

INTERNATIONAL MONETARY FUND

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

J

Press Release No. 45

October 13, 2008

Statement by the Hon. **JEAN-PIERRE ROTH**,
Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

**Statement by the Hon. Jean-Pierre Roth,
Governor of the Fund for Switzerland,
at the Joint Annual Discussion**

The global economy faces its most difficult period for decades as the turmoil engulfing financial markets and institutions has intensified. The deep crisis of confidence in financial markets represents extraordinary challenges for macroeconomic and regulatory policies. An adequate and internationally coordinated response to these challenges is more important than ever. It should aim at mitigating the short-term impact of the current turmoil, while ensuring that the right lessons are learned for the global financial system to function more smoothly and consistently in the future.

Confronted with this challenge, the immediate response to the financial market turmoil by various public authorities in recent months has been adequate. They did their best to strengthen the financial system by providing liquidity, lowering interest rates and intervening in markets during critical moments. Unprecedented systemic challenges have prompted unprecedented government measures. In the medium and long term, however, crisis containment measures should be accompanied by more forceful regulatory measures. Three measures in particular ought to be mentioned here. Capital requirements – risk weighted capital requirements – must be increased. The leverage ratio of large international banks must be contained. And finally, liquidity buffers must be reinforced.

Dealing with the crisis has been made more difficult by the absence of coordination of government interventions. A more pronounced collective effort might prove useful now, or in the future, once this crisis is over. The Fund should be a partner in such a collective effort. Its contribution should build on the close cooperation with other international fora, the Financial Stability Forum (FSF) in particular. The Fund should contribute to this effort by building upon its comparative advantage. The Fund has a global membership. This will allow the Fund to identify more easily global financial risks; to disseminate policy lessons and best practices; and to provide feedback to international standard setters. More fundamentally, the Fund has the unique capacity of being at the crossroads of financial sector surveillance and macroeconomic surveillance. Macro-financial linkages should become the bread-and-butter of the Fund.

While the outlook for the global economy is worrying, it would be wrong to succumb to pessimism. The same dynamic forces that weigh on the global economy today will eventually allow countries and their financial sectors to recover. This is not the first and will not be the last difficult period of economic disruption with global repercussions. We are firmly of the view that we must not underestimate, and should be confident in, the fundamental strength of market forces to improve economic welfare.

In the months to come, the Fund and the World Bank must jointly and in line with their respective mandate undertake a deeper assessment of the impact of the crisis on growth and poverty at a country level, both from a short and medium term perspective. They should provide vulnerable countries with policy advice and capacity building, as well as quick and flexible financial assistance where necessary, to mitigate the negative impact on macroeconomic stability, growth and poverty reduction.

The Annual Meetings provide a welcome opportunity to briefly take stock of the work done by the Fund and the World Bank. At the Fund, good progress has been made in assessing its role and the adequacy of its instruments in all main areas of its activity: surveillance, lending, and technical assistance and training. However, much remains to be done.

The Fund's Policy Agenda

Surveillance remains the most important pillar of Fund activity. The just completed triennial review of surveillance has confirmed that Article IV consultations – and the analysis and advice they offer – are highly valued by country authorities and market participants. These consultations should be further adapted to the global challenges and enhance their focus on core areas. And one of these core areas are the linkages between the financial sector and the real economy. It is in this area that the Fund, as mentioned above, adds particular value.

The surveillance framework has been reinforced by the adoption of the 2007 Surveillance Decision. The Decision has given more prominent focus to external stability. This is welcome, as are the newly agreed procedures, which clarify how this Decision will be implemented in cases where further fact-finding and dialogue is needed. A key but not the only element of the focus on external stability is the focus on exchange rate issues. In this regard, two aspects are worth mentioning. First, more effort should be devoted to assessing exchange rate regimes rather than to exchange rate levels; fact is that it is notoriously more difficult to assess exchange rate levels than regimes. Second, exchange rate assessment should be better integrated with the overall assessment of macroeconomic and external stability.

