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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. **P. CHIDAMBARAM**,
Governor of the Fund and the Bank for **INDIA**,
at the Joint Annual Discussion

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Mr. Chairman,

Since we met the last time, the global economic outlook and policy prospects appear to have strengthened considerably. World output growth is expected to touch its highest level in the last thirty years. The recovery is also broad based across the membership, with US and Emerging Asia continuing to show stronger growth. Diversified expansion, and different regions mutually supporting and reinforcing growth-enhancing prospects, can trigger a virtuous cycle. We must strengthen this process, and that will require international cooperation in achieving stability, crafting better policies and building robust institutions.

No doubt, risks to the expansion, too, have increased in recent months. A shadow has been cast by volatility in the oil market and geo-political uncertainties. While supply constraints have surfaced in addition to demand pressure, speculative forces also seem to have contributed to added volatility. An enduring solution to these problems will call for strengthening cooperation between oil producing and consuming countries in stabilizing the oil market. Equally, multilateral institutions must be ready to support countries exposed to any potential threat of oil or commodity price shocks.

Inflationary pressures across regions are primarily supply driven by oil and commodity prices. Compared to earlier periods of oil price shocks, many countries have strengthened their macroeconomic and prudential policies and have become more resilient. Central banks in these countries have developed more effective tools and more transparent communication policies to achieve price stability without disrupting growth. We, therefore, believe that the reversal of interest rates by central banks should be, and will be undertaken cautiously. Growth and price stability cannot be viewed as two irreconcilable goals. However, the combination of risks of oil prices and reversals in monetary policy regimes make the management of macro-policies in oil importing emerging economies a particularly complex task.

In terms of policy response, the problem of the twin deficits in the US and structural reforms in the Euro area remain a challenge. In emerging market economies, the current upturn should provide the necessary leeway for fiscal and debt consolidation, and for pushing ahead with institutional reforms for sustaining growth and reducing poverty.

Financial market conditions remain sanguine with gradual strengthening of balance sheets and capital build up across institutions. The demographic transition in several countries, particularly in developed countries, points to the need for pursuing pension fund and social security reforms.

In some Emerging Market Economies (EMEs), policy-makers have—in my view, wisely—built up foreign exchange reserves as self-insurance against the possible effects of reversal of capital flows. Rather than fault them, we should reflect on the inadequacy of the existing international financial architecture in providing a viable collective insurance to well-managed economies.

Steps to scale up assistance to developing countries should remain high on the agenda for achieving the millennium development goals (MDGs). Two years after Monterrey, the implementation of the Compact appears uncertain. The promised additionality of resources has failed to materialize. Without additional resources, the MDGs will remain a distant dream. Even the best performers among developing countries may not realize the dream. I should also point out, with some regret, that when concessional resources are allocated, that appears to be done on considerations other than the twin criteria of 'need' and 'performance'. When a country is prepared to commit its own resources towards MDGs, and has a proven record of performance, the developed countries must keep their part of the compact.

Aid continues to be delivered in a piecemeal, uncertain and inequitable manner rather than through multilaterals with transparent allocation criteria. We are pleased to note that the Bank and the Fund have put donor coordination and harmonization high on their agenda and we hope they will sustain and further enhance their efforts to make the promised levels of additionality in overseas development assistance (ODA) a reality. The negotiations for IDA's fourteenth replenishment are well underway. The time for the donor countries to deliver on their Monterrey commitment for a substantial scale up in ODA is now.

The international financial institutions (IFIs) have had a very positive influence in creating an appropriate international environment for multilateral trade negotiations. Enhanced trade has the potential to yield over $325 billion in additional resources by the year 2015. The global trade agenda calls for renewed vigor on the part of the Bank and the Fund to strengthen their advocacy role to phase out protectionist policies in developed countries.

Negative net flows from the Bank in recent years continue to be a matter of deep concern. Against this backdrop, the recent initiatives to modernize and simplify procedures and reduce (non-financial) costs of doing business are welcome. More needs to be done, especially more initiatives to check the rising trend in administrative costs, reduce borrowing charges and rationalize the safeguard compliance framework.

I wish to make a special mention of the need to step up – in a big way – lending to infrastructure. Middle income countries have the human and physical resources to raise their people from poverty. They have been the Bank's best customers so far. What they lack is infrastructure that can make them efficient and competitive. Your best customers ask the Bank to lend a helping hand to create this world-class infrastructure.

Many of the world's lowest income countries are faced with acute debt-distress. This makes allocation of resources difficult. Therefore, recently, the Bank and the Fund have been rightly preoccupied with devising an ex-ante framework to assess sustainability of the debt situation in low income countries, and helping borrowers, lenders and the IFIs take informed decisions. Assisting such countries without adding further to their debt burden, and at the same time, avoiding the moral hazard implicit in lending and forgiving, are extremely delicate exercises. We wish the IFIs and the IDA well in carrying out these crucial tasks.

Lack of effective voice in the functioning of the IFIs remains a matter of deep concern for the developing and transition countries. At Monterrey, we heard positive assertions by world leaders but, so far, we have not found sufficient political resolve to address the structural inconsistency that lies at the root of this lack of voice. The allocation of quotas at the Fund and the pattern of shareholding at the Bank have ceased to reflect the economic realities of the day. The search for a greater voice for developing countries must begin with a review of the quota allocation formula. Without the necessary resolve to move in this direction, the voice issue will continue to remain a mere distraction from the core business of the IFIs.

Mr. Chairman, 80 per cent of the people who inhabit the earth enjoy a mere 20 per cent of the global income. That is the cause of poverty, discrimination and injustice. We must ensure that all parts of the global compact agreed at Monterrey are in place by the time we meet next year. And if we do that, it will still leave us just about a decade to realize our dream of Millennium Development Goals.