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Statement by the Hon. **SAFDAR HOSSEINI**,
Governor of the Bank for the Islamic Republic of Iran,
at the Joint Annual Discussion

**Statement by the Hon. Dr. Seyd Safdar Hosseini,
Governor of the Bank for the Islamic Republic of Iran,
at the Joint Annual Discussion**

In the Name of God the Compassioned the Merciful

At the outset, I would like to welcome and congratulate Mr. de Rato for accepting to lead the International Monetary Fund in this sensitive juncture in the world international financial and economic system. I also wish to express my gratitude and deepest appreciation to this august Board for giving me the opportunity to deliver my approaches on some of the basic and fundamental economic issues and concerns which will have a continuous effect on the world development.

The IMF has estimated the world economic growth at around 4.9 percent for 2004. This considerable growth in the World Gross Domestic Product—which is the highest in the past three decades—is with no doubt an evidence to economic improvement in most of the developing countries. In spite of the high average GDP growth rate in the world and the regulatory performance and reforms in most of the developing countries, the poor nations that desperately need new enterprises and job opportunities, are falling even further behind the developed countries who are simplifying regulations and making their investment climate more attractive and friendly. The heavy business regulation in most of the developing countries, especially in the African region, conspire to exclude the poor from joining the formal economy. Therefore, the World Bank Group—as a leading organization in assisting the poverty alleviation in the developing countries—should put more emphasis on helping these countries to enact macroeconomic, structural and social policies and program, as well as providing them with associated external financing needs, in order to promote growth and reduce poverty. Fortunately, the World Bank has introduced the new Development Policy Lending, which pays a special attention to governments' ownership of reforms, in order to develop programs that are in compliance with their needs and thus abandoning the prescriptive character of the Bank's old policy.

Reducing poverty through sustainable development is a crucial global strategic priority for today's world. This is actually emphasizing on and in compliance with the comprehensive nature of development in the developing countries, and could be achieved through project implementation in collaboration with the public and private sectors. In other words, participation promotion, strengthening the institutions and NGOs, and concentrating on the poor, in general, and the rural poor, in particular, are necessities to sustained and effective economic growth in developing countries. The World Bank Institute is expected to play an important role in this regard, along focus on good governance and anti-corruption policy as key criteria in the mission of poverty

alleviation. The institution could also assist member countries in improving governance and controlling corruption as well as taking benefit from its funded projects as a pilot plant to practice anti-corruption activities that could be utilized and applied by the member countries in a larger scale.

No doubt that some external variables have deviated the development equations in developing countries. Recent military expeditions, specially in the Middle East, have negative impact on the free flow of capital in the region. The consequences of these expeditions, such as civil war, insecurity and disorder, as well as some psychosis and instability, have caused a lot of infrastructure damage and have resulted in extra costs in the international capital flow to the region.

Another important factor, which serves and accelerates the economic growth in developing countries, is promoting and developing the private sector. Developments in this sector provides opportunities for the poor through a friendly competitive market, enterprise-led growth, and better and cheaper services through efficient delivery systems and smart and targeted subsidies. In this regard, the role of the World Bank, in general, and of IFC and MIGA, in particular, is distinguished. As we are all aware of the difference between unique corporate characteristic of developing countries and the structure and corporate governance standards of the developed countries, there is no need to mention that this task cannot be fulfilled unless the public sector institutions are restructured in a way that could turn them into more efficient and accountable public sector entities.

We have continuously expressed our concerns and have urged the serious presence of these two important entities of the World Bank Group, however, it seems that there are still some hesitation and unexpected delay in their approaches toward contribution in some countries, including mine. Therefore, once again, I reiterate the importance of the IFC and MIGA active interaction with the Iranian entrepreneurs and in developing eligible private sector entities.

Knowledge-based economy (KBE) is now recognized as the driver of productivity and economic growth. As a result, there is an increasing focus on the role of information, technology, and learning in economic performance and activities. In this transitional phase, the most important concern of the developing countries should be understanding the dynamics of the KBE and its relationship to traditional economics.

Applying a new range of skills and continuously adapting it is key to learning economy and effects employment, and is a reminder to all governments of developing countries of their outstanding duty to develop and maintain the knowledge base and learning in their economies.

The Islamic Republic of Iran has pursued the economic reform strategies in the framework of the country' Development Plans. In this regard, a package of economic reform policies concentrating on economic liberalization in financial and commercial

sectors, was designed and enacted through the Third Development Plan. Restructuring and strengthening the banking system, promoting the capital market, and reducing the qualitative and quantitative supervision and monitoring policies have been considered and implemented in the same line.

Greater transparency in the macroeconomic regime and required regulatory frameworks, budget reforms, tax reforms, unification of foreign exchange rate, downsizing the government's role in economic activities through privatization of SOEs, dismantling of monopolies and promoting competitive structures, reducing of non-tariff trade barriers, adopting smart targeted subsidies, developing an effective social security system, attracting foreign investments and protecting private sector investments, establishing private commercial banks as the facilitator for privatization of the state- owned banks are indicators serious commitment of the Islamic Republic of Iran in fulfilling and implementing the structural economic reforms.

In light of these employed programs and reforms, along with the efficient management contributed to these strategies, an average economic growth of 5.5 percent in the first four years of the Third Development Plan was achieved, and a 7.4 percent growth was experienced in the year before. At the same time, Iran witnessed almost 100 percent growth in the country's non-oil exports and a total amount of US\$7 billion foreign investment for manufacturing activities and infrastructure projects. It should also be noted that the total value of transactions in the capital market indicates a 73 percent growth during the same period, which, altogether, have resulted in satisfactory growth in the country's economy throughout the Third Development Plan.

In conclusion, it is highly expected that the world economy, in general, and developing countries, in particular, will benefit from the achievements of this fruitful meeting.