

WORLD BANK GROUP

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

**Statement by H.E. Mirosław Gronicki
Minister of Finance of Poland
and Governor of the Fund
at the Joint Annual Discussion**

Washington D.C., September 25, 2005

We welcome the International Monetary Fund's management effort to elaborate a new medium-term strategy that would better align the Fund's work and mission with the quickly changing global financial and economic situation. In order to remain relevant and be able to help all member countries deal with the challenges of globalization, the Fund must focus its work on the core responsibilities in the monetary, fiscal and financial sector areas.

The persistence of global imbalances can be partly attributed to globalization. Global growth, although solid, masks serious regional divergences. Various factors such as oil price developments, rise in property prices, and fiscal and political tensions add to the risk of a disorderly unwinding of global imbalances. All these factors constitute a set of serious downside risks to the stability of the global economy, particularly in the medium term.

In this context, it has to be recognized that during the last years emerging economies have increasingly contributed to speeding up the growth of the global economy. They have also improved their macroeconomic stability. At the same time, however, major industrial countries have suffered from structural problems. Yet, it is the emerging economies that would suffer more from the disorderly unwinding of global imbalances. Reducing those imbalances is thus urgently needed. It requires corrections in macroeconomic, structural and exchange rate policies. An effort to better coordinate the scale and timing of these corrections would be desirable.

Together with the Bank and other international financial institutions, the Fund should participate in helping the low-income countries face the challenges of development and better integrate with the global economy. It is of particular importance to ensure harmonious cooperation, and also a clear division of labor, between all partners participating in this process. Fund's role in the low-income countries should be focused on macroeconomic issues, including policy advice and capacity building, technical assistance, and lending to cover actual balance of payments needs. Countries that already achieved some degree of macroeconomic stability and do not need immediate financial support should mainly benefit from Fund's policy advice, including in the crucial area of building stronger institutions. We thus welcome the recent agreement on the Policy Support Instrument as an adequate tool to serve the needs of this group of countries.

We support the participation of the Fund in the new initiative to provide further multilateral debt relief to the poorest countries to help them reach the Millennium Development Goals. However, this initiative should not undermine the Fund's financial position. It should also respect the fundamental principle of uniformity of treatment and should be based on a thorough evaluation of debt sustainability and linked to adequate conditionality, at least at the entry point. A strong effort must also be made to ensure that countries benefiting from debt relief do not quickly accumulate new unsustainable debts.

Poland contributed to the HIPC Initiative by providing a grant and an interest-free deposit to support the PRGF-HIPC Trust Fund. Like other EU countries, Poland is committed to go beyond the HIPC requirements and provide 100 percent debt relief on all its official bilateral claims to the eligible HIPCs. Poland has also recently announced its intention to multiply the current level of its official development assistance (ODA) and aim at reaching 0.17 percent of GDP by 2010.

In the context of the 60th Anniversary of the Bretton Woods institutions, let me recall the very important role that the Fund and the Bank have played in supporting the economic transformation of the transition countries. Poland is one of the most successful examples. Our transformation clearly demonstrates the importance of a well-designed and well-implemented macroeconomic policy, as well as the crucial role of institution building. Our domestic reform efforts were supplemented by the support from the international financial community. This support can hardly be overestimated. The success of Poland's transition is best demonstrated by its membership in the European Union, an almost unrestricted access to international capital markets, and strong credit ratings. The macroeconomic situation is broadly stable with annual inflation below 2 percent and a nearly balanced current account position. The ongoing efforts to further reduce the fiscal deficit should soon pave the way to Poland's entry into the euro area. From a country that in the early 1990s still relied on international assistance and debt relief, Poland transformed into a stable and dynamic economy that is now among the creditors of the Fund and is also in the process of building up support for countries with lower income levels.

However, the tasks still in front of us remain very challenging. One of the key challenges is to design an appropriate strategy for adopting the euro. Like all other new members of the EU, Poland is interested in ensuring that its euro area membership will be sustainable and beneficial for long-term growth prospects. However, as the experience of some current euro zone members shows, the adoption of the euro is most beneficial if it is underpinned by comprehensive fiscal and structural reforms. The road to the euro is also fraught with risks. For instance, interest rate convergence may stimulate credit and demand booms. Such risks fall in the area of core responsibilities of the Fund. It means that the Fund still has a role to play in providing advice on how to avoid such risks and ensure a smooth path to the euro area membership.