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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. **YASHWANT SINHA**,
Governor of the Fund and the Bank for **INDIA**,
at the Joint Annual Discussion

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Mr. Chairman,

I would like to add my warm congratulations to those extended by other Governors for your election as chairperson for these Annual Meetings. I am sure that our deliberations here will be greatly benefited by your rich experience, wisdom and dynamism.

I would also like to take this opportunity to thank the Government of Czech Republic for its exceptionally warm hospitality and superb arrangements for these Annual Meetings. As we all know, there were serious concerns regarding possible disturbances to the conduct of these meetings. The Czech Government deserves very special congratulations and gratitude for effectively containing the potential problems.

I would also like to congratulate the Managing Director of the IMF and the President of the World Bank for their very constructive contributions in reviving global economic prospects. Let me extend a special welcome to Mr. Horst Köhler since this is the first Annual Meeting he is attending as Managing Director of the Fund.

It is indeed heartening that global economic expansion has gained momentum in the course of 2000 and that the prospects for 2001 are reasonably promising. There is, however, no room for complacency. First, the global economic environment remains vulnerable to large and persistent financial imbalances and performance asymmetries among the three largest economic regions : the United States, the Euro area and Japan. Second, we have been very concerned in recent times with the seeming lack of international coordination of macroeconomic policies among these major economies, which has amplified uncertainties in world financial and currency markets. Last week's welcome and coordinated intervention in support of the Euro has allayed some of our concerns. Third, the current prosperity has not been evenly shared by all regions of the world. In particular, Africa's economic performance and prospects remain weak and beset by natural disasters and the HIV/AIDS pandemic. Fourth, a combination of lower projected capital flows (both private and public) to developing economies and the persistence of protectionist sentiments and practices in industrial countries could undermine the nascent economic upswing. These risks and vulnerabilities need to be at the top of our agenda for concerted global action in the interests of global stability and growth.

Above all, the extraordinary surge in international oil prices and continued weakness in non-fuel commodity prices have imposed a serious terms-of-trade burden on many developing countries and led to additional pressure on their external payments situation. The continued turmoil in oil markets has the potential to derail the prevailing upbeat prospects for the global economy. In this context, I feel that there is a strong case for expanding the scope of the existing Fund facilities to assist the oil-importing developing countries which need it in managing this extraordinary external shock. Equally important is the need to evolve a mechanism for continuing consultation on commodity prices so as to facilitate anticipation of similar shocks and enable taking preventive steps in time.

Mr. Chairman, we welcome the broad-based efforts to strengthen the international financial architecture. The stability of the international financial system is rightly viewed as a "global public good". The substantial efforts that many developing countries have made to integrate themselves with the world economy must be supported, if the process of globalization is to move forward in a manner which ensures positive benefits for all members of the international community. For this to happen, plans and programs for strengthening the architecture need to be more responsive to issues and concerns of special interest to developing countries, including : low and declining levels of official development assistance (ODA); low non-oil primary product prices, continued industrial country barriers to exports from developing nations; volatility and costly access to private international capital markets and the persisting burden of external debt.

The Bretton Woods Institutions, with their near universal membership, have a pivotal role to play in this regard. Indeed, there is an imperative need to reevaluate the role of the Fund and the Bank in the broader context of globalization. The Bretton Woods Institutions must echo the voice of the poor and strive to extend the full benefits of globalization to all on equitable terms. In particular, the Fund and the Bank need to strive together to mitigate the downside risks of globalization, catalyze greater policy coordination among major industrial economies and reverse the declining trends in official development assistance, which is crucial for supporting development and financing global public goods such as the preservation of the environment and the elimination of infectious diseases. In this regard, we welcome the recent commitment by both these great institutions to more effective collaboration in pursuit of shared goals, without compromising their respective foci and separate mandates.

Recent suggestions for reducing the concessional element of ODA (through various differential "pricing" procedures) are misconceived. As it is, the last twenty years have witnessed a steady decline in the percentage contribution to ODA from industrial countries' GDP, while at the same time the "conditionality" price of such assistance has ratcheted up.

The recent revisions of the scope and terms of IMF facilities has helped to strengthen the institution's role in the prevention and resolution of financial crises. However, the administration of these facilities needs to be carefully managed to meet the diverse requirements of the IMF member countries, which are at very different stages of development and face a tremendous variety of financial and development challenges. I would also reiterate that IMF financing needs to be complementary to borrowing from private capital markets and private flows cannot be expected to substitute for the IMF's special role.

