Statement by the Hon. JEAN-PIERRE ROTH, Governor of the Fund for SWITZERLAND, at the Joint Annual Discussion
Chairman, President Wolfowitz, Managing Director de Rato, Honorable Governors and distinguished Delegates: It is an honor to have the opportunity to address you here in Singapore today.

This year's Annual Meetings are taking place against the background of global economic growth exceeding expectations, with all regions contributing to and benefiting from the global expansion. I welcome this benign outcome. The risks discussed last year have not materialized. In particular, most countries have coped well with the high level of energy prices; inflation has remained under control, and global interest rates have gradually moved toward more sustainable levels without jeopardizing a still very favorable outlook. The short spell of financial turbulence in emerging markets in spring has not had any lasting effects.

This should not give rise to complacency, however. Sizeable vulnerabilities remain and the balance of risks may well have tilted to the downside. Thus, inflation could turn out higher than expected, given the narrowing of output gaps; another spike in oil prices cannot be ruled out; and the present cooling of the US housing market, depending on its eventual magnitude, may adversely affect US and thereby global growth. Moreover, global economic imbalances have continued to widen, adding to the risk of a possible disorderly and costly adjustment.

The current favorable circumstances provide an opportunity for countries to further reduce vulnerabilities. In particular, many countries need to improve their fiscal positions, including in addressing long-term challenges, to forcefully implement structural reforms, and to reduce further external debt levels.

At the Annual Meetings, Governors traditionally take stock of the activity of both the Fund and the World Bank and try to seek progress in making both institutions more effective and capable to cope with ever changing realities. As regards the IMF, moving forward in defining and implementing the medium-term strategy is today's major challenge, focusing on both the Fund's new role in surveillance and crisis prevention, and the reform of quotas and voice. For the Bank, the main themes are enhancing its work on strengthening governance and fighting corruption, redefining its strategy towards middle-
income countries, and providing assistance to improve access to, and the use of, cleaner energy.

There is no doubt that globalization, with increased capital flows and greater international risk sharing, has importantly contributed to the current benign situation. Emerging economies, especially in this part of the globe, have particularly benefited from these developments. However, it is equally clear that greater economic and financial integration also entails new risks when capital flows suddenly reverse. The current reforms of Fund surveillance and lending policy are intended to cope with this new environment.

Given the depth of today’s global economic linkages and the challenges they entail for policy, it is crucial to have the appropriate fora for a frank exchange of views among country authorities. For this purpose, the newly established multilateral consultation can help overcome collective action problems that may impede globally optimal policy responses. I look forward to discussing the outcome of the first multilateral consultation in next spring's IMFC meeting. As of now, I support a strong involvement of the Executive Board in this new form of surveillance. The Board, as representative of the shareholders of the institution, must not only be fully and timely informed, it must also be given the opportunity to play a constructive role in the discussion.

The traditional bilateral surveillance will continue to be a major part of Fund activity. In this context, I endorse an increased focus on exchange rates issues. I also believe that it is reasonable to review the decision on which exchange rate surveillance is currently based, given that it dates back to 1977. However, I would caution as to what can and what cannot be achieved. While surveillance discussions about exchange rate regimes and policies are justified, feasible and therefore welcome, exchange rate levels should be treated more carefully. Despite long-lasting efforts, we still have not found an approach that yields unambiguous and reliable results.

Improving the coverage of financial sector issues in surveillance and the definition of a new integrated framework remain a matter of priority. In this respect, while I particularly welcome the creation of the new Monetary and Capital Markets Department, I also look forward to seeing improved coordination among departments and more integrated advice in the field.

As far as crisis prevention in emerging market members is concerned, a modification of the Fund's lending policy is now under consideration. A new liquidity instrument is being discussed to give countries with strong policies assurances against vulnerabilities related to international financial market linkages. Although I remain skeptical about the benefits of quasi-automatic high access financing as a means for crisis prevention, I am ready to
constructively discuss such instruments. However, any potential solution must include strong safeguards to protect the Fund’s resources.

A well-balanced participation in the decision-making of the Fund is important for the effective functioning of the institution and its legitimacy. For this reason I support the two-stage approach as set out in the Resolution on Quotas and Voice Reform. The immediate ad hoc quota increase for China, Korea, Mexico, and Turkey addresses the most serious cases of under-representation. The reform envisaged in the second stage is very ambitious both as content and timetable are concerned. I would also caution that changing votes will not automatically improve governance. For the Fund to be truly representative of all its members, it is also necessary to strengthen its formal bodies and decision procedures.

