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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. **JOHN WHITEHEAD**,  
Governor of the Bank for **NEW ZEALAND**,  
at the Joint Annual Discussion



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Firstly, I would like to extend my sympathies on behalf of all New Zealanders toward those affected by the devastation caused by the tsunami in Samoa, American Samoa and Tonga. A substantial recovery and rebuilding effort will be required in the weeks and months ahead. Priorities emerging include the need for clean water and sanitation; housing, and restoration of the affected area's infrastructure. New Zealand has committed to short-term emergency relief and long-term support to aid the reconstruction. This will be a major task and the international community will have a role in providing support and assistance in the recovery and rebuilding efforts. Our sympathy is also extended to others in the region that have been hit by natural disasters.

**Developments in the Global Economy**

The Annual Meetings this year are taking place at a time when member countries are faced with significant challenges. The implications of the global financial crisis, and the subsequent downturn in economic activity, have been very serious for member countries. Sustaining a global recovery will require the concerted efforts of our governments, with support from the Fund and the Bank.

To date, member countries have focused considerably on short-term policy responses designed to stabilise the economy and contain the fall-out from the crisis. Like others, New Zealand has used fiscal and monetary policy measures to support our economy and now faces the challenge of exiting from these measures.

Looking ahead, member countries will need to consider longer-term policy responses. These responses must be guided by the underlying causes of the economic crisis, which were substantial domestic and global imbalances that had built up over several years, reinforced by weak regulation and lack of sufficient discipline in some aspects of financial markets. Advice from some international financial institutions highlighted some of these risks, but insufficient action was taken by economies, including those which are systemically important.

Imbalances remain a key risk to the medium-term global economic outlook, but the importance of resolving imbalances has to date arguably been underplayed relative to improving financial regulation. Without resolution, there is a risk of an unbalanced and unsustainable recovery, which may increase the risk of protectionist responses. We

welcome the recent statement by the G20 to strengthen its commitment to policy changes needed to generate strong, sustainable and balanced growth. Translating this commitment into concrete advice and actions will be difficult, but necessary, for the global economy.

The challenge for policymakers has been summed up as shifting from public demand to private demand and shifting the balance between surplus and deficit countries. A focus on one or two countries with high external savings will not be sufficient to support the rebalancing of demand. Rebalancing will need to come from changes to structural policy which will have to progress quickly to provide meaningful support to demand in the next few years.

Changes are required in countries with low savings, not least to ensure fiscal sustainability. For some large countries at the heart of the crisis, fiscal stimulus programmes also create some difficult challenges. As a result of the stimulus packages, structural deficits are persistent and there are currently limited plans in place to close them. New Zealand agrees that any precipitate withdrawal of stimulus would be risky due to the fragile nature of the recovery, but countries will need to turn their attention toward setting out a path to fiscal sustainability as soon as possible.

Protectionist responses remain a risk to both the shorter term recovery and, more importantly, the longer-term trend toward international integration. New Zealand believes that avoiding recourse to protective trade measures and working towards a successful outcome to the Doha WTO trade round remain critical. We encourage the IMF and World Bank to support these aims.

There has been discussion internationally of coordinating withdrawal of the extraordinary stimulus and support measures put in place over the last year. We see that a degree of coordination is potentially useful in some circumstances, though national circumstances differ greatly and so coordination would be best to focus on principles that might guide national authorities.

### **Response to the Crisis by the IMF and World Bank**

New Zealand is pleased with progress to date in responding to the crisis. This has shown that the Fund can be effective and move quickly on measures that have helped to limit the fall-out from the crisis. The overhaul of lending facilities – including the introduction of the Flexible Credit Line – and mobilising the needed resources has helped in crisis management. The IMF has also moved quickly to provide liquidity in the form of SDRs and simplified and increased its lending to low-income countries

On the Bank side, there has been swift movement over the past year to expand and speed up lending, assistance and advice to developing countries in this time of crisis. We commend the World Bank on its quick response to the global financial crisis which has threatened the progress towards the Millennium Development Goals for many countries. We note that the Bank worked quickly to almost double lending to IBRD countries and to front load IDA spending in response to the global crisis. The Bank has also worked to introduce new mechanisms and enhance existing ones in order to protect the most vulnerable and maintain investments in infrastructure and support for small and medium-size enterprises.

### **Future of the IMF and World Bank**

We must now ensure that the IMF and the World Bank are best placed to support the world's economies as they emerge from the current crisis. To date these organisations have been focused on containing the fall-out from the crisis. We need to shift our effort to ensuring the IMF is better-placed to prevent a reoccurrence.

Progress needs to be made to ensure that the Fund plays an effective role in warning about risks and developing advice that is acted on to address these risks. New Zealand welcomes the intention to prepare the Fund for the post-crisis environment and agrees with the Managing Director's statement that we need to focus on surveillance and macro stability.

