

WORLD BANK GROUP

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Statement by the Hon. **BIRGIR ISLEIFUR GUNNARSSON**,
Governor of the Fund for **ICELAND** on behalf of
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden
at the Joint Annual Discussion

**Statement by the Hon. Birgir Isleifur Gunnarsson,
Governor of the Fund for Iceland on behalf of
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania Norway and Sweden
at the Joint Annual Discussion**

Mr. Chairman, I am honored to address the 2003 Joint Annual Meetings on behalf of the Nordic-Baltic Constituency consisting of Denmark, Estonia, Finland, Latvia, Lithuania, Norway, and Sweden as well as my own country, Iceland. Let me begin by thanking the authorities of the United Arab Emirates for hosting the Annual Meetings in this vibrant city of Dubai.

Prospects in the World Economy

The world economy has been showing signs of a modest recovery and further strengthening is projected for 2004. Economic growth, however, remains unbalanced. Restoring sustainable growth is one of the most important economic policy challenges that lie ahead. Current accommodative policies are appropriate until a global recovery has been consolidated. Some economies have, however, now reached the point where little scope remains for traditional fiscal and monetary initiatives. Consequently, it is necessary to press forward in other areas such as by accelerating structural reforms, promoting good governance, increasing transparency, and harmonizing standards. Another important task involves enabling low-income countries to enjoy the full benefits of a globalized economy. An orderly unwinding of external imbalances also poses a major challenge. To resolve this, fair-burden sharing will be necessary among leading economies and different regions.

Structural Reforms

Economic recovery will continue to be restrained unless countries speed up structural reforms. An effective way to improve long-term economic prospects is to address structural rigidities that weigh down the efficiency of labor markets. It must be recognized that demographic challenges such as the aging of the population add pressure

on the labor market and public finances. Increased labor market participation and restructuring of benefit schemes are therefore needed. Authorities and labor market participants have to work together in this effort. Other structural rigidities in financial and product markets are of no less importance, and removing such obstacles is conducive to growth.

Many economies are burdened with government deficits in the midst of the global economic slowdown. Automatic stabilizers have been allowed to operate in order to support growth. This may be prudent and appropriate; however, care should be taken that public finances do not become unsustainable. Policy makers are responsible for planning both for the short and the longer term and we encourage governments to consolidate their fiscal positions in order to enhance their nations' competitiveness. The Fund should continue to monitor closely structural deficiencies and advise accordingly.

Good Governance

Economic integration has brought increased prosperity to those who have been part of the globalization process. Increased globalization also implies intensified competition in most areas. Good governance is, therefore, more important now than ever because it fosters confidence and growth, without entailing much additional economic cost. All empirical studies confirm that much can be gained by embracing good governance and it is an essential component of crisis prevention efforts.

Good governance is equally vital in both the public sector and the corporate world, and its merits are relevant in all countries. Recently, corporate governance issues have been prominent on the world economic agenda as financial markets have been recovering from scandals that came to the fore following a period of excesses in equity markets. In order to increase confidence in the markets, it is imperative that the corporate world adhere to the principles of good governance. Good governance in the public sector is also an essential tool for strengthening institutional capacity, which is fundamental for economic and social development. The Fund has an important role to play in this field and we welcome the increased emphasis it has given to the issue of governance.

Transparency and International Standards

With the world economy having suffered a confidence crisis, it is important to continue to promote greater transparency and accountability. Various studies have demonstrated that transparency and adherence to international standards lead to easier market access and lower borrowing costs. There is much to gain by applying these simple principles.

It is also important to continue developing international standards and codes that enhance transparency and facilitate comparison between countries and regions. The Fund has invested considerable efforts in promoting transparency and developing standards and codes in cooperation with the World Bank, the Bank for International Settlements and other organizations. Remarkable progress has been made in this area but we realize that broad implementation of these standards will take time, although this is time well spent as improved practices and comparability will increase the stability of the international financial system.

We believe that the next steps should be to harmonize accounting standards at world level. The Nordic-Baltic Constituency encourages all member countries to support the efforts of the International Accounting Standards Board to reach a consensus on accounting standards and principles.

Furthermore, we welcome the new steps taken to increase the Fund's transparency, especially the policy of moving to presumptive publication of all Article IV reports and the required publication of documents in exceptional access cases.

Promoting Economic Progress among Low-Income Countries

One of the greatest challenges of our time is to win ground in the battle against poverty. All parties must be fully engaged in this campaign. Many initiatives in recent years have borne fruit but there is still a long way to go and the international community must do

better in order to achieve the Millennium Development Goals (MDGs). Here, I would like to focus on trade and its importance for development.

Greater market access will be an essential instrument for improving the economic conditions of those living in poverty and I welcome the recent initiative taken by the Fund and the World Bank aimed at supporting the Doha round. At this stage, the global momentum towards trade liberalization must continue effectively, yet there is reason for concern over the way that the current international trade negotiations are proceeding. Progress has been slower than was previously hoped, especially in light of the disappointing result of the WTO meeting in Cancun. Another worrying aspect is the trend of bilateral trade agreements instead of multilateral agreements.

To support low-income countries, the industrialized nations should reduce their overall levels of support for agriculture and textiles and direct the remaining subsidies away from trade-distorting price support towards income support. The advantages of trade liberalization are greater than the risks associated with it. Reforms in these areas will benefit both the industrial and the low-income countries. There might, however, be temporary or transitional difficulties as increased liberalization can entail a reallocation of labor between sectors. Governments should be ready to inform and educate their citizens and prepare safety nets to make the transformation more acceptable, both domestically and internationally. High-income countries ought to be prepared to assist developing countries in such undertakings. Low-income countries must also open up their markets in order to increase the volume of trade between each other as well as with industrialized countries.

Bilateral and regional trade agreements have become increasingly common in recent years. However, the multilateral route is a better channel for delivering the dynamic benefits of increased global economic integration. Bilateral agreements can fragment and complicate multilateral negotiations such as the present WTO round. Moreover, small and underdeveloped economies are more likely to be left out and their ability to participate in the global economy is therefore disadvantaged. We encourage the Fund to continue to use surveillance in promoting open world trade.

Concluding remarks

Ladies and gentlemen, improving the world economy is a task that demands the participation of every nation. We must press forward with structural reforms, promoting good governance, increasing transparency, and harmonizing standards. This task must also include efforts to integrate the low-income countries into the global economy. The current circumstances provide good reasons for addressing these issues.

The International Monetary Fund has been at the center of world economic cooperation since its establishment. The Fund should continue to play a crucial role in strengthening the areas I have emphasized through its surveillance and its lending activities.