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Statement by the Hon. **JEAN-PIERRE ROTH**,
Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

**Statement by Dr. Jean-Pierre Roth
Chairman of the Governing Board of the Swiss National Bank
and Governor of the Fund
at the Joint Annual Discussion**

Washington, D.C., September 25, 2005

Chairman, President Wolfowitz, Managing Director de Rato, Honorable Governors and distinguished Delegates. It is an honor to address you here today.

Let me start by warmly welcoming Mr. Wolfowitz as President of the World Bank. I do not have to underscore the multiple challenges the international community currently faces. I am convinced that the Bank, as a global institution, must play a crucial role in dealing with global challenges. We look forward to working closely with you. The recently adopted strategic directions and the wide reform agenda provide an excellent basis to focus and strengthen the activities of the Bank.

Assessing strategic directions was also very much at the top of the IMF's agenda in the past year. I thank the Managing Director for taking the initiative last year to undertake a review of the Fund's activities. For an institution confronted with expanding membership demands against the background of a continuously evolving international environment, it is crucial to periodically assess its mandate. Therefore, I welcome the Managing Director's outlining the Fund's priorities in his recent statement. I am convinced that this medium-term strategy will allow the Fund to regain a better focus in its main areas of activities.

Both institutions continue to play a key role in ensuring that all members of the Bretton Woods Institutions can derive the maximum benefits from a globalizing world. The increasing interlinkages between the various global challenges demand an ever closer cooperation between multilateral institutions. The best foundation for effective cooperation are clearly defined core mandates. In my view, the recent strategic reviews of the Bank's and the Fund's activities have contributed importantly to a better focus of the two institutions' goals. I am confident that you, Mr. Wolfowitz and Mr. de Rato, will strive to further strengthen the cooperation between your institutions. This will be particularly important in the context of the international community's efforts to meet the Millennium Development Goals (MDGs).

A key factor for achieving the MDGs are sound economic policies in member countries. Significant progress has been made over the past year, given the relatively benign global economic conditions. I am pleased that the world economy has continued to expand at a

strong pace. The downside risks discussed last year did not materialize. So far, most countries have coped well with the continued rise in oil prices. It is encouraging to note that inflation remains subdued and that global interest rates have not significantly risen from their historically low levels. Most countries have used these circumstances to improve fiscal positions, to implement structural reforms, and to reduce external debt levels.

However, this should not give rise to complacency. The continuing favorable global outlook should be seen as an opportunity to further reduce vulnerabilities. Particular attention is necessary to global macroeconomic imbalances. These have not diminished and remain a challenge for individual countries and the Fund. As a truly global forum, the Fund must play a coordinating role in addressing these imbalances.

I welcome the Fund's ongoing efforts to sharpen the focus of its surveillance activities. Effective macroeconomic surveillance remains the Fund's pivotal activity in addressing imbalances at the global, regional, and country levels. Further improving the linkages between country and regional surveillance is essential to capture spillover effects and ensure policy consistency. The Fund also has a key role to play in capital account issues. I welcome the pragmatic approach outlined in the Fund's medium-term strategy. The Fund must bring together its vast experience on capital account liberalization to provide the best advice possible for managing the process under country-specific circumstances.

Providing members with temporary financial assistance remains an important role of the Fund. However, resources are limited and this should be signaled more clearly and consistently. In my view, past experience has exposed some weaknesses in the pricing of different instruments of Fund credit. Inconsistent use of the various instruments has also raised questions and increased uncertainty. These issues have contributed to unduly frequent exceptional access as well as to prolonged use of Fund resources. I look forward to a resolution of these issues, so that the provision of financial resources can take place in a clear framework both for members and for market participants.

Over the past year, the Fund has put great efforts in better defining its role in low-income countries. This is timely, given its contribution to the global efforts to achieve the MDGs. The Fund's overarching goal remains the promotion of macroeconomic and financial stability through policy advice, capacity building, and financial assistance. I welcome the important work that has been undertaken to adapt the Fund's instruments to the specific needs of low-income countries. In particular, the evolving non-financial Policy Support Instrument will provide an important signaling instrument for countries with strong economic policies. However, its signal will only be credible, if the instrument truly embodies a sound and credible set of policies.

Looking forward, I think there is scope to better define the Fund's role in the global development partnership. The large demands of low-income countries and development partners have frequently raised unrealistic expectations vis-à-vis the Fund. More clarity on what the Fund can effectively do would make it a more reliable actor, and allow for a

clearer division of labor with other partners. I would expect a shift of Fund activities from financing to surveillance and capacity building.

