Statement by the Hon. ALEKSEI KUDRIN,
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at the Joint Annual Discussion
1. The Global Economy

According to the IMF projections, the world economy will expand rapidly in
2006–2007, at a rate of about 5 percent per year. With the same strong rates posted in
2003–2005, the period of robust global growth is projected to span at least five years. It
has been a quite some time since the global economy has experienced such a sustained
period of rapid expansion. In this context, a legitimate question arises: how great is the
threat of overheating of the world economy and of an abrupt slowdown in growth in the
near future?

For a long period of time the advanced economies pursued an exceptionally loose
monetary policy, which led to significant accumulation of excess global liquidity.
Apparently this increase in global liquidity has provided a significant boost to the
dynamics of the world economy. It is interesting that against the backdrop of
globalization, for a long time such loose monetary policy in the advanced economies did
not lead to higher inflation and interest rates in these countries. The growth in global
liquidity, however, has manifested itself in overheating of the housing markets, in rapid
growth in equity prices, especially in emerging market economies, and also in a sharp rise
in commodity prices, particularly of oil and metals.

The advanced economies are currently experiencing a build-up of inflationary
pressures and a tightening of monetary policy. The containment of inflation in these
countries could require a further increase in interest rates, which represents one of the
main risks for maintaining strong global growth. At the same time, in the situation when
there are more and more signs of overheating of the world economy, achieving its “soft
landing” is increasingly becoming a priority task.

High oil prices represent a serious threat to global growth in the near term. In this
context, we attach great importance to the implementation of proposals put forward
during the G8 meetings in St. Petersburg, such as broadening the dialog between energy
producers and consumers, facilitating investment in the energy sector, improving energy
efficiency, and promoting greater transparency in energy market data.

The rapid expansion of the world economy is now taking place against a backdrop
of further increase in global imbalances. According to the projections, in 2007 the current
account deficit of the United States will continue to increase further, while the current account surplus of China and some other Asian countries will keep on growing. This means that the threat of a disorderly and disruptive correction of global imbalances has not receded. Therefore, we are still facing the task of providing for a gradual rebalancing of global demand through the coordinated actions of the largest economies aimed at addressing the global imbalances. In this connection, we welcome both some reduction of the budget deficit in the United States and some increase in flexibility of the exchange rate policy in China. These efforts, however, are clearly not sufficient to overcome the negative trend in the development of global imbalances. Further steps are needed aimed at increasing the level of national savings in the United States and enhancing domestic consumption in China. We also welcome the acceleration of growth in European countries and Japan, which is contributing to needed changes in the structure of global demand. The sustainability of strong economic growth in these countries will depend on further steps in the implementation of structural reforms.

We expect that growth in Russia this year will be in the range of 6.5–6.7 percent, with a fiscal surplus in excess of 8 percent of GDP. We are continuing to contain growth of public spending and to boost contributions to the Stabilization Fund. In August of this year Russia used part of the Stabilization Fund resources in the amount of US$ 23.5 billion to pay off all its restructured debt to the Paris Club countries ahead of schedule. This operation allowed us not only to considerably reduce government’s external debt, but also to significantly improve its structure. High international oil and gas prices lead to a large current account surplus in Russia, which continues to complicate the implementation of monetary policy. This year the Central Bank of Russia is pursuing a more flexible exchange rate policy. Since the beginning of the year the nominal exchange rate of the Russian rouble to the U.S. dollar has strengthened by more than 7 percent. We expect that this policy will enable us to achieve a further decline in inflation.

2. Quota and Voice Reform at the IMF

We attach great importance to the quota and voice reform in the Fund. We believe that members’ quotas should be aligned with their positions in the global economy, and also that the voice of low-income countries in the Fund should be enhanced. In our opinion, the best approach would be to carry out this reform in a single stage on the basis of a new formula for calculating quotas. Nonetheless, we realize that complexities in the development of a new formula have prolonged that abnormal situation whereby a number of countries continued to be underrepresented for an extended period of time. For these reasons we have consented to a two-stage reform process, with the understanding that all the steps stipulated in the second stage will be carried out. We fully expect that the ad hoc quota increase at the first stage of the reform will be the last one to be based on the
existing set of formulas. We believe that the development of a new formula is the key element in the entire package.

Ensuring greater voice in the Fund for low-income countries is an important element in the proposed reform. These countries are gradually becoming the primary users of the Fund’s services and resources and should have the opportunity to participate in full measure in its work. Therefore, we fully support the proposal for an increase in basic votes held by all Fund members, and we also support safeguarding a proportion of basic votes in total voting power in all subsequent quota revisions. At the same time, we believe that the size of the increase in basic votes should be linked to the change in quotas at the second stage of the reform.

3. New Strategy for the World Bank’s Engagement with Middle Income Countries

We are satisfied with the overall positive trend in the World Bank Group activities. For example, we are witnessing an increase in IBRD lending volume. This reflects, in particular, the growth of business in such key area of international development as infrastructure. IFC business is growing on an accelerated path, which proves a high demand for its services by the clients and its positive contribution to improving investment climate and private sector development. IDA started the implementation of an extremely important Multilateral Debt Relief Initiative (MDRI), which will cancel about 37 billion USD of debt of some of the world’s poorest countries. The World Bank continues to play a leading role in addressing regional and global issues such as fighting contagious diseases, expanding education services in poor countries, providing post-conflict support and relief to the victims of natural disasters, and so on. In general we can say that the Bank remains the world’s leading development agency.

We believe that the implementation of the renewed strategy for engagement with IBRD partner countries will provide additional positive impetus to the Bank’s activities. We strongly support this strategy’s main proposals, including enhancing in the menu of financial and advisory services, designing more flexible delivery mechanisms, further simplification of the Bank’s rules and procedures, and a more active engagement in global issues. Because middle income countries are home to 70 percent of the world’s poor, a strong emphasis on this client group is indispensable to fulfilling the Bank’s central mission – fighting poverty. It is also important to bear in mind that staying engaged in the middle income countries helps to strengthen the Bank’s financial capacity.

4. New Strategy for the Engagement on Governance and Anticorruption

Recently the Bank has renewed its attention to the issues of governance and fighting corruption. It is clear that improvements in governance and enhanced quality of
public policies in the areas of social development, economic and fiscal management, coupled with an uncompromising fight against any kind of corruption, are critically important for the achievement of the MDGs. As underscored at the G8 summit in Saint-Petersburg, corruption is one of the worst impediments to international development. While supporting Bank’s efforts in this area, we believe that they will be especially productive if the Bank draws on its comparative advantages, including profound knowledge of the economic and socio-political processes and realities in the developing world, and remains predictable, transparent and unbiased.

The new strategy should be based on the main principles that reflect emerging consensus among the membership. The most important of these is that all governance and anticorruption activities should remain an instrument of achieving the overarching goal, i.e. the MDGs. Improved fiscal management should become a priority, and this work is well within the core competence of the Bretton-Woods institutions.

5. Bank and energy sector development

Infrastructure development recently became a focal point of the Bank’s work. This has been facilitated by the renewed understanding that infrastructure is a critical ingredient of economic growth and social development.

Electrification has a central place among infrastructure development issues. We cannot be serious about fighting poverty when a major part of the poor countries’ population has no access to electricity. This year the G8 put a special emphasis on energy security and fighting energy poverty. We believe that the Bank as world’s leading development agency should be able to develop a large-scale program aimed at resolving energy bottlenecks in developing countries.