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Statement by the Hon. **BRIAN LENIHAN**,
Governor of the Fund and the Bank for **IRELAND**

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Governor of the Fund and the Bank for Ireland**

Introduction

I welcome this opportunity to address the IMF - World Bank Annual Meetings on behalf of the Government of Ireland.

Although there are now real signs that the international economy has come through the worst of the global financial crisis, the past year has been a particularly difficult one for many people around the world - both in developed and developing countries alike. The global financial crisis has clearly demonstrated how interconnected we are, and as a result, how we share common responsibilities. However, such interconnection has also created new forums and opportunities to find solutions to these problems. The fact that we are here in Washington discussing issues of critical importance to the global economy will go a long way towards increasing our understanding of these challenges, and will ultimately help to guide us along the path of continued recovery and future growth.

IMF Reforms

The issue of reform of the IMF is an urgent one. All members of the Fund have recognised the need to make the institution more representative of the world as it looks today, and not the world of yesterday. Reform of the IMF is of crucial importance for building global financial stability and creating sustainable growth; objectives which are in all our interests. Ireland is committed to playing its part in the reform process both as a member of the Fund and the EU. This reform is essential for making the IMF more representative, credible, effective, and ultimately, legitimate.

Irish Economic Developments

Ireland has suffered from recession over the past few years, with GNP declining by around 15 per cent from peak. But signs of stabilisation are becoming increasingly evident, and we take encouragement from these.

Because of our very flexible and adaptable labour market, we have experienced rapid adjustments in our cost and price competitiveness. This improvement in competitiveness is now bearing fruit – our exports grew at an annual rate of over 7 per cent in the second quarter of this year. Imbalances built up during the years of excess are being corrected, and clearly during this correction phase the scope for significant improvements in domestic demand is limited. We must therefore rely on external demand for our growth

and this is what we are now seeing. And even though some slowdown is anticipated in our main export markets over the second half of this year, we believe that the substantial competitiveness improvements will continue to stand to us.

The most pressing issue for Ireland now is the need to correct the mismatch between what the Government spends and what it takes in by way of taxation revenue each year. In setting the Budget for this year, my priority was to stabilise the deficit, and – excluding one-off issues related to the banking sector – that is what is happening. The next step is to put the deficit on a declining path so as to be below 3 per cent of GDP in 2014. I plan to publish a four-year budgetary plan next month detailing the consolidation measures necessary to achieve this. I have also reiterated to my European colleagues the Government's determination to reach the agreed deficit threshold within the agreed timeframe, and I want to stress this point again today.

Irish Banking Developments

The financial crisis has led to a reassessment of the role of regulation in maintaining financial stability. A wide-ranging reform programme has been underway over the past number of years and new measures have been introduced in more recent times. These measures include the G20 agreement on the need for a coordinated global response to the financial crisis and cover enhanced supervision of the financial sector, strengthened prudential rules, and improvements in the overall resilience and structure of the financial system. Similarly, the EU has also introduced proposals on prudential standards for financial institutions as well as the introduction of new legislation on credit rating agencies, alternative investment funds and derivatives, and a European Systemic Risk Board which will provide early warning of systemic risks that may be building up in the financial system. Both the G20 and the EU have agreed that it is essential that existing prudential rules on capital requirements be amended to significantly increase the level of capital in the financial system.

Ireland has broadly supported the ambition of these proposals as they will contribute to more resilient financial institutions and will enhance financial stability. In that context, the agreement reached in Basel by the Group of Governors and Heads of supervision of the central banks strikes the right balance between learning the lessons from the financial crisis in requiring better and more liquid capitalisation for our banks and recognising the important role that banks must play in national and global economic recovery.

In relation to the situation in Ireland, the Irish Government has moved to address the regulatory failures that were central to the financial crisis: regulatory structures have been streamlined and strengthened, with the Irish Central Bank assuming responsibility for financial regulation; regulatory powers and functions are being enhanced; and the Central

Bank is increasing its staffing resources and enhancing its expertise to pursue a more intrusive supervisory approach backed by credible enforcement.

Development and Aid

Ireland, like virtually all developed countries, has had to deal with serious economic challenges in recent years. Whilst we have our own economic and financial challenges to face, we cannot forget that the problems facing the world's least developed countries (LDCs) are much greater.

Perhaps the most severe problem of all is the issue of hunger, the eradication of which Ireland considers to be of central importance. As highlighted at the recent Millennium Development Goal (MDG) Summit, nearly one billion people on the planet are hungry, and despite many success stories, the number of people facing hunger has risen in recent years. Progress towards the first MDG to halve the proportion of people suffering from hunger by 2015 is off-track. It is clear that stronger, more concerted international action is needed to tackle this global crisis.

The World Bank is largely credited with placing smallholder agriculture and food security back on the international agenda, not least through the 2008 World Development Report. The Bank is a key player and can drive forward the implementation of the '*Scaling-Up Nutrition*' initiative which has the potential to really impact on undernutrition levels amongst pregnant women and children under the age of two. We strongly encourage the Bank to support such actions.

Ireland also welcomes the Bank's focus on fragile and conflict affected states, and in particular President Zoellick's personal commitment in this regard. The challenge for the international community is how peace and conflict resolution can be sustained. Ireland would like to see a more integrated approach to fragile and conflict affected states and we encourage the World Bank to create further institutional links with other multilateral bodies for this purpose. We encourage the World Bank to create further institutional links with other multilateral bodies such as the United Nations Peace Building Commission into World Bank decision-making processes in post-conflict countries.

Reforms and Participation in the World Bank

As well as playing a greater role in the LDCs, the Bank is also involved in reforming its own structures and mechanisms to become an institution which is more representative of the countries which it serves. This includes a third chair for Africa at the Board of Directors.

The World Bank Group has been advancing internal reforms designed to improve the organization's efficiency and capacity. I welcome progress on the Investment Lending reforms including the new risk based approach. New measures to delegate some routine programs and projects to management will allow the Board to tilt its focus towards the areas of greatest risk and complexity and strengthen its oversight role. Improvements in Human Resources, Decentralization and Matrix management will ensure the organization has the capacity to respond to emerging challenges. The new early warning "Flash Report" which is designed to highlight emerging trends and challenges will guide priority setting and resource allocation. The new access to information policy which became operational this year will facilitate enhance transparency and legitimacy.

Ireland welcomes all these developments as tangible evidence that the Bank is making itself an institution more representative, and more open to the voices and opinions of developing countries.

Conclusion

At this time of great and complex global challenges, I would like to re-affirm Ireland's commitment to both the World Bank and IMF. Ireland will work towards the reform of these organisations, and we will continue to play an active role in helping to make them more responsive to the needs and challenges which the international community will continue to face over the coming years.