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. **TOMMASO PADOA-SCHIOPPA,**
Governor of the Fund for **ITALY,**
at the Joint Annual Discussion

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1. The Global Economy and Recent Developments

The current projections about the global economy remain largely positive, but short-term risks have substantially increased on the downside. The recent financial turmoil will affect the growth pace of the global economy, but to what extent remains unclear. Though a more severe and prolonged slowdown than currently assumed cannot be ruled out, the strong fundamentals of the global economy should contribute to contain any further deterioration of financial conditions.

The US and European economies have been the most exposed to credit risks. Policymakers' responses have been swift and largely effective in containing the spreading of the financial turbulence. Recent events highlight the need for closer international cooperation in monitoring financial markets and in improving the disclosure of information.

Despite the recent turmoil, financial flows to **emerging markets** have not suffered any substantial setback. Given the export-led nature of most of these economies, a weakening of the US and EU economies might ease the very intense growth enjoyed by some Asian economies in recent years, notably China and India. Domestic demand needs to play a greater role in sustaining growth while helping insulate the economy from spillovers. Strengthening social safety nets and allowing the exchange rate to respond to fundamentals will be essential to underpin domestic consumption.

Improved economic management and accelerated implementation of structural reforms have contributed to foster growth in almost all **developing countries**. Nonetheless, a number of weaknesses, including high external debt and a substantial current account deficit, have been addressed only marginally. A prudent fiscal stance and a more effective monetary and exchange rate policy to better respond to the rising global integration challenges are key to cope with any significant liquidity shortages and a slowdown of the global economy.

2. The implementation of the Medium-Term Strategy is moving forward

Additional efforts are needed to find a **new quota formula** that is acceptable to the whole membership. The new formula should better capture the relative weight of the members' respective economies and thus enhance the representation of the most dynamic economies, most of them developing ones. The choice of countries eligible for the second round quota increase should not discriminate among underrepresented countries and should ensure equal treatment to all members. The ongoing deterioration of the voting power of the low-income countries should be reversed through a sizable increase in basic votes, which should be at least doubled.

The adoption of the **new surveillance framework** will give a substantial boost to the effectiveness of surveillance. However, a full cooperation of the membership and a renewed commitment to the institution remain the key ingredients for stepping up its influence.

Introducing a triennial statement of surveillance priorities and responsibilities will help sharpen and make operational the broad surveillance agenda. Setting a limited number of priorities, to be periodically updated, will contribute to focus staff's analysis and their recommendations. While identifying and setting surveillance priorities are key responsibilities of the Board, subsequent endorsement by the International Monetary and Financial Committee (IMFC) would enhance the membership's commitment.

Developing a **sustainable financing model** based on a broader income base is a key responsibility of the IMF's membership. At the same time, more efforts are needed to further strengthen the cost analysis and its effectiveness in order to achieve a better prioritization of activities and closer alignment with financing resources.

3. Low-income countries: the role played by the IMF and the World Bank

The role of the International Monetary Fund

The Fund has an essential role to play in assisting its low-income members to achieve the Millennium Development Goals (MDGs), through the design of consistent, stability-oriented policy frameworks and macro-critical structural reforms. In the context of the Medium-Term Strategy, the role of the Fund in low-income countries (LICs) is being refined with a view to make it more focused on the Fund's core areas of expertise, and hence more relevant and effective while keeping a close and constructive engagement with LICs through surveillance, technical assistance and financial support. The Fund should continue to sharpen its policy advice to LICs, in particular, by helping them successfully manage the fiscal and balance of payment space created by debt relief and scaled-up aid, including through the preparation of alternative scenarios, when necessary to ensure consistency with macroeconomic and debt sustainability. The Fund should also continue to advocate more predictable and effective aid, but without actively engaging in aid mobilization and coordination, nor should it attempt to assess the resource requirements for reaching the MDGs, as this falls outside its core expertise.

The Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives have greatly contributed to improve LICs' financial position and to free resources for poverty reduction. While we welcome the progress made by several LICs through the Initiative, we are concerned that long-term debt sustainability remains a challenge, even for countries that have benefited from significant debt cancellation. To avoid the re-accumulation of unsustainable debt, the Debt Sustainability Framework (DSF) provides an essential tool to guide borrowers and creditors alike in making wise borrowing and lending decisions in an environment where new creditors are emerging and domestic debt is gaining prominence as a source of financing. In this domain, the Fund has a key responsibility to: (i) strengthen LICs' capacity in the area of public financial management, and of debt management in particular, through the definition of a sound Medium-Term Debt Strategy (MTDS) consistent with a sustainable debt trajectory, and (ii) foster the use of the DSF by both debtors and creditors, including through promoting creditor cooperation, transparency and information sharing on debt-related issues.

Now that there is agreement on the modalities for implementing a financing package for Liberia, we urge all members, especially those with a strong external position, to contribute to the financing of Liberia's debt relief under the HIPC Initiative.

The role of the World Bank Group

The World Bank Group (WBG) should remain focused on the achievement of the Millennium Development Goals (MDGs), particularly by promoting policies aimed at fostering economic growth and reducing poverty. This framework remains appropriate in our effort to spread the benefits of globalization, and should stand at the core of the WBG's new long-term strategy by providing a concrete focal point for international cooperation, as well as ensuring specific monitoring of responsibilities and assessment of results.

Effectiveness imposes selectivity. In particular, greater efforts are needed to clarify the comparative advantages of the WBG, with respect to both the private sector and other global public institutions. We believe that the comparative advantages of this institution are its knowledge of poverty reduction and development, and its experience in project design and implementation. Therefore, the WBG should concentrate its attention on important areas like low-income regions, fragile states and inclusiveness in middle-income countries.

Within the WBG, IDA has a particularly critical role to play at the global, regional and national levels. The global aid architecture is increasingly characterized by fragmentation, verticalization, and earmarking, and IDA could provide an effective platform for the delivery of aid. However, its country level effectiveness needs to be thoroughly assessed.

Bank-Fund Collaboration

A clarification of the mandate and responsibilities of both institutions is necessary for a successful refocusing of their respective roles. At the same time, the Bank and the Fund cannot and should not operate in isolation: they need to collaborate closely, and to rely on each other's work and expertise in line with their mandates. Against this background, we reiterate our full support for developing a culture of mutual trust and collaboration, and we welcome the concrete measures envisaged in the Joint Management Action Plan to make Bank-Fund collaboration more effective, and hence the work of both institutions more relevant and beneficial to their memberships, and to LICs in particular.