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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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 Bank and the Fund for **INDIA**,
at the Joint Annual Discussion

Statement by Mr. P. Chidambaram, Governor of the Fund and the Bank for India at the 2005 Annual Meetings–Board of Governors (September 24, 2005)

Mr. Chairman,

<u>The Global Economy and Financial Markets—Outlook and Risks</u>

The global expansion, albeit a bit moderate, continues to remain buoyant and well diversified. However, the balance of risk to the economic outlook, I am afraid, is primarily on the downside: Global current account imbalances remain stubborn, oil prices continue to rise, and protectionist tendencies are becoming stronger in advanced nations. Given the leading role that developing economies can potentially play in the current phase of global expansion, their success in maintaining macroeconomic stability, will determine the future pace of global expansion. A simultaneous realization of these risks can reverse the current benign conditions in global financial markets. But the sustained escalation of global energy prices will have a serious impact on price stability and welfare implications for a large number of oil-importing developing countries. In many of them, particularly those from developing Asian economies, growth will be seriously impaired by spiraling energy prices. Combating high energy prices and reducing the damaging impact of such prices on growth prospects remain a top priority for most emerging market economies.

Growth of global trade is expected to decelerate from 9.8 per cent in 2004 to 7 per cent in 2005. It is imperative to maintain the buoyant growth of global trade, and this is unlikely to occur unless negotiations in critical areas like agriculture and services reach a fruitful conclusion. I would urge all member countries to step up efforts for securing meaningful outcomes from the forthcoming multilateral trade negotiations at Hong Kong.

<u>Indian Economy</u>

The Indian economy grew by almost 7 per cent in the last financial year and continues to be in a resilient mode. First quarter growth in April-June 2005 has been estimated at 7.1% (see CMIE report). I am pleased to note that the recent World Economic Outlook has also revised the projection for India's growth to 7.1 per cent for 2005, up by 0.3 percentage points from the last time. Despite unprecedented oil price increases, and revision of domestic retail prices, inflationary pressures have remained subdued. Domestic industry has been vibrant with the manufacturing sector growing at double-digit rates in recent months. The external sector continues to remain a major source of strength for the economy with foreign exchange reserves at comfortable levels. Maintaining inflation expectations in the current environment of high oil prices continues to be a priority for macro-stability. Fiscal consolidation remains high on the agenda for the Government. Infrastructure development is the primary focus of our developmental expenditure.

Debt Relief

We welcome the recent initiatives taken by the IFIs to support low income countries with regard to operationalization of the G-8 proposal for cancellation of the outstanding debt stock of HIPC countries. However, granting eligibility only to HIPCs would breach the uniformity of treatment required under the Fund's Articles of Agreement. I would urge the Fund to heed the call of many members that the use of Fund resources should, consistent with the Articles of Agreement, ensure uniformity of treatment by broadening the coverage of the G-8 proposal to include all PRGF-eligible low income countries.

Another important issue is that the cost of debt cancellation should be financed on a sound basis. The capacity of the IFIs to provide concessional financial assistance to its members must continue to be preserved. On the Fund side, the soundness of the General Resources Account should be maintained without additional burden on the borrowers. On the Bank side, it is essential to ensure that no IDA recipient country is worse off following debt cancellation. In the event replenishment is not to the extent of debt cancelled, reduced reflows will deplete the envelope of IDA. This may also reduce fresh allocation to other IDA recipient countries, thereby adversely affecting their poverty reduction and MDG oriented efforts. Donors should therefore fully compensate IDA by way of binding commitments beyond IDA-14 framework on an agreed burden sharing basis.

The IFIs would need credible assurances that countries benefiting from debt cancellation follow sound policies and maintain governance standards to preserve macroeconomic stability.

We are happy with the progress in the Enhanced HIPC initiative and under the PRS process. The Poverty Reduction Strategy Papers (PRSPs) have enabled countries in producing effective poverty-reduction strategies with significantly improved country ownership through a broad consultative process.

Trade

After the failure of the Cancun Ministerial the forthcoming Hong Kong Ministerial Conference has become an important milestone for resolving all pending issues and providing a catalytic thrust to the unfinished agenda of the Doha round. In an eloquent compliment to the development promise of trade, the Global Monitoring Report (GMR) 2005 has estimated that freeing all merchandise trade and abolishing all trade distorting agricultural subsidies can boost global welfare annually by up to US$280 billion by 2015, with more than a third of the fresh gains accruing to developing countries. On the other hand, failure to ensure an ambitious and development oriented outcome can be counterproductive for the welfare of developing countries and their progress in achieving the MDGs.

Aid Financing and Aid Effectiveness

Efforts by the Bank and other agencies for harmonizing aid and improving aid quality have our full support. The time has also come to consider preparation of Harmonized Country Aid Strategies over the medium term within a given set of parameters and constraints vis-à-vis the bilateral donors and multilateral agencies working in a particular country. The reduction of transaction costs and doing away with tied aid will enhance the efficiency of aid and transparency.

We look forward to all the donor nations honouring the commitment made at the Monterrey Conference for scaling up aid and achieving the targets set out for financing the MDGs. The recent consensus arrived at the UN Millenium Conference calling upon the developed countries to scale up their assistance to 0.5% of their GNI by 2010 needs to be adhered to. Following these comforting words, we would like to see action. The financing and achievement of MDGs are closely linked and we hope that a consensus on the suggested innovative financing mechanisms is achieved soon.

Infrastructure

We welcome the signs of sustained revival in Bank financing of infrastructure investments and the increased presence of infrastructure in the Bank's portfolio. However, the huge investment needs of the developing world call for concerted efforts for enhancing all forms of investments, including private-sector financing and public-private partnerships.

Voice and Participation of Developing and Transition countries

Mr. Chairman, a number of proposals have been mooted in recent years to strengthen the voice and representation of developing countries. We welcome the fresh impetus on this issue. While we appreciate the enormous complexities involved, the current state of impasse reflects the reluctance of the major shareholders to give up their present disproportionate strength. The real issue is therefore of political will. The momentum for the change has to come from the capitals, and it would be necessary to recalculate quotas on the basis of changed formulae with economically rational weights.

Thank you.