Reaching agreement on a new quota formula will be central to the second stage of the reform package. I firmly believe that this new formula should live up to the Fund’s mission and the role members play in the international economic and financial system. A new quota formula should therefore account for the spectacular increase in capital flows and financial globalization over the last three decades. Consequently, it will have to include a country’s relative importance in global financial markets. The new formula should thus reflect the importance of financial openness, for instance by including the international investment position of member countries. I am also convinced that members’ ability to contribute resources in case of a financial crisis with global repercussions remains crucial. Finally, I support strengthening the voice of low-income countries. I think that both increasing basic votes as part of a well-balanced agreement and enhancing the operational capacities of developing countries in the Fund will serve this purpose.

I strongly support the World Bank’s renewed emphasis on good governance and fighting corruption. The World Bank should approach governance from a development perspective. The causes of weak governance, and not only the symptoms, should be the main focus of the Bank’s activities. The Bank should help countries build their own transparent, efficient and accountable governance systems, in line with its comparative advantages. Active country ownership of governance reforms by key stakeholders inside and outside of governments is crucial in this regard. I welcome the proposed approach, including the focus on country, project and global levels. I believe it is essential that the Bank seeks engagement, also in high risk countries, through practical and innovative approaches targeted at helping the poor. Looking forward, I encourage the Bank to continue learning from international experiences and foster cooperation with other institutions.
A strong relationship between Middle-Income Countries and the World Bank Group is mutually beneficial. I therefore welcome the strengthening of the Bank’s strategy for engaging with IBRD partner countries aimed at adapting to their changing environment and evolving needs. This requires simplified Bank procedures and more competitive lending and non-lending services, better selectivity of Bank engagement and a greater reliance on country systems. The latter is in my view also a powerful tool to enhance development impact.

In the last few years, energy issues have become increasingly critical in our globalizing world. Crucial resources, like oil, gas, and coal are finite, and there is growing awareness of the costs and risks to society by their use. The efficient and environment friendly use of these resources is a challenge that requires a united and global response. I welcome the ambitious and comprehensive framework of the World Bank that outlines the three pillars for effective assistance related to access to energy, transition to a low-carbon economy and adaptation to climate change. I would also like to ask the Bank to support efforts towards creating a comprehensive post-2012 regulatory framework for emissions reductions, consistent with the Kyoto protocol. Also, the “climate proofing” of development programs and projects should become more systematic.

I greatly regret the suspension of the WTO negotiations, as I consider a more comprehensive and well-functioning multilateral trading system a key pillar to ensure sustainable economic growth for developed as well as developing countries. I plead for all actors to return to the negotiating table. In the meantime, the Bank should continue with its complementary agenda of support for trade reforms and of Aid for Trade.

I thank the Bank for its leading role in improving access to education through The Education for All – Fast Track Initiative. This initiative has made a significant contribution towards increasing resources to meet the challenges faced by many countries in improving access to education. Yet as the experience shows, higher spending on education does not automatically lead to better learning outcomes. Therefore, we believe that the initiative should emphasize more strongly the quality of education and measurement of learning outcomes. A comprehensive approach is needed to reach the Millennium Development Goals on education.

A few months after the IMF, the World Bank has started implementing the Multilateral Debt Relief Initiative. I welcome the additional debt relief granted to heavily indebted poor countries and urge these countries to use these new resources towards achieving sustainable growth and reaching the Millennium Development Goals. I would strongly caution against contracting new unsustainable loans. We call upon the Bank and the Fund to provide robust advice on the right balance between macro-economic and development objectives and to tackle, in a realistic way, the risk of debt re-accumulation and free
They need to enhance the effectiveness of the debt sustainability framework so that creditors can better coordinate their policies. The Fund should assist these countries in designing a consistent macroeconomic framework. The Bank should also help countries strengthen the management of public finances and debt capacities.

I look forward to the report of the External Review Committee on Bank-Fund Collaboration. It is clear that with the evolution of the global environment and with the advent of internal changes in both institutions, there is scope for a clearer division of labor that better reflects the key mandate of the two sister institutions. Important issues such as the complementary role of both institutions in IDA and in IBRD countries or differing views on the question of “fiscal space” must also be addressed.

Finally, the truly global character of the Bretton Woods Institutions has always been critical for their ability to fulfill their broad mandates. In this sense, I would like to call on Governors of both the IMF and World Bank to support the membership application of Montenegro and a rapid accession of this newly independent sovereign country.