

Statement by Ignazio Visco, Governor of the Bank of Italy

Constituency of

Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste

Development Committee, Washington D.C., October 8, 2016

1. Introduction

Global growth remains disappointingly anaemic. Adverse long-term trends in advanced economies – low productivity growth, aging populations – combined with the slowdown in emerging economies and especially heightened geopolitical risks result in a high degree of uncertainty which prompt firms to scale back their investment plans. If we do not act to reverse this situation a self-fulfilling trap of low growth may take hold.

Policies both on the supply and demand side are crucial. To take full advantage of the very accommodative stance of monetary policies other policies to support demand and especially appropriate structural reforms should be implemented.

The reduction in global poverty experienced in the last couple of decades is a success. It has been facilitated by booming international trade and rapid growth, especially in some populous emerging economies. However, not everybody has benefitted. Guiding political and economic institutions in a more inclusive direction is essential to limiting adjustment costs and facilitating sectorial reallocation.

Maintaining market openness to revitalise trade in goods and services may enhance economic growth. Multilateral cooperation among all economies is essential to generate better outcomes and the World Bank should continue to play an important role towards this end.

2. A better and more legitimate Bank

A “better” Bank identifies sound examples of previous interventions, using data-driven and evidence-based analysis to systematically assess their degree of success and to implement the lessons learnt. This is necessary not only for proposing transformative development solutions, but also for appropriately managing risks. The recent approval of the new environmental and social safeguards, if properly implemented, may represent an important step in this direction.

We welcome the agreement on the dynamic formula in the context of the periodic revision of Bank shareholding. Introducing a dynamic adjustment mechanism, which builds on the Bank’s development mission and global economic reality, will strengthen the IBRD’s legitimacy as a global player. Recognising support for its development mission is essential for strengthening incentives to foster future contributions. The compression factor acknowledges the cooperative

foundation of the IBRD and ensures an equitable representation of all shareholders for the years to come.

3. The contribution of IDA to development

Over the last decades IDA has provided a fundamental contribution to the long-term agenda of poverty alleviation. It should continue to focus its efforts and resources on the long-term challenges of poverty eradication and sharing prosperity in the poorest countries. With these goals in mind, we expect that a larger group of countries will consider mobilizing resources.

We welcome progress in leveraging IDA equity, which will enable the Bank to both target scarce concessional financing to the poorest IDA clients and increase allocations of non-concessional resources to countries at a more advanced stage of development, in line with the different needs and capacities of IDA's evolving client base.

We support the proposal of a window in IDA18 to leverage IFC and MIGA to promote private sector development in IDA-only countries, paying special attention to Fragile Conflict Situations. We nonetheless think that the best way to promote private sector activity in these areas is to address the challenges related to institutional capacity and regulatory framework.

4. The Forward Look

We welcome the report on the year-long engagement between the Board of Directors and Senior Management on the medium- to long-term role of the World Bank Group. It provides an important basis for the decisions shareholders should make on the financial capacity.

Given the ambitious agenda of the 2030 Sustainable Development Goals (SDGs), the WBG should help address the issue of why the large amount of global liquidity flows only to a limited extent towards capital-poor countries. While this may still be due to global capital market imperfections, differences in fundamentals that affect the structure of these countries' economies—such as technological capabilities, missing factors of production, government policies, and institutional structure—play an important role. Therefore, the crucial role of the Bank is to build on the knowledge accumulated in so many years of financing for development and help developing economies overcome such shortcomings. In particular, helping countries implement the policies most conducive to a friendly business environment is essential to leverage private sector investments.

We recognize that an appropriate funding of the measures to achieve the SDGs in a challenging global economic context may put pressure on the WBG's financial resources. As the World Bank's scope of intervention cannot be unlimited, particularly in an international environment where many organizations share the same broad goal of helping the poor, scarce resources should be used with greater efficiency. We need a more intense coordination among all multilateral actors, building on their respective missions and expertise.

We strongly recommend an optimized use of resources and enhanced selectivity of interventions, firmly grounded in the Bank's comparative advantages, with a focus on those clients having limited access to alternative source of funding.

In the coming months, it will be pivotal for the Bank to consider where the resources needed can and should come from. The persistence of low interest rates calls the current business model into

question. The current income generation capacity is unable to boost capital to support increased lending, even in the absence of strong cost dynamics. This calls for a multifaceted approach which would not exclude widening the revenue base of the Bank, modifying the price of its services, and optimizing its balance sheet, while adhering to the highest standards of budget discipline.