek economy remains satisfactory. This performance is expected to continue in the future, leading to real convergence towards the EU average. Greek GDP has been rising faster than the EU average since 1996. In 2003, Greece is expected to achieve a growth rate of about 4 percent, which is the highest in the European Union. An encouraging development is that exports have started to grow despite the weakness of external demand, indicating that past investments are starting to pay dividends and that Greece's competitiveness and long-term prospects are improving. Helped by this healthy rate of growth, unemployment fell below 9 percent in the second quarter of this year and is expected to continue its downward trend. The inflation rate also eased in

recent months, from relatively high levels, and is expected to move closer to the Euro-zone's average in the course of 2004.

The Greek government is fully committed to upholding the EU's Stability and Growth pact. In 2003 the general government deficit is expected to be contained at slightly above 1 percent of GDP, despite the high costs of preparing for next year's Olympic Games. Further consolidation is planned for the coming years, so as to ensure that the ratio of public debt to GDP remains on a sustainable downward trend.

The overall improvement of the fiscal situation, together with the fast rate of growth of the economy, has allowed the government to launch an ambitious program of real convergence. This program (the "convergence charter" builds upon and further invigorates the on-going process of structural reforms. Main priorities include the energy and tourism sectors. It is in line with the country's commitments to the EU under the Lisbon Agenda, and aims to bring economic efficiency and living standards closer to the EU average. The main policy instruments to achieve these goals are:

- the control of public expenditures,
- further privatisations and efforts to form strategic partnerships between big utilities and foreign companies
- the lowering of tax-induced distortions, and
- the promotion of labor mobility and adaptability, so as to facilitate employment creation.

It is our conviction that high growth rates cannot be sustained for long if all citizens do not share in its benefits. A more equitable distribution of incomes is not only a social desideratum, but also a prerequisite for the growth process itself. We are committed to allocate more resources to education, as defense spending is reduced as a percent of GDP, from a formidable 4,5 percent today to about 3 percent over the next five years.

In a world of global markets and rapid technological change, there are more and new linkages between economies, and interdependence increases. That is why we believe that increased globalization requires a reinforced international cooperation aimed at preventing or resolving crises as well as promoting policies favoring financial stability, technological innovation and the more equitable distribution of the gains from growth, both between but also within countries.

