Statement by

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Introduction

Global economic activity is slightly weaker than when we met last spring, as downside risks have become more prominent, largely because of trade and economic policy uncertainties. Financial conditions have tightened, notably in some emerging economies, but, overall, developing economies have proved resilient. Better fiscal and monetary frameworks, deeper domestic financial markets, more appropriate exchange rates and reserves management characterize current economic conditions compared with past episodes of markets volatility.

However, since public and corporate debts in the developing world are generally higher than in the mid-nineties, there is no room for complacency. The responsibility of preventing a new post-HIPC cycle of over-indebtedness in LICs is one debtors and creditors share, and last year’s establishment of the G20 Operational Guidelines for Sustainable Financing is a testimony to this joint commitment to the standards and practice of transparent and sustainable lending.

Last spring the Development Committee and the IMFC called for a comprehensive multi-pronged work program. This should include enhanced technical assistance on domestic resource mobilization, statistical capacity, and debt management. It should also include proper incentives for borrowers to comply with standards of debt disclosure and transparency, as well as an ambitious review of the IDA Non-Concessional Borrowing and the IMF Debt Limits policies. The more diversified the creditor base, as private lenders replace traditional public sources of financing, the stronger the call for a deeper involvement on the financial industry’s part.

Structural change and the demand for skills

We welcome the 2019 World Development Report Human (WDR), The Changing Nature of Work. Rapid technological change is modifying firms’ traditional business models, reducing the demand for labor in all routine activities in favor of managerial and intellectual roles and—to a lesser extent—non-repetitive manual work. Where such trends have been more pronounced, workers with intermediate education levels and a standard skill set have suffered.

Enhanced social protection packages are desirable, even necessary to allow workers to adapt. The report makes a sound case for a logic of “progressive universalism,” with the ambition of expanding those programs that prioritize the poorest. How to finance these programs without making labor more costly—
thus exacerbating the trend towards automation—remains the key issue. In this context, a combination of new revenues and a review of current public expenditures should be carefully considered.

As we have argued when discussing the 2018 WDR, *Learning to Realize Education’s Promise*, we maintain that disruptive changes in technology require different skills: critical thinking, aptitude for problem-solving, creativity and acceptance of innovation, the ability to communicate effectively, and openness to cooperation and group work. In a fast-changing environment, the most valuable skills are not necessarily the most specialized ones, but rather those that are fungible, and allow workers to adjust to changes and acquire new skills as needed.

The World Bank Group can play an important role in disseminating best practices, particularly peer learning and knowledge sharing to countries currently underinvesting or underperforming in human capital accumulation.

We therefore support the idea behind the Human Capital Project, which aims to provide policymakers with the incentives to step up investment in health and education. Investing in human capital, especially in the early years, is important not just because of the positive effects on individual productivity: these benefits go beyond private financial gain. Of special significance is better education, which can contribute to curbing lawlessness and enhancing “social capital”, a factor increasingly recognized as important to economic development.

**Fintech**

We welcome the Bali Fintech Agenda prepared by the IMF and World Bank. As the previous decades have shown us, innovation can affect the financial stability of the banking industry and deeply influence our daily lives.

Fintech offers wide opportunities for consumers, businesses, and investors. Although its benefits may require time to fully materialize, innovation can help to reduce costs and information asymmetries, increase efficiency and competition, and broaden access to financial services.

Dramatic developments in financial technology are creating new services, enlarging the pool of potential competitors for traditional intermediaries, and setting new challenges for macro-prudential authorities. Banks may learn how to take advantage of instruments such as crowd-funding and/or lending based on major advances provided by technology, like the use of big data, the diffusion of machine learning, and access to distributed ledgers.

Fintech can deeply affect the financial industry’s ability to evolve and prosper. At the same time, the diffusion of digital assets and the emergence of financial services provided by large technology companies are new features that national and international authorities are closely following. They carry operational risks, including those related to cyber security, market integrity, and to money laundering and terrorist financing. The challenge for financial regulation is, then, to strike the right balance between promoting digital innovation and mitigating the associated risks.

Importantly, the Bali Fintech Agenda leverages the extensive work by international standard-setting bodies and national and regional authorities concerning fintech’s implications for the financial sector. We support the participation of the Fund and the World Bank in the debate, as their large membership provides a unique
platform for sharing information, experiences, and best practices to help promote financial inclusion, particularly in low-income countries.

**A WBG with larger resources**

The large capital increase package endorsed at the last Development Committee meeting is an important signal to Management of shareholders’ trust. The responsibility to use these resources in an effective and efficient way is correspondingly large.

Dialogue between shareholders and Management on corporate priorities and strategic directions will benefit from the identification of indicators to measure progress. Current reforms must link strategic priorities to corporate planning, thereby ensuring accountability and laying the foundation for results-informed budgeting, including in a multi-year framework. Further decentralization will require thoughtful consideration of costs and should not weaken the Board’s oversight role, or its involvement in strategic decisions.