International Monetary and Financial Committee

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April 16, 2005

Statement by the Honorable Mohammed Laksaci
Governor of the IMF for Algeria
On behalf of Afghanistan, Algeria, Ghana, Islamic Republic of Iran,
Morocco, Pakistan, and Tunisia

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Since our last meeting, the global economy has continued to expand, although at a slower pace, and inflation has been well contained. With still generally supportive macroeconomic policies, near-term outlook remains positive. However, global expansion has become less balanced, with growth continuing to depend excessively on the United States and China and weakening in the Euro area and Japan. At the same time, the large current account imbalances widened, accentuating the risk of abrupt movements in the exchange rates of the major currencies and in interest rates. Other risks to the outlook include potential significant tightening of financial market conditions and further sharp increase in oil prices and their volatility. Addressing these risks remains crucial to global stability.

The benign financial conditions and the large financial assets accumulation in several countries should not lead to complacency. Strong commitments on the part of the major countries to address the increasing global imbalances are crucial for global stability. Member countries, should take advantage of the important window of opportunity offered by the still favorable environment to decisively move ahead with tackling current challenges in an orderly and cooperative manner. Key in this regard are concrete actions to ensure medium-term fiscal sustainability in the United States and to reinvigorate growth in the EU and Japan through structural reforms. A well-measured move towards more flexible exchange rate regimes in emerging Asia could also lend support to alleviating global imbalances.

The International Monetary Fund has a central role to play in promoting and coordinating the global adjustment process by further strengthening bilateral and multilateral surveillance and putting in place mechanisms to ensure greater effectiveness of its advice to member countries in an evenhanded manner.

Economic performance in many developing countries strengthened further, underpinned by continued adherence to sound macroeconomic policies and important progress in implementing structural reforms and improving governance. Despite these achievements, considerable challenges still lie ahead which call for sustained macroeconomic discipline and reform efforts to promote private sector development.

It is reassuring that the impact of the increase in oil prices on global growth has been rather muted, although some low and middle-income oil importing countries have been adversely affected. While supply-side constraints have played a role in pushing prices upward, strong demand growth was the main factor behind recent surge in prices. This calls for enhanced cooperation between producers and consumers to ensure more stable oil markets which would encourage investment in the sector as well as stronger efforts to promote energy efficiency and conservation. To help mitigate the impact of high oil prices on oil-importing developing countries, the Fund should stand ready to provide balance of payment assistance.

The Managing Director rightly underscores the critical importance of successful trade liberalization on the part of all countries under the Doha Round to support medium-term global growth. We look forward to substantial progress during the 2005 Ministerial meeting in Hong Kong. Significant steps on the part of advanced countries in dismantling the remaining obstacles to free access to their markets for developing countries' exports, including through eliminating tariff and non-tariff barriers, and in phasing out agricultural subsidies, would considerably strengthen global growth performance.

Notwithstanding considerable progress achieved by low-income countries over the past years, it has become evident that the majority of these countries, in particular in Sub-Saharan Africa, will not be able to meet the Millennium Development Goals on current trends. It is, therefore, crucial that reform and capacity-building efforts are significantly enhanced and international financial assistance is substantially increased.. In this connection, we welcome the work underway to refine the Fund's policy advice and strengthen its instruments, particularly on PRGF design and debt sustainability analysis for low-income countries. It remains important that the process should not result in increased conditionality that would limit ownership and constrain successful program implementation.

While ongoing initiatives to establish new financing mechanisms for achieving the MDGs are welcome, early finalization and implementation is crucial to the credibility of the international community. The Fund's role in catalyzing and coordinating such efforts is critical. It is equally important that new financing options are additional to the existing mechanisms and that commitments under the latter are fully delivered, in particular with regard to HIPC and the PRGF. Enhanced efforts on the part of the advanced countries to move more decisively their official development assistance towards the UN target would give a strong signal on their commitment to achieving the MDGs under the Monterrey consensus. Moreover, consideration of further debt relief to low-income countries, with softer conditionality, will be key to debt sustainability and freeing resources to promote growth and poverty reduction. While the Fund should stand ready to bear its part of the additional burden, including through considering the sale of gold without hampering its financial integrity, it is essential that bilateral commitments are secured and that Fund contribution is part of a large multilateral effort.

We welcome the ongoing work on shaping the Fund's strategic direction. In view of the diversity of the issues involved, emphasis should continue to be put on identifying priorities in line with the Fund's core mandate and on aligning the budget with the strategic direction. Along with strengthening surveillance, including on regional and systemic issues, efforts should be focused on promoting sound policies and institutions to enhance member countries' growth performance and resilience to shocks. While we consider that the extension of the Fund's mandate to include capital account transactions is not necessary, it is important for the institution to develop the expertise and the financing instruments to accompany member countries who wish to move voluntarily towards liberalizing capital movements. As the burden of financing the Fund's budget has fallen excessively and increasingly on borrowers, early consideration of options to achieve a more equitable burden sharing is warranted. Governance issues should also constitute an important component of the Fund's strategic direction. In this connection, enhancing the voice and participation of developing countries in decision-making in the Fund is crucial to strengthen the credibility of the institution and its legitimacy.

We note the progress being made in putting in place appropriate mechanisms to orderly address the resolution of crises when they occur. Along with increased adoption of Collective Action Clauses in international sovereign bonds, the recent completion of the draft Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets is a welcome step towards improving the international financial architecture. Consensus on theses principles, however, has yet to be reached. As an institution primarily concerned with maintaining the stability of the international financial system, the Fund has a critical role to play in promoting orderly resolution of financial crises.