In the context of crisis prevention and to pre-empt a potential build-up in reserves, we agree that more needs to be done to provide insurance against shocks. One option is to revisit the degree of contingent support provided by the Fund. Alongside this option we need to consider the nature of the policy frameworks that already provide insurance to some countries and other potential mechanisms to share risks, such as pooling.

The last three significant crises have had at their heart weaknesses in the financial sector and its interaction with cross-border imbalances and macro-economic policy weaknesses. Strengthening surveillance should focus on making financial stability concerns a more regular and integral part of surveillance. Changing the focus of the Fund's efforts to a more strategic surveillance agenda would require a risk-based approach that emphasizes critical issues over broad coverage. Mutual assessment mechanisms, such as that announced by the G20, may help engender the political support needed to ensure surveillance can influence decisions.

Part of the challenge of surveillance is to ensure that the economic and financial policy lessons are reflected in policy change once economic growth resumes. This will require progress on issues where the policy solutions are unclear. In what conditions should

fiscal policy deviate from its medium-term focus in order to support demand? How, and when, should monetary policy respond to asset price developments? How, and to what extent, should other tools be used to assist monetary policy, such as macro-prudential regulation? How will the changes in financial regulation deal with the fact that events have clarified that large parts of the financial sector are now too large and systemic to fail?

Over the next year the Bank faces two internal challenges. First; to enhance voice and participation of developing and transition countries with the World Bank Group and secondly to work through issues surrounding the financial capacity of IBRD and IFC to ensure they are positioned to respond to developing needs in a post-crisis environment.

At the same time the Bank has a sizeable task ahead of it to continue to make progress towards the MDGs given the millions of people pushed back into poverty as a result of the crisis. Significant commitments will be required from donors to reach these goals.

The Bank needs to continue to build on its comparative strengths to be best able to respond to the aftermath of this crisis and any future crises. New Zealand is supportive of the Bank's work on global public goods, and welcomes in particular the focus on climate change within that agenda. The Bank is well placed to fund global public goods with large social benefits but low market returns such as the implementation of environmental standards and disease eradication programmes. The Bank is also uniquely placed to provide technical assistance and expertise to developing countries. We recognise that this disbursement of knowledge is for many countries the most valuable thing the Bank can do to assist with their development.

### **IMF and World Bank Quota Reform**

The effectiveness of the IMF and the World Bank would be enhanced by resolving long-standing concerns regarding their governance and legitimacy. New Zealand supports using the current IMF quota review to reduce the under-representation of dynamic economies.

New Zealand is actively engaged on World Bank voice and participation reform and supports a reallocation of shareholding which recognises both the increased economic weight of dynamic economies and the particular nature of the Bank as a development institution. We favour a shareholding formula which incorporates: members' economic weight; donors' contribution to the Bank group; and a further increase in basic votes which allows all members – including those who are primarily recipients of the Bank's services, even the smallest and most vulnerable – to be adequately represented. Such a

formula should be consistently applied across countries and reviewed regularly in order to maintain the legitimacy and accountability of the Bank.

### **Internal Governance Reform at the IMF and the World Bank**

Further progress on governance reform is also central to addressing concerns around the legitimacy and efficacy of the Fund and the Bank. Changes to governance should include the open and meritocratic selection of heads of the institutions and senior management positions. In the case of the IMF there should be fewer chairs at the Board to support the needed realignment of quotas.

Ambitious progress on quota reform could, along with supporting changes in governance, provide for a more legitimate and hence more effective Fund.

### **Development, the Pacific and New Zealand Aid Priorities**

Well-targeted Official Development Assistance (ODA) will continue to have an important role to play in ensuring a speedy global recovery and in protecting the most vulnerable. Recent increases to the IMF resources are certainly welcome. Without additional support for developing countries there would be a real risk of tens of millions of more people slipping back into poverty, along with the impact this would have on the wider global recovery process. We would encourage the IFIs and MDBs to work even more closely together, and with other donors, to ensure these increased resources are used as effectively as possible to boost sustainable economic growth, protect the poorest and help achieve the Millennium Development Goals.

New Zealand is committed through its ODA to supporting sustainable development in developing countries in order to reduce poverty and to contribute to a more secure, equitable, and prosperous world. We consider ODA has an important role to play in ensuring that the poorest are protected from the worst of the crisis and that developing countries are better placed to take advantage of any global recovery.

For its part, New Zealand is increasing its development assistance to the Pacific, and particularly stepping up the focus it gives to initiatives likely to enhance sustainable economic development. This reprioritisation will promote Pacific economic development through significantly increased support for business development, private sector investment, and trade, as well as support to the transport, energy, tourism and fisheries sectors. At the same time we are also supporting programmes that will help mitigate the recession's impact on some of the region's disadvantaged people, for example through support for a school grant programme designed to help keep children from disadvantaged families in school.

We have a collective international responsibility to help developing countries weather the recession, lay the foundations for more resilient, sustainable, growth, and achieve the Millennium Development Goals. New Zealand will continue to play its full part in these efforts.