I welcome the initiative for further multilateral debt relief. This initiative is of particular importance to many of the poorest countries, as it should reduce their heavy debt burdens and free resources for human development and sustainable economic growth. The success of debt relief in truly contributing towards poverty alleviation and meeting the MDGs will critically depend on finding appropriate solutions to several key implementation challenges and securing funding for the initiative. In this regard, I very much commend Bank and IMF staffs for bringing the various legal, financial and operational issues to the fore as this allows to make well-informed decisions that are in accordance with the rules and principles of the institutions concerned.

Switzerland emphasizes the importance of safeguarding the IDA's, the ADF's and the IMF's long-term financial integrity, the respect of fundamental institutional principles as well as preserving IDA's and ADF's nature as loan-making facilities. For the IDA and the ADF, this calls for clear rules to monitor additionality of debt relief resources for the IDA 14 period and beyond. It is crucial to ensure the effectiveness of debt relief, as the donor community and recipient countries are accountable to their citizens and tax payers. Therefore, the debt relief proposal should be implemented through a sufficiently strong framework of performance and poverty reduction. We are strongly committed to continuing working with all other shareholders and Bank and Fund staff to arrive at a debt relief scheme that is sound, comprehensive, and based on a broad consensus and fair burden sharing.

I acknowledge the progress in the area of aid financing. While I remain convinced that increasing official development assistance through ordinary budgetary means is the simplest and most effective way, I am still open to examine initial experiences with new mechanisms by those countries that have chosen to go ahead.

Harmonization and alignment are key for enhancing aid effectiveness. The High Level Paris declaration on alignment and harmonization is a valuable achievement in this regard and its implementation requires our full attention. I note that this is coherent with the key findings of the World Bank's reviews of the Poverty Reduction Strategy approach as well as of Conditionality, which I strongly endorse.

The welcome improvements in governance, growth and human development observed in several African countries need to be sustained and spread to the many countries still lagging behind. Therefore, the special focus on Africa is timely and important. At the same time, this should not deter us from maintaining and enhancing development efforts in other regions. The World Bank's Action Plan for Africa is well-structured and builds on lessons learned as well as on analytical and practical efforts by other key actors. I particularly support the focus on results, growth and building partnerships. The likely

scaling up of aid to Africa represents a unique chance to make big strides towards the MDGs. At the same time, this poses important challenges for the governments and the IFIs, including the need to mitigate possible negative macro- and micro-economic effects, such as Dutch disease, overcome human and institutional capacity constraints as well as reduce aid dependency.

I would like to underscore the importance of bringing the Doha Round to an ambitious success and signal the urgency to reach a political commitment at the Hong Kong Ministerial in the collective interest of strengthening the multilateral trading system. A failure would be an enormous setback, especially for developing countries, and I firmly believe that trade is key to ensure long-term growth. Not only of agriculture, but also non-agricultural and services market access for developing countries are significant. A positive outcome requires action from both developed and developing countries, including emerging economy countries.

I thank the Bank for its valuable analytical and practical contributions, including its efforts to help mainstream trade into poverty reduction strategies and fostering more complete follow-up by governments and donors as well as its contribution in the process of enhancing the Integrated Framework. In this context, I recall the challenges and enormous needs which many developing countries continue to face in the area of infrastructure. Orienting infrastructure development towards sustainable and environmentally clean technologies should be given special attention.

The poorest countries and poorest people pay a disproportionate price in natural disasters. The awareness about the very likely links between some natural disasters and climate change as well as the strong relation between environmental problems and poverty has to be increased. Concerted action is urgently required, not only at the global scale, but also at the regional, national and the local level, by governments and private business. Along with this there are a number of actions which the World Bank Group and other multilateral organizations can take to address climate change within their own operations and policies. I look forward to a more substantive discussion of this topic at the next Development Committee meeting.

In conclusion, I would like to underscore the importance of a well-balanced participation of all members in the Bank's and the Fund's decision making. This is important for the institutions' effective functioning. Switzerland is ready to work towards a solution that ensures an adequate representation across the membership. Representation must continue to reflect the position of countries in the international financial system, and their contribution to financial stability. A consensus on an adjustment of quotas could also include an increase in basic votes to strengthen the representation of low-income countries.

