Mario Draghi: The financial crisis – impact and responses

Statement by Mr Mario Draghi, Governor of the Bank of Italy and Chairman of the Financial Stability Board, on behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste, at the Seventy-Ninth Meeting of the Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries), Washington DC, 26 April 2009.

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1. A crisis of growing proportions

Since we last convened in Washington for the Bank and the Fund Annual Meetings, six months ago, the crisis has taken a new turn. What was then a crisis affecting most advanced economies is now having severe impact on Developing and Transition Countries (DTC).

Several transmission mechanisms have acted adversely over the last semester: financial intermediaries overly exposed to maturity/currency risks have curtailed lending; heightened risk aversion has massively reduced capital flows into emerging economies; export revenues have fallen as a result of declining trade volumes and commodity prices; remittances – normally a countercyclical factor in poor countries – seem to show a reversal in their multi-year upward trend.

2. The Bank response to the crisis

The World Bank Group (WBG) has promptly responded to the growing financial needs of its client countries by scaling-up its development assistance and leveraging its own resources with those from other public and private donors. President Zoellick has pledged to bring new IBRD loans from $13bn to $35bn in the current fiscal year and up to $100bn over the period spanning fiscal years 2009 to 2011. Over the same period, IFC plans to fully leverage its capital base by raising its loans to $12bn per year.

The WBG response to the financial crisis has also led to the development of the Vulnerability Framework (VF), a well-conceived platform intended to provide donors with an ample choice of multilateral development institutions and facilities to channel development funds. The support to trade finance, as envisaged in the VF, will help timely counteract the sharp contraction in trade volumes that emerged in recent months. The VF is well positioned to play an important countercyclical role, backing countries currently cut off from capital markets with additional finance.

At the same time it is important that all new resources falling under the VF umbrella meet standards of accountability, oversight and evaluation as rigorous as those governing the use of WBG funds. More broadly, short-term public budget relief (through fast-disbursing Development Policy Operations) must be strictly and verifiably targeted to restoring fiscal space for essential social needs (Health, Education, Nutrition); a sharp focus on long-term development goals, above all the need to support food security, social safety nets and infrastructure, especially in African countries, must be maintained.

We support the envisaged surge in the deployment of IBRD and IFC resources. Lending growth over time under persistent uncertainty on economic and financial conditions warrants continued budgetary discipline and a thorough review of both institutions' financial sustainability and overall risk exposure.

The front-loading of IDA resources and fast implementation procedures such as the Vulnerability Financing Facility, are appropriate measures at this time of crisis. We believe that IDA is well positioned to accelerate its support to low income countries, thanks to the substantial increase of its commitment authority for the next three years under the IDA 15 replenishment.

3. Crisis and climate change: two intertwined challenges

The complexity of dealing with climate change reflects the intricacy of development challenges in an increasingly interdependent world. Climate change encompasses, and amplifies, concerns related to natural resource scarcity, food supply and security. It entails substantial financial requirements and distributional tradeoffs that, in turn, pose daunting political economy challenges.

However, neither these challenges nor emergencies related to crisis management should undermine the WBG's commitment to the climate change agenda. Scientists have documented that the window of opportunity to tackle climate change is shrinking fast and that urgent and unprecedented levels of multilateral collaboration are needed.

Moreover, the UN Climate Change Conference in Copenhagen in December will shape a new global financial regime providing the World Bank with a unique opportunity to liaise with lead negotiators emphasizing the WBG role in the international debate on climate change. In particular, we expect the WBG to help develop currently existing or proposed financial schemes to support less carbon intensive technologies and to adapt rural and urban environments to the adverse impacts of climate change.

4. Voice

We welcome the progress made in implementing the first stage of the reform aimed at enhancing the representation of DTC in the World Bank Group. As agreed at the last Annual Meetings, the shareholding review should consider the evolving weight of all members in the world economy and other Bank-specific criteria consistent with the development mandate of the institution.

We invite Management, in close interaction with the Board, to prepare concrete criteria and options for shareholding realignment to be submitted for Governors' future consideration, with a view to reaching a broad consensus on realignment by the 2010 Spring Meetings.