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Statement by the Hon. **IGOR MITYUKOV**,
Alternate Governor of the Fund for **UKRAINE**,
at the Joint Annual Discussion

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The agenda for discussion at these meetings is important but in some respect divisive.

The situation in the world economy has turned out to be better than expected at previous meetings or even this past April. Though some regions and countries are experiencing difficulties to a different extent stemming from volatile energy and commodity prices, most of the world, and transition economies in particular, seem, on balance, to benefit from the surge of global demand. The volatility of energy prices, combined with the significant economic recovery, may influence the growth and/or inflation as well as the current account projections for many member-countries, including Ukraine, but let us not overdramatize the problem as we may just aggravate it by excessive publicity. We would appreciate it if affected members would receive some clarification about possible mechanisms and instruments for alleviating their hardships stemming from the volatility of energy prices.

We would like to note that capital flows to emerging markets have not resumed to a healthy extent despite renewed prudence in conducting macroeconomic policies and additional and enhanced surveillance by the markets themselves, as well as by multilateral institutions. A deep and frank analysis of the recent crises, as well as a radical shift towards better transparency and accountability by member countries and multilateral institutions might inadvertently have produced a short term reaction of the capital markets, major investors and creditors that remain on the side of caution for a while. Digesting all assessments made in public of various risks may indeed take time for market players.

It is only unfortunate that an exposure of international financial institutions (IFIs) to emerging markets under conventional facilities may be steadily decreasing also. We do not doubt the positive effect and importance of the enhanced initiatives towards contingency credit lines, poverty reduction and debt forgiveness. But important social initiatives coming at the expense of important stabilization and infrastructural development programs may often constitute only the second best option.

The amount of resources available to international financial institutions may seem sufficient only for the current times of relative global stability, but the overall decrease of both private and official flows to many middle income countries is regrettable. The almost forgotten SDR allocation may serve as an important cushion in case of any new international emergency. It may be wiser to be prepared for a global liquidity need in advance, as the ratification process is time consuming. The international community may also try to give additional consideration to finding creative ways of securing additional resources for IFIs without adversely affecting their traditional mandate in helping all members with justifiable needs.

An overall direction towards better informing the markets seem to be productive and correctly chosen. To this end, we fully support the idea of a better cooperation and improved dialogue between official and private sectors. This cooperation may call against a premature establishment of rigid rules for crises resolution when we may not fully understand as yet how exactly new highly mobile global capital markets work. Asymmetric information could pose a problem too, especially in cases of weaknesses of domestic public institutions.

Ukraine appreciates the valuable assistance received from the Bank and the Fund for institutional development and expects a continuation of the fruitful cooperation with IFIs in this area. We have to admit that it is probably taking a long time to make our institutions fully operational according to modern standards.

In our opinion it would be prudent for both the Bank and the Fund while paying attention to new and important initiatives not to sideline their core responsibilities in promoting sound development policies, strengthening the international monetary and financial system and helping to sustain momentum for the acceleration of international trade. Resistance to the forces of globalization even at good times seem to be already on the high side and the risks for reversal of productive interdependence factors may only increase if the challenge of worsening times would reemerge at the beginning of the new millennium. Preservation of a cooperative nature of international financial institutions is in our view of utmost importance at the turn of the century of the information revolution. It may be the most important guarantee against a repetition of the situation during the first decades of the outgoing century when the globalization of the industrial revolution had been reversed which had resulted in prolonged poverty and major conflicts.

We are observing the discussions about reforming international institutions with great interest and hope that the interests of all borrowers are taken into account in this process. We would call upon the Bank and the Fund to find the right balance between the universal nature of facilities and lending instruments and the specific needs of all various classes of users, including transition economies with an as of yet incomplete transformation process. As has been rightly pointed out in the corresponding chapter of the World Economic Outlook devoted to the accumulated experience of the transition decade, the countries with the most disadvantaged initial conditions happen to receive the least amount of external financing intended to offset these conditions. Some of the blame for that lies with the late start of meaningful reforms, but some of it has stemmed from a scarcity of assistance sources and even staff shortages at IFI's or from a deficit of attention. This trend seems to continue. Two years after the Russian crisis of 1998, for example, some of the most affected smaller neighboring countries appeared to have received less official financing than during the corresponding period before the crisis.

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Ukraine has finally reached the point of decisive economic recovery and we are proud that it is overperforming in terms of growth even if compared to the recently published

WEO projections for our country. For the first time in the history of cooperation with the Fund we are meeting mutually agreed quantitative fiscal targets with substantial margins while clearing accumulated social spending arrears from the previous years ahead of schedule. Fiscal improvement has been sustained for almost two years now and we are working hard towards making the growth recovery driven more by healthy domestic demand than by predominantly global demand, which is currently the case. Confidence is returning, money demand is growing and economic activity is again coming out of the shadow, while dedollarization has been sustained too. Structural reforms have accelerated to the extent that we firmly believe in resuming the EFF arrangement with the Fund in the nearest future.

We are working hard on improving the transparency of our economic management and privatization, fighting red tape and corruption for the sake of improving the business climate for domestic and foreign investors. It is highly regrettable that even reputable NGOs are causing substantial damage to the current Ukrainian authorities by publishing self invented governance ratings based on data that are perhaps legitimate, but long outdated. Ukraine, as many other countries, has been trying hard to be transparent about their institutional weaknesses and existing challenges and this open attitude should not be discouraged or even punished. We would encourage major legitimate international NGOs and the media to consistently apply the criterion of accountability, not only towards the outside world, but towards themselves, too. At the following stage of the information revolution some more effective mechanisms for valuating the credibility and reliability of providers of information would inevitably emerge.

From the first day of independence Ukraine has been very enthusiastic about information technologies possibilities. Practically every approved piece of legislation and decision adopted by the executive authorities, has been put on the Web. It helps to launch public discussion and to achieve a necessary openness in order to continuously improve the quality of governance. We are ready to participate in the corresponding pilot initiatives by the World Bank in order to enhance the usage of information technologies in health care and various other important infrastructural development projects. The strategy of our cooperation with the World Bank until 2003 will also help us with the institutional development and environmental protection, solving some new challenges in public health and addressing the problem of poverty. We are looking forward towards realizing an array of opportunities coming from this mutually developed document.

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We would like to express our great appreciation to the Czech authorities for their hospitality and this wonderful possibility to have these meetings in one of the most ancient, yet modern and definitely one of the most beautiful cities in the world.