While considerable global effort has been directed in the recent years towards crisis resolution, I feel that the timing is propitious to shift the attention now to crisis prevention. Such concerted endeavors not only can reduce the probability of occurrence of crises, but could also reduce the costs of crisis resolution, as and when crises do occur. Recognizing the indispensable role of official finance, especially IMF financing, in coping with financial crisis situations, I still feel that the existing provisions are not strong enough. It is for this reason that we continue to urge consideration of our suggestion to amend the Fund's Articles to enable it to issue SDRs to itself to provide expeditiously adequate emergency finance to meet temporary financing requirements in crisis situations.

We have welcomed the establishment and implementation of internationally accepted standards and codes to promote financial stability. However, we continue to urge that there should be a clear prioritization among the proliferating population of standards; that the acceptance and implementation of standards by countries remains voluntary; that the compliance with standards and codes should not be prematurely integrated into the regular IMF Article IV Consultation process and that standards must not become part of IMF conditionality.

Mr. Chairman, We are deeply concerned by the decline in IBRD's commitment levels to US$ 10.9 billion in FY 2000, which is the lowest level in the decade. This decline must be swiftly reversed and this will happen as the World Bank rededicates itself to its basic mandate of providing long-term development finance to member countries. Despite the growth of private capital flows, the vast majority of developing countries continue to rely on official assistance, where the Bank/IDA plays the leadership role. Even among those countries with some access to private capital markets, official lending provides critical complementary support, insures against the notorious instability of private flows and channels finance and investment to the crucial areas of human resource development and infrastructure which underpin the long-term growth process.

The alleviation of poverty remains the central goal for us as well as the multilateral institutions engaged in the enterprise of economic development. In fact, we feel that the Bank should emerge as the focal point of the global effort in assisting the poor. We welcome the refocusing of Bank/IDA programs on poverty alleviation. However, we would urge these institutions not to lose sight of the basic guiding principles of consultation and collaboration enshrined in their statutes and that their programs and approaches must strike a judicious balance between safeguard policies and accelerated development. Instruments such as Poverty Reduction Strategy Papers have their role. But they should not attempt to duplicate or substitute for detailed plans and programs adopted by democratically constituted institutions at different levels of government in member countries. As we all recognize, the primary responsibility for accelerated development and poverty alleviation rests with each developing nation.

We note with satisfaction that the latest World Economic Outlook has described India's recent economic performance as "remarkable". Our programme of economic reforms and commitment to macroeconomic stability continue to yield impressive rewards. India is likely to continue its robust performance, and is expected to grow at about 6.5 per cent in the current year. This makes India one of the ten fastest growing economies during the 1990s. Even better, the recent acceleration in India's growth has been accompanied by a decline in the inflation rate. Despite a number of difficult domestic and international developments, our balance of payments position remains manageable and the external sector continues to exhibit strength. Our current account deficit has averaged about 1 per cent of GDP since 1992-93 and the debt service ratio has more than halved from 35 per cent to 16 per cent over the same period. Furthermore, not only has the debt-GDP ratio declined from over 41 per cent in 1991-92 to 22 per cent in 1999-2000, short-term debt has been kept within prudential limits and now constitutes less than 5 per cent of our aggregate debt. At US$ 32.4 billion as of September 15, our foreign currency reserves remain comfortable.

I am happy to report that the evidence of further decline in Indian poverty is building up. The proportion of population below the poverty line had fallen steadily from 55 per cent in 1973-74 to 36 per cent by 1993-94, and preliminary surveys confirm that the process has gained momentum in recent years. In addition to having realized this reduction through economic growth, our development strategy also visualizes a continued direct attack on poverty through creation of wage and self-employment opportunities.

Mr. Chairman, we are fully conscious that in order to maintain and improve upon a strong economic record, we need to implement an ambitious agenda of second generation reforms while continuing with our vigilant macroeconomic management. We are already pursuing a series of reforms covering the entire spectrum, including the revitalization of the rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure and industrial relations. One of our main thrust areas is the rightsizing of government, as well as the restructuring and privatization of public enterprises. We are confident that we will succeed in the challenging task of giving hundreds of millions of our people a decent standard of life in the first decade of the new Millennium.

The financial crisis of two years ago is now behind us but the scars of traumatic upheavals with impoverishment of millions in the developing world are bound to linger. At this critical juncture, the need to re-evaluate our policy perspectives should be balanced by the evolution of a representative negotiation process for a more rapid, sustainable, and broad-shared "ownership" of growth and development. Our Prime Minister, just a fortnight back, proposed a comprehensive Global Dialogue on Development. A situation that provides a comfortable living standard to one-third of the world's population, but condemns the remaining two-thirds to poverty and want, is unsustainable. I feel that this first Annual Meeting of the 21^{st} Century can make a meaningful contribution towards this goal.