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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. **YASHWANT SINHA**,
Governor of the Bank and the Fund for **INDIA**,
at the Joint Annual Discussion

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Mr. Chairman,

1. Participation in the Bank-Fund Annual Meetings is always a source of great pleasure and inspiration for us. But this year, our happiness is even greater because the meetings are being chaired by our neighbor and a member of SAARC, Nepal. I have no doubt, Mr. Chairman, that the proceedings this year would greatly benefit from your rich experience and sagacity.

2. At the outset, let me congratulate both the Fund and the Bank for their active role in reviving global economic and financial prospects. Although the signs of recovery are visible, there is a need to temper the optimism with caution. Sustainability of the recovery is not yet assured and a number of risks and uncertainties continue to cloud the outlook for the near future, especially for developing countries.

3. The economic crisis that began two years ago has pulled down the world growth rate in the 1990s to the lowest level in the last three decades. The crisis has impoverished millions in the developing world and blunted the aspirations of many more millions. We owe it to them to rectify this unfortunate situation in the first decade of the coming millennium. At this critical juncture, we need to go beyond short-term policy perspectives and seek a new mandate for the enduring goal of more rapid and sustained economic development. Towards this goal, this last Annual Meeting of the 20th century provides an important opportunity.

4. The recent crises have underscored the critical role of multilateral public resources in calming exchange and financial markets and in paving the way for economic recovery. While there is every need to empower the Bretton Woods Institutions so as to enable them to effectively deal with the emerging challenges, we must not lose sight of the basic mandate of these organizations. The pre-occupation with crisis management in some countries must not distract the IMF and the World Bank from their basic missions of providing temporary balance of payments support and long-term development finance in all developing countries, respectively. The recent upheavals have also sparked a debate on the approach to macroeconomic policy, capital flows, exchange rate regimes, fiscal and financial systems, and standards and codes. The debate is still on and we must be prepared to reassess earlier positions.

5. We endorse the efforts currently underway to improve the international financial architecture. After the initial spurt of ideas on basic changes in the institutional framework, attention is now increasingly being focussed on limited modifications of the

existing system. While there is an imperative need for improvements in the present structure, there is also a risk that such efforts may not go far enough, especially if the longstanding concerns of developing countries do not get their due attention. I would like to remind this distinguished assembly that issues such as the declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial stress, low primary product prices and the limited access of most developing countries to private capital flows need to be brought to the forefront of the global agenda.

6. Furthermore, we must ensure that political considerations are not injected into the programs and operations of the Bretton Woods institutions. We must consciously strive to protect the integrity and objectivity of these great international economic institutions from the encroachments of short-term, national, foreign policy expediencies.

7. It is one of the ironies of the last 40 years that although developing countries as a group have grown much faster than the developed countries over this period, and that their relative economic strength in terms of output and trade has increased substantially, their role in international economic governance has not expanded commensurately. This anomaly needs to be corrected in the next Quota exercise in the IMF. In the decision-making structures of the “new” financial architecture that is taking shape, developing countries must also have due representation. This will enhance the strength and credibility of our international institutions.

8. While considerable progress has been achieved by developing countries over the last 50 years, it is amply clear that in terms of poverty reduction, progress has been less than satisfactory. The international community cannot turn a blind eye to certain iniquitous aspects of global financial and economic developments during the recent past. In fact, while there is a lot of talk about the world being made smaller by the information-technology revolution, for hundreds of millions of people who are outside the envelope of this technology, the emerging “cyber-based” world is getting more distant. Mr. Chairman, we live in a world where the rich are enjoying the best ever quality of life, while the poor continue to suffer from deprivation, sickness and malnutrition. This is unacceptable. To my mind, Mr. Chairman, equitable distribution of the enormous benefits of the new technological revolution is going to be one of the central issues for the new millennium.

9. An important sector where private initiative had been expected to play a much larger role is the provision of physical infrastructure. So far, the results, at best, have been mixed. Private provision of infrastructure has been characterised by long delays, considerable legal wrangling and, often, intense politicisation. The fact is that much of what constitutes infrastructure has a “public good” dimension and long-gestation periods. The World Bank used to play a central role in financing the physical infrastructure needs of developing countries. It should reassert its leadership in this area.

10. I am happy that social sector issues have gained in prominence in the Fund-Bank agenda, and that the link between debt relief and poverty reduction has been emphasised.

Larger HIPC funding should, of course, be effected on the principles of additionality and equitable burden sharing among developed countries without affecting the financial integrity of the Bretton Woods institutions. Moreover, it must be recognized that strategies for global poverty reduction will not be successful unless there is adequate flow of additional development assistance also to those countries which have managed their economies prudently and have met their debt obligations, despite difficulties.

11. The pressure on the World Bank's resources will be considerable if it is to respond effectively to the challenge of meeting the poverty reduction goals that have been established. This and other demands on the Bank's net income have meant that the financial strength and integrity of the World Bank could be weakened unless remedial steps are taken. Since we have already increased loan charges last year, I feel that a General Capital Increase will be more equitable. It would also send out a strong and clear message of shareholder support for the institution.

12. Let me take this opportunity to apprise this distinguished gathering of recent developments in the Indian economy. We are indeed happy that our programme of economic reforms and commitment to macroeconomic stability continue to yield impressive rewards even against the background of a serious global slowdown. India improved its GDP growth rate from 5 per cent in 1997-98 to 6 per cent in 1998-99 and is expected to register a higher growth rate in 1999-2000. This makes India one of the ten fastest growing economies during the 1990s. Furthermore, this recent revival in India's growth has been accompanied by a welcome decline in the rate of inflation to below 2 per cent, the lowest attained in 17 years.

13. Although world trade growth has remained anaemic, our external sector continues to exhibit strength, with the current account deficit expected to be below 2 percent in 1999/2000, despite the sharp increase in world oil prices. The major indicators of external stability continue to improve. The debt-service ratio is expected to decline even further to less than 18 percent in 1999/2000. Foreign currency reserves have increased substantially in the last 18 months despite the slow down in the world trade and the effects of the East Asian crisis. It has been our policy to ensure that short-term debt is kept within prudent limits, and it now constitutes less than 5 percent of our aggregate external debt.

14. As you are aware, Mr. Chairman, our country is currently going through the largest democratic election ever held in the history of mankind. I am proud to say that our economic progress has been achieved within a vibrant democratic framework.

15. We are fully conscious that in order to maintain and improve upon a strong economic record, we have to implement an ambitious agenda of second-generation reforms and continue to conduct vigilant macroeconomic management. The next wave of reforms will cover the entire spectrum, including revitalisation of the rural economy, fiscal policy, the financial sector, trade, foreign investment, infrastructure and industrial

relations besides the rightsizing of government and restructuring and privatization of public enterprises, as necessary.

16. Mr. Chairman, with these reforms, we are confident that the daunting task of lifting hundreds of millions of people out of poverty is attainable within the first decade of the new millennium.

Thank you.