Fund lending is likely to resume because of the current financial difficulties that have started to spread to emerging markets. The current lending instruments together with the activation of the emergency procedure put the Fund in a good position to respond to today's challenges. This being said, we remain ready to discuss new lending instruments.

As regards technical assistance, there has undoubtedly been progress in establishing an accurate and transparent costing that reflects international best practice. The new policy for country contributions, although limited in scope, will enhance ownership by recipients and encourage careful use of limited resources.

Finally, the work on a new sustainable income model has taken a big step forward. Nonetheless, not all the uncertainties have been resolved so far. The Resolution allowing the broadening of the Fund's investment authority has yet to be ratified by all members. And members ought to formally consent to gold sales as soon as possible.

Commodities Crisis

The World Bank and the Fund have an important role to play in helping countries to respond to the high and food and fuel prices. The Fund is appropriately addressing the macroeconomic implications, including through balance of payments support. The World Bank Group, with its strong presence at country levels worldwide, is very well positioned to address the short and long term components of the crisis. Since April both institutions have demonstrated through the Global Food Crisis Response Program their ability to tailor appropriate policy responses to the needs of developing countries affected by the food price crisis. As many partner countries are also affected by the impact of fuel prices, additional interventions are necessary and useful such as the Energy for the Poor Initiative. Given the extent of the challenges ahead, both institutions must remain vigilant. Close coordination with the United Nations will be paramount. Possible trade-offs between emergency needs and long term sustainability must be assessed.

At the same time, the prospects for higher and more stable food prices also represent an opportunity for further poverty reduction in rural areas, and incentives for higher production. Small farmers should also be able to benefit from higher market prices. The Bank has an important role to play in tapping these opportunities. I welcome the planned increase in resource allocation to the agriculture sector, as part of the strategic directions of the World Bank Group.

Voice and Participation

Enhancing the voice, participation, and representation of developing and transition countries (DTC) in the World Bank Group is essential to better reflect today's realities. Switzerland is ready to join a consensus on the adoption of the proposed first stage of concrete options, provided that we do not re-consider this outcome later on. In addition, the sequencing and deadlines for the work program of the second stage relating to completion of the review of IBRD shareholding must be further clarified. We strongly believe that the actual outcome of the IMF quotas negotiation must remain the starting point of such a review.

We look forward to periodic reviews of the progress and concrete proposals for realignment of Bank shareholding as part of a comprehensive reform package.

Strategic Framework for the World Bank Group on Development and Climate Change

The poorest countries will suffer most from global warming; we *welcome* the integration by the World Bank Group of the climate change dimension in its core mandate of development and poverty reduction.

We agree with the *guiding principles* of the Strategic Framework, which acknowledge the primacy of the UNFCCC process and ensure consistency with the recommendations of the Bali Action Plan. Other key principles, such as focusing on World Bank group comparative advantages, partnering with other multilateral and bilateral actors and mobilizing the private sector, are also important.

We welcome the multi-sector dimension of the Strategic Framework; we thus expect sectors such as agriculture, land use, rural development as well as water management and use to become more prominent in the Bank Group's operations. We encourage in particular the Bank to pay more attention to regional water and energy issues, especially in Central Asia.

In view of the huge *financing needs* for mitigating and adapting to climate change, we support the Bank Group efforts to mobilize and leverage resources from the public and private sector. Creating sound regulatory frameworks and structuring innovative instruments to crowd in private sector investments is critical; we are convinced that the Bank Group has a key role to play in this respect.

The new Climate Investment Funds are a significant channel to scale up resources. We commend the Bank for its instrumental role in setting up the CIFs. Switzerland is participating in the setting up of the Strategic Climate Fund and is looking forward to being part of the 'Scaling-up Renewable Energy Program' in low-income countries. In addition, we strongly encourage the World Bank group to increase its engagement in renewable energies.

Strategic directions of the World Bank

At a time of increasing global uncertainties and great challenges, we believe that a renewed discussion on the Bank's priorities is paramount, with a view to reaching consensus on a concrete, concise, and results-oriented strategic framework. The foreseen discussion on the medium-to-long term IBRD capital use provides a renewed opportunity for close interaction between management and the board to advance this agenda.