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

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Statement by the Hon. **MR. JASWANT SINGH**,
Governor of the Fund and the Bank for **INDIA**,
at the Joint Annual Discussion

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Mr. Chairman,

1. My congratulations on your assuming the chairmanship of these Annual Meetings. We hope that under your leadership this gathering will arrive at a consensus on how the Bank and the Fund can facilitate a quick implementation of the global compact arrived at in Doha, Monterrey and Johannesburg.

2. The past decade has been characterized by low growth rates and considerable economic difficulties in most regions of the developing world. Except for Asia, per capita incomes have either declined or remained stationary, and the poverty situation has worsened considerably. After the declining growth rates in global output and trade witnessed over the past year, the outlook ahead remains uncertain. An excessive volatility of global oil prices threatens to undermine our tentative recovery, currently underway. Non-oil commodity prices are now expected to decline in real terms over the next decade. The outlook for the flow of official development assistance, including multilateral loans and credits continues to remain unfavourable. Though the flow of private capital has expanded impressively in recent years, it has remained highly volatile, expensive and concentrated among a few countries. It cannot offset the impact of declining ODA in low income countries.

3. We welcome the Monterrey consensus on the importance of improved market access for developing country exports. This is perhaps the most important requirement for accelerating growth and removing poverty. Most developing countries today are liberalizing their trade regimes and seeking greater global integration as part of their economic reforms. The benefits of these reforms are critically dependent on the removal of trade barriers on items of interest to them. We must be mindful that these changes are carefully sequenced so as to minimize the cost of adjustment for the poor. Developing countries have large infrastructure gaps that need to be bridged if they are to take advantage of improved market access. This will require suitable policies and investment climate to attract private investment as a supplement to increased public investment. This process of reform in developing countries is thwarted unless fully supported by enhanced access to markets for their products, especially agriculture, textiles, clothing, footwear, and an elimination of trade-distorting subsidies in the industrialized countries, and adequate access to financial resources so that investment needs are met and possible balance of payments pressure lessened.

4. The current risks to global recovery have assumed new dimensions and pose formidable challenges to both the Bank and the Fund. There are three important features that characterize recent global economic developments. First, on the

positive side, the impact of the recent slowdown has been somewhat milder than earlier similar instances, primarily on account of timely and strong corrective policies. Second, is this disturbing synchronicity of the global downturn. The third and final observation pertains to apprehensions regarding growth of contagions caused by volatile movements in capital flows threatening even some of the more well managed economies. All these pose serious challenges to the international community. A clear understanding of the multiple causes of capital account crises including non-economic factors and risks of rapid global integration are critical for first designing and then ensuring the much needed cooperation among national policy makers and multilateral institutions.

5. In light of the above, and for ensuring greater global financial stability in future, it is necessary to identify the major sources of vulnerabilities and the underlying reasons responsible for their convergence and subsequent mutual reinforcement. First, among these is the considerably reduced prospects for immediate economic recovery in industrial countries, due to a variety of factors including the recent behaviour of financial markets. Vulnerability still troubles global capital markets. The continued probability of abrupt and disruptive corrections in exchange rates of major currencies is another cause for concern. The somewhat discordant behaviour of equity and bond markets vis-à-vis real sector developments, arising from widespread corporate defaults and accounting shortcuts is another cause for concern. Emerging market financing conditions continue to suffer from constraints, particularly in the troubled continent of Latin America, which could weaken growth prospects and increase vulnerabilities in a number of countries. And finally, global energy prices are once again displaying troubling volatility, which would impact oil exporting and consuming countries differently. If oil prices were to turn adverse, the crisis could become heavily detrimental for global growth and welfare, apart from affecting the growth prospects in emerging Asia. In the current scenario, maintaining a fair degree of stability in oil prices would demand remarkable statesmanship on the part of leaderships in major countries.

6. The variety of policy responses in industrial countries, appropriately accommodative to supporting growth, is encouraging. In this regard, fiscal stimulus and stabilizers have an important role to play in the industrial countries within the prudential constraints. Swift policy action is however required to restore investor confidence for clearing the doubts created by reports of unfair accounting and financial reporting. In the eventuality of disorderly adjustments in major currency values, coordinated policy interventions would be called for from major countries. Finally, the emerging market economies should continue to persevere with prudent macroeconomic policies and also pursue structural reforms.

7. Besides providing an assessment of short-term vulnerabilities and risks the twin publications of World Economic Outlook (WEO) and Global Financial Stability Report (GFSR), throws up issues for medium term consideration. It would be useful to take up for further examination the issue of corporate governance and

integrity and the need for placing accounting and auditing standards on a sound footing. The dollarization and associated systematic risks in Latin America also raise issues for the medium term in regard to evolution of exchange rate regimes.

