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Statement by the Hon. **MR. V. MAKUKHA,**
Alternate Governor of the Bank for **UKRAINE,**
at the Joint Annual Discussion

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Mr. Chairman, fellow Governors, Ladies and Gentlemen! First of all I would like to thank the International Monetary Fund, the World Bank and the Government of the Republic of Singapore for a remarkable organization of the Annual Meetings of the Boards of Governors of the Fund and the Bank.

Certainly, the IMF and the World Bank's quest to increase their role and effective performance, in particular the general logic of the IMF's strategic review, aimed at adaptation of the Fund to the new reality of globalized and financially integrated economies, and the World Bank's efforts for better governance and anti-corruption, as well as strengthening its engagement with middle income countries (MICs) deserve support.

The issue is not only the changes in relative positions of countries and regions, but the general rate of global changes and financial integration. Ideally, there would be a mechanism of timely and appropriate reactions to accelerating changes on the part of international financial institutions (IFIs). Thus it would concern not so much and not only reforms of quotas and voice in the IMF, but a reconsideration of the IFIs' role in establishing cooperation between member countries and the financial markets, constant attention to reducing vulnerabilities of national and international economic systems, and developing the modern institutions necessary to successfully cope with changes.

Taking into account growing financial integration, it would be desirable to emphasize a more pronounced role of the IMF in establishing cooperation between the financial supervisory bodies of host countries and those of countries, from which foreign banks and other financial investors, working in host countries, are originating. In Ukraine we enjoy positive results from the growing presence of foreign banks and financial investors. Nevertheless, the management and control of new risks connected with financial globalization, demand additional comprehension and subsequent steps to maximize opportunities and minimize risks. It is often a more important element of external financial stability than exchange rate regimes

The conditions may not be ripe for full free-floating of currencies in many regions of the world due to unsufficient development of internal financial markets and other incomplete structural reforms. However, a flexible economy will easier amortize shocks, provided stable balance sheets are successfully secured. The IMF has great experience in assessing the mutual consistency and coordination of different elements of a macroeconomic policy mix and we appreciate advice and additional research going beyond the generalized macro-level. We understand the increased attention at the IMF to systemically important countries. Nevertheless, it should not occur at the expense of other members of the Fund. We hope that new initiatives to develop insurance programs will be more successful than previous attempts.

Speaking about risks, it is not the first year that we read about risks from overheating of real estate markets in developed countries, but the same tendencies occur in a number of new market economies; in some of them it is even to a larger scale than, for example, in the USA. Even though there is ample research on the level and the importance of potential risks for industrial countries, more attention is necessary on the part of the IFIs for the potential consequences of global imbalances for new market economies.

At the same time, a simple application of methodology of analysis of countries with developed financial markets to newly emerging market economies, which are still in the process of forming the modern and complex financial markets and instruments, will not necessarily give positive results. Especially where it concerns attempts to estimate so-called 'equilibrium nominal exchange rates'. We would urge caution with such assessments: it would be prudent to start with ranges of real exchange rates and possible different scenarios of their development. Robust methodology of this kind of assessments does not seem to exist, and difficulties with data and data interpretations will have to be addressed.

Also, within the framework of reforms at the IMF, we appeal to put more focus on employment of experts with practical operational experience in central banks and the governmental ministries, who have not only theoretical knowledge, but also practical experience with implementation of important reforms and development of modern institutions. The technical assistance and policy advice from such experts is extremely valuable.

We hope and trust, that the search for more sustainable mechanisms of formation of the IMF income will not lead to negative consequences for the users of Fund's services.

Ukraine supports the Bank Group work to deepen engagement to strengthen governance and fight corruption and the corresponding strategic document of the World Bank, presented at the Development Committee meeting. We welcome the thrust of the document to address governance and anti-corruption from a broad development perspective and within the Bank's mandate. Building capable, accountable and responsive states that are effectively delivering services to its citizens, sustaining growth and development, and confronting corruption should be in the core of the Bank's business.

The document calls for a streamlined and enhanced governance and anticorruption agenda in the Bank's operations and clearly frames the 'three-tier' approach, at the country level, the project level and the global level. We appreciate that the strategy envisages both flexibility to ensure proper consideration of a member country's circumstances, and consistency of treatment of member countries. Those issues should be carefully assessed during the strategy implementation.

We welcome the Bank's intention to stay engaged with member countries, even if a difficult environment and bad governance make the Bank's presence there more challenging. There is no doubt that country ownership of and commitment to the governance and anticorruption agenda are absolutely crucial and it is therefore critical for the Bank to pursue a dialogue on these issues with member countries. Broader engagement with institutions outside the central government is also appreciated.

