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Statement by the Hon. **PRANAB MUKHERJEE**,
Governor of the Fund and the Bank for **INDIA**

Statement by
Finance Minister of India
Leader of the Indian Delegation to the Annual Meetings
Washington DC, October 8, 2010

1. Recent developments in the global economy have weakened somewhat the optimism that surrounded the rebound in early 2010. It now appears that resumption of self-sustaining growth may be more sluggish and protracted than anticipated. In spite of some improvement in financial conditions, risks to global financial stability have increased in the wake of the sovereign debt turbulence. There are dangers of adverse feedback loops from the financial sector to the real sectors, with adverse implications for employment and economic activity. Repairing the financial system remains an unfinished agenda. Against this evolving outlook, we must be in readiness to undertake strong and immediate offsetting policy responses. Fiscal consolidation needs to be consistent with the macroeconomic and financial situation. Coordinating policy actions globally will strengthen our response.

2. The impact of the crisis is going to last for decades beyond the crisis. It is a great cause of concern that an additional 64 million people have been pushed into poverty. The achievement of the MDGs has certainly suffered a setback. In this context, we need an ambitious IDA16 replenishment and I urge all IDA donors to contribute to make this possible.

The IMF

3. We are at a crucial stage of the reform exercise in the Fund. The revised surveillance mandate must now be implemented effectively to ensure that surveillance remains focused on the dangers to global macro-economic stability wherever they may lie, while the revamped lending framework should enable countries to seek assistance early in the crisis cycle. Further and more far-reaching changes, particularly in the surveillance mandate, are best carried out through an updating of the Articles of Agreement.

4. These changes can enhance the Fund's credibility, only if, bold and forward looking quota and governance changes are implemented, which will restore the Fund's legitimacy. The quota review should ensure a forward looking realignment of quota shares. The burden of the quota shift to dynamic emerging markets and developing countries has to be borne primarily by advanced economies and I reiterate my call for a shift of 5 to 6 per cent in quota share from advanced countries to developing countries. The flawed quota formula cannot deliver such a shift and should be revised in a separate time-bound programme. A substantial ad hoc allocation based on global PPP-GDP shares has to form part of the solution to ensure that the Fund's quota shares better reflect global economic realities. I would urge all my colleagues to ensure that the ratification of the April 2008 package of quota reforms in the Fund is completed without further delay.

5. We would welcome the redistribution of chairs in the Executive Board on a more equitable basis amongst the regions of the world while ensuring that the representation of EMDCs is preserved. Greater political engagement of Ministers in IMF related issues is best achieved through improvements in the functioning of the IMFC. The top managerial positions in the Fund and the Bank should be filled through an open, merit-based selection process without unwritten national restrictions.

The World Bank

6. We need more resources to restore growth. It is worrying that the Bank's annual lending will fall steeply from next year. Unfortunately, there is no headroom for a crisis response either at IBRD or IFC. We need strong multilateral buffers to face future crises and help maintain development expenditures. We need to further expand the Bank's lending capacity through innovative measures. The IFC needs a radical relook at its overall strategy.

7. The Bank needs to continue to maintain its core focus on poverty alleviation. Over-burdening the Bank with multiple goals reduces its efficacy in meeting core objectives. Climate change is one of the foremost developmental challenges of the 21st century. Keeping in mind that affordable energy is crucial for fighting poverty, the Bank should address climate change to the extent it impacts on

development options and constrains opportunities of growth, and refrain from imposing mitigation responsibilities.

8. The Bank also needs to refocus on agriculture and infrastructure to contribute more effectively to global food security and economic prosperity. We need a Bank Group that continues to be a storehouse of knowledge and resources ready to be put to use to meet the development challenges that lie ahead.

9. We took momentous decisions at the last meeting to restructure the Bank's shareholding. There are areas, where we still need to work. Work should begin on developing a Bank specific formula that leads to parity for DTCs.

10. Both the Fund and the Bank have played a critical role in helping their members respond to the crisis and craft their further policy response. We look forward to the further measures to enhance their role in the international financial architecture.