8. As part of both multilateral surveillance and bilateral surveillance, development of financial standards and codes as a parallel effort to strengthen individual country practices and improve adherence to best practices is welcome. But, it must be recognized that the relationship between adherence to codes and stability and soundness is rather weak and not well founded. Secondly, the standards themselves should be seen as evolving and weaknesses in standards themselves are not uncommon as were evident in the recent cases relating to accounting and auditing and governance matters. The approach of FSAP and ROSC should continue to remain voluntary and publication of reports should be left to member countries. The application should take into account individual country experience, context and stage of development and legal and other institutional structures. I would like to take this opportunity to inform that in India, we have completed a full round of self-assessments of standards and codes.

9. We welcome the Fund's efforts in carrying forward the examination of the contractual and statutory approaches to improve the process of Sovereign Debt Restructuring Mechanism (SDRM). We would like to reiterate that while a generalized and broad framework for SDRM may be feasible, SDRM should be viewed on a case by case approach and necessarily has to take into account the individual country and institutional environment. Secondly, SDRM should be treated as complementary to the Fund's emergency funding and not as a substitute. The Fund's experience with the exceptional financing has proved to be positive and overall resulted in meeting the objectives of programs successfully. The post-crises environment in the countries covered by Fund programs has generally shown improvements in several respects. There is a need to continue with the policy of designing programmes and provide exceptional financing in deserving cases. We encourage the ongoing work on streamlining the access policy and strengthening the framework for exceptional access policy.

10. We commend the Bank and Fund's efforts in reviewing and streamlining conditionalities. The modified guidelines provide room for considerable flexibility and take into account country-specific circumstances including the political economy of programme implementation. The floating tranche based prescriptions for structural conditionalities will help countries in phasing their program implementation on the basis of domestic institutional and legal infrastructure. We need to assiduously avoid a gap-filling approach to conditionalities in which the conditions excluded by one institutions is taken up by another. The final outcome of the streamlining exercise must be a clear and visible reduction in the number and range of conditionalities applied by both the Bank and the Fund.

11. We note with satisfaction the progress in the HIPC Initiative. The substantial debt relief delivered to a large number of countries has had a positive impact on their poverty reducing social sector expenditures. However, the pace of implementation of the initiative has been relatively modest. Some HIPCs have experienced delays in reaching decision points, notably, those going through a post-conflict phase, which are in urgent need of rebuilding their core infrastructure and stepping up social sector spending to reverse the deterioration in human development indices. The PRSP approach has also now taken hold, with a number of countries producing high quality PRSPs through a broad consultative process and significantly improved country ownership. The focus now has to shift to meeting the challenges in implementation. It is important to take into consideration the governments' need to calibrate the pace of policy changes so as to minimize likely social disruptions and facilitate progress towards poverty reduction. Enhanced aid effectiveness and more predictable aid flows are equally important. We look forward to tangible progress in improving donor alignment and harmonization of procedures and practices. These are critical to reducing transaction costs and enabling the governments to shift the focus from processes to actual implementation.

12. We fully support the intensification of the global efforts to prevent money-laundering and financing of terrorism and the involvement of the Fund in this endeavour. The present collaboration between the Fund-Bank and the FATF and its affiliate bodies, has the potential to enhance the effectiveness of assessments, expand their coverage and promote more efficient use of resources.

13. Some of the recent developments in the international economic environment point to the need for addressing certain fundamental issues relating to governance structure and policies of the Fund. The financing needs of members now arise more out of capital account imbalances rather than current account imbalances. The need for funding is also for fairly longer periods and with larger volumes of requirement given the sudden and the significant crisis afflictions. The size and distribution of quotas require a thorough review in the current context of emerging common currency areas and increasing strength of emerging and developing economies. Greater credibility of the Fund lies in ensuring orderly international payments.

14. We greatly appreciate the efforts of Mr. Wolfensohn and his staff, together with IDA donors in reaching an agreement on the Thirteenth Replenishment of IDA. This agreement, along with borrower reflows, will result in broadly maintaining the level of IDA commitments in the next three years to the same level as during the 12th Replenishment period. In nominal terms, fresh donor commitments at US$ 10 billion in IDA 13 are only slightly higher than US$ 8.64 billion during IDA 12. This should be a matter of serious concern to this august body . I hope the deliberations of this body would provide the necessary momentum to reverse the recent unfavourable trends in flows of concessional finance from bilateral and multilateral sources for poverty alleviation. The availability of adequate resources

to IDA also has a bearing on the appropriate strategy for achieving the Millennium Development Goals.

15. It is now fourteen years since the Board of Governors of the Bank approved a General Capital Increase. In the meantime, the world has changed dramatically. In 1988, the Bank did not have the demand for its resources from the entire group of transition economies of Europe and Central Asia. Market volatility and financial risk were of an order of magnitude lower. Monterrey and the Millennium Development Goals provide a unique global consensus on eliminating absolute poverty in our lifetimes. The need for adequate Bank resources has never been greater. There is an urgent need to replenish the Bank's capital to enable it to meet the financing challenges, keeping in mind the heightened risk of our times. We call on all shareholders of the Bank to agree on a General Capital Increase to be completed before our next meeting in Dubai.