We welcome the opportunity to discuss strengthening the World Bank's engagement with the IBRD partner countries. It reflects an important consensus in the international community on the significance of continuing, while renewed, support to the large group of middle-income countries, which still face substantial development challenges. These countries manage their own development programs, are less reliant on IBRD financing, need more sophisticated financial products, and require knowledge and advisory services of the highest quality.

In this context we are pleased with the Bank's approach to become more effective in delivering a flexible, high quality and cost-effective menu of services to its clients to assist them in achieving development results. We welcome the identification of three business lines in the document, strategic advice, financial services and knowledge services, and corresponding operational initiatives. Particularly, using the country systems, introducing sub-national lending, unbundling technical assistance from lending, expanding local currency lending, increasing the transparency of loan pricing, if settled properly, could serve better both the MICs and the Bank.

Ukraine has great interest in the Bank's strategy and coordination services at the country level, as it could help us to become more efficient in managing our own resources, as well as those borrowed from the IBRD. We also welcome the commitment to review the pricing of the Bank's financial products to simplify and improve the transparency of the pricing structure and ensure its competitiveness.

Knowledge services have become an essential product for clients and a unique instrument for the Bank. Many MICs want to explore new options for accomplishing long-standing challenges and being fully engaged in the development debate. Both goals require nothing but the best advice available. The Bank has on many occasions been very successful in providing high quality knowledge services, by putting together teams of the best and brightest international and local experts, including those from outside of the institution. We agree, however, that the Bank's activity in this area could and should be undertaken even more effectively and with greater relevance to the operational work on the ground.

We welcome the document's focus on selectivity and the need to assess the value added of the Bank's involvement with IBRD partner countries with respect to each program or project. Weighing Bank intervention against other options to support economic growth, promote poverty reduction, achieve better governance, and help crowd in private capital flows, is an essential issue: for the Bank to be competitive, and for a country to obtain the most appropriate product it needs. The attention given to partnership in this report is very much appreciated, but we feel that this needs to be developed further, including the World Bank Group synergy, working with the IMF, other IFIs and bilateral partners.

Ukraine has greatly valued the support of the Bank and in the course of time the Bank has become our partner of choice, as is the case for a growing number of IBRD countries.

The partnership of Ukraine with the World Bank is today at a stage of effective development, and I trust that the new principles and approaches for this cooperation will be reflected in a new World Bank/Ukraine partnership strategy. The introduction of a transparent cost system of World Bank credits; elaboration of new financial instruments for overcoming external shocks; granting an opportunity to receive the technical assistance and analytical services of the World Bank, which are not connected with credit services, are all of crucial importance. We consider this a field for more active cooperation between institutions of the World Bank Group, the World Bank, the IFC and MIGA, in assisting the MICs.

Ukraine has recently adopted the National Strategy of Cooperation with International Financial Institutions for 2006-2008. Crucial is that the program of cooperation with the World Bank and the development of an interaction with the IMF are well coordinated with the economic priorities of the nation. Our urgent and ambitious task is to transition to an innovative and highly technological national economy and to increase its competitiveness. To achieve this, we plan to initiate new projects focusing on Ukraine's greatest needs, and on those areas where experience shows cooperation to be most successful

We also see a need to increase the consolidating role of the international financial institutions in Europe in the common search for effective ways to overcome tensions over energy pricing and volumes of supply, in the gas trade in particular. To address these challenges, the highest priority for Ukraine is to stimulate the investments necessary to develop the power sector, to enhance energy efficiency, to modernize urban transport and municipal infrastructure, and to improve the quality of services in water supply and heating.

Ukraine recently observed the 15th anniversary of its Independence. In this short period Ukraine has become a democratic country. It has shown wisdom and responsibility in solving most complicated problems in economic, social and external economic spheres. Now Ukraine demonstrates high growth rates, and we are proud that both real income and the well-being of its citizens grow at appreciable rates, that the level of unemployment is the lowest since Ukraine's independence and that foreign direct investments tripled in the first eight months of this year. The recent formation of a stable coalition in Parliament and its close coordination with the Government of Ukraine, will facilitate speedy implementation of the necessary legislative changes to further promote reforms.

We are grateful to the World Bank and the IMF, that during the years since independence these institutions were our reliable partners and effective advisers: they made important contributions to the achievement of macroeconomic stability and a higher quality of public finances.