

BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 58

September 26–28, 2000

Statement by the Hon. **JAROSLAW BAUC**,
Governor of the Fund for the **REPUBLIC OF POLAND**,
at the Joint Annual Discussion

**Statement by the Hon. Jaroslaw Bauc,
Governor of the Fund for the Republic of Poland,
at the Joint Annual Discussion**

Mr. Chairman, Ladies and Gentlemen:

Let me extend my warm welcome to the new Managing Director, Mr. Horst Köhler, and to President Jim Wolfensohn, who has just begun his second term in office. I would like to wish them a very fruitful cooperation and all the energy that is needed to implement their ambitious visions of the Fund and the Bank in the new millennium. Good cooperation is much easier to achieve when there is a clear definition of roles and a precise delineation of responsibilities. I thus welcome Mr. Wolfensohn's and Mr. Köhler's joint statement of September 5 that aims exactly in that direction. I support the intentions to refocus the Fund on its core responsibilities in monetary, fiscal, and exchange rate areas. To achieve this goal, I would like to call on the Fund's shareholders to resist the temptation to abuse the IMF's global reach by entrusting it with too many new responsibilities. Such an approach could only lead to reducing the effectiveness of this institution. The IMF cannot at the same time play the roles of a fireman, global doctor, law enforcer, accountant, and economist. Clear priorities must be set, and I agree with the Managing Director that the Fund should focus on its main objective of preserving the stability of the international monetary system.

I strongly endorse the IMF's further involvement with its less-developed members through the PRGF and HIPC processes. Since reducing poverty has been now universally acknowledged as being of paramount importance, I believe that all assistance provided to these countries by the Fund and the Bank—and ideally also by other international and bilateral donors and lenders—should be targeted at supporting the objectives that will be specified in the Poverty Reduction Strategy Papers (PRSP). I thus welcome the proposal to introduce the new PRSP-linked IDA instrument in the form of the Poverty Reduction Support Credit.

My country, Poland, has already provided the bulk of its declared bilateral contribution to the PRGF-HIPC Trust Fund. We are also ready in principle to offer more support by agreeing to the reduction of our bilateral claims on countries qualifying for assistance under the HIPC Initiative. However, we would clearly prefer to have the opportunity to directly participate in deciding on the scale of the bilateral debt relief. This could be accomplished either by granting us formal Paris Club membership or by creating a new decision-making process that would be open to all non-Paris Club creditors.

It is beyond any doubt that poverty reduction should remain the main focus for the World Bank Group. To avoid any duplication of efforts, the Bank's assistance should be

mainly targeted at promoting structural and institutional reform, as well as assessing the needs and progress in reaching development objectives, while the Fund should be entrusted with helping the countries to set up proper macroeconomic frameworks. The Joint Implementation Committee could serve as a good model for advancing the broader PRSP-based cooperation. The Bank should also continue its work in the middle-income countries, including the countries in transition, but its involvement with this group of countries should be based on a true partnership, with an appropriate role also given to nonlending activities.

Mr. Chairman, speaking in Prague, the charming capital of one of the most successful transition countries, I feel almost compelled to focus the rest of my remarks on issues affecting this group of countries. I am deeply convinced that the transition process, which started in the summer of 1989 with the victory of the Solidarity movement in Poland, represents one of the most important economic and political developments of the last decade.

While a lot has already been achieved in advancing the transition, it is also quite clear that this historic journey from central planning to modern market-based economies is still far from being completed. The recent return of growth to virtually all transition economies is very encouraging. However, this relatively high average rate of growth masks the existence of large differences between more- and less-advanced transition countries. I find it very worrying, or even alarming, that in many countries from this group the results of transition can be more easily associated with drastically reduced levels of GDP, large increases in poverty, and mushrooming external debts than with improvements in the quality of life and in achievement of sustainable and equitable growth. It becomes increasingly clear that, even with the best of policies and strongest adjustment effort, several less-advanced transition countries will not be able to achieve sustainable growth without extraordinary support for reducing their external debt burdens.

Thus I call on the Fund, and on the other multilateral and bilateral creditors of the deeply indebted transition countries, to consider the possibility of designing a new debt relief initiative that would address the special concerns of this group of countries. Such an initiative could be designed using the positive experience of implementing the HIPC Initiative, while avoiding its often-perceived inflexibility. Alternatively, the option of extending the HIPC Initiative to include the most-indebted transition countries could also be considered. Under any of these options, the provision of debt relief would have to be linked with adequate conditionality that would also aim at improving governance.

The often-quoted proximity to the western markets and the prospects of EU membership clearly contributed to the better-than-average performance of the Central European and Baltic countries. However, the role of these factors should neither be underestimated nor overestimated, as they started having a really strong impact only at a later stage of the transition process. From now on, however, it seems to be natural that the EU assume a leading role in bringing to a successful closure the process of transition in

the pre-accession countries. There is no doubt that achieving this goal could be made easier by an acceleration of internal reforms within the EU.

My final comment is on the recent changes in the external value of the euro. I believe that both the EU decision makers and the Fund, in its analytical work, should devote more attention to evaluating the impact of a weaker euro on the trade performance and financial vulnerability of the pre-accession countries. It is in that context that I welcome last week's decision to support the common European currency.

I would like to conclude by expressing my sincere thanks and admiration to our Czech friends and neighbors for their exceptional hospitality and for the very efficient organization of our meetings.