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Statement by Ms. Sitharaman
India

On behalf of
Bangladesh, Bhutan, India, and Sri Lanka

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GLOBAL ECONOMY

1. Global economy is in a phase of heightened uncertainty, though marked with some optimism about its soft-landing. Despite the resilience of the global economy in the first half of 2023, the growth outlook remains weak as the effects of rising interest rates are yet to fully filter through the economy. Policymakers, especially in major advanced economies, are facing difficult policy trade-offs, which they need to manage skillfully while containing inflation to desired levels. According to the IMF, in both 2023 and 2024, global growth is projected to remain below its previous year's level of 3.5%, reflecting the impact of both cyclical and structural factors. On the other hand, in the next two years, emerging market and developing economies (EMDEs) are projected to grow at broadly similar pace as in 2022. As the growth slowdown is expected to be more pronounced in advanced economies, external demand conditions could become less conducive for export oriented EMDEs and impact their growth prospects.

2. In the first half of 2023, headline inflation has moderated across various economies on account of decline in food and energy prices. However, core inflation has not declined significantly and remains above central banks' target in most of the economies. Amid further disruptions to energy and food markets, inflation could, therefore, prove to be more persistent than anticipated. As noted in October 2023 World Economic Outlook, inflation may not return to target levels until 2025 in various economies. Therefore, further monetary policy actions may be warranted. This might not only expose financial vulnerabilities but also pose downside risks to the prospects of soft-landing in major advanced economies (AEs).

3. Policymakers in AEs and EMDEs have to guard against adverse cross-border spillover effects and remain wary of risks to global financial stability emanating from the financial sector as the interest rate, especially in AEs, may remain higher for longer. There is a need for cautious optimism on the inflation front and all temptation to relax policy rate should be resisted till credible signs of inflation coming well under target clearly manifest.

At the same time, we have to be mindful of risks of sovereign debt defaults among the low-income countries (LICs) and other middle-income countries (MICs) who face elevated debt vulnerabilities even as their fiscal space remains highly constrained. The need to expedite the G20 debt treatment initiative under the Common Framework and increased debt transparency cannot be overemphasized. There is a need for faster debt resolution of countries such as Sri Lanka and Suriname, who cannot take advantage of the Common Framework. The Global Sovereign Debt Roundtable has come a long way to help all stakeholders to bridge information asymmetries and foster common understanding of debt treatment issues to facilitate better outcomes.

INDIA

4. In a world of slowdown and gloom, the Indian economy has performed well. The National Statistical Office has placed the Q1 GDP growth for 2023-24 at 7.8% – the highest among large economies. The high growth momentum of the previous year has sustained notwithstanding the monetary policy rate having been raised by 250 bps and liquidity withdrawn. The deficiency in external demand has been compensated by domestic drivers of demand – consumption and investment.

5. The Central Government has adhered to the budgeted gross fiscal deficit target of 6.4% of GDP in 2022-23, now set lower at 5.9% for 2023-24 in line with the medium-term target. While revenue expenditure growth remained flat in Q1: 2023-24, capital expenditure increased by 59.1%. State governments have also witnessed surplus on the revenue account. As in 2022-23, the focus of the government budget continues to be on infrastructure development and capital expenditure, which are expected to crowd-in private investment. Capex by large central public sector enterprises remains strong. Private corporate capex is also reported in select sectors in terms of projects sanctioned by banks/financial institutions.

6. On the supply side, with El Nino setting in, cumulative south-west monsoon rainfall during June-September has been nearly 6% below the long period average as against 7% above the long period average last year.

7. Headline inflation eased to 4.3% in May 2023 from the peak of 7.8% in April 2022. It surged to 7.4% in July, mainly on account of vegetable prices, before moderating to 6.8% in August. Core inflation at 4.9% in August remains lower than the headline number.

Together with supply-side measures, India’s inflation containment measures have been largely effective.

8. With the cumulative rate hike of 250 bps since May 2022, the real policy rate was nudged into positive territory before the inflation print of July 2023 came out. Further, the incremental CRR of 10%, since withdrawn, helped suck excess liquidity in the banking system flowing from return of banknotes of rupees 2000/-.

9. India’s current account deficit (CAD) was contained at 2.0% of GDP in 2022-23 as against 1.2% in 2021-22. Merchandise trade deficit has narrowed in Q1 of 2023-24 with contraction in imports exceeding contraction in exports. Services exports and remittances are expected to provide cushion to the CAD. Overall, the CAD is set to remain manageable during 2023-24.

10. Indian Rupee has remained one of the least volatile currencies among major economies. Forex reserves have rebounded from US$ 524.5 billion on October 21, 2022, to US$ 590.7 billion as on September 22, 2023.

11. Given healthy balance sheets of banks and corporates, easing of supply chains, business optimism, and robust government capital expenditure, the real GDP growth is expected at around 6.5% for 2023-24 and inflation at 5.4%.

12. Currently, India accounts for about 2% of the global space economy, but this share is set to grow exponentially with rising participation from across the globe. The successful launch and/or landing of Chandrayaan-3 and Aditya L1 have confirmed India’s capability to undertake complex space missions that contribute to the advancement of space technology for the betterment of humanity.

13. The digital economy presents a powerful opportunity for inclusive economic growth. India has demonstrated that Digital Public Infrastructure (DPIs) are a "force multiplier" for an aspirational population that is eager to taste the fruits of economic progress. Recognizing the significance of DPIs for advancing financial inclusion in support of inclusive growth and sustainable development, the G20 leaders unanimously endorsed the G20 Policy Recommendations for Advancing Financial Inclusion and Productivity Gains at the G20 Leaders’ Summit in New Delhi. These recommendations will guide the countries in G20 and beyond for rapidly advancing financial inclusion towards attaining strong, sustainable, balanced and inclusive growth. As part of its G20 presidency, India has also floated a concept of One Future Alliance, a voluntary initiative that aims to bring together all countries,

all stakeholders to synergize, to shape, to architect and design the future of DPIs that can be used by all countries and all people in the spirit of “Vasudhaiva Kutumbakam”.

14. With ubiquitous use of DPIs at the scale of India’s population, the protection of personal data becomes a key requirement. Keeping this in mind, the Indian Parliament has passed landmark Data protection Bill, 2023 mandating that personal data may be processed only for a lawful purpose upon consent of an individual. Data fiduciaries will be obligated to maintain the accuracy of data, keep data secure, and delete data once its purpose has been met.

15. India has passed the “Nari Shakti Vandan Adhiniyam”, or Women’s Reservation Bill reserving 33% seats in Parliament and state legislatures for women. This is a historic moment for gender equality, especially in terms of women’s political leadership in the world’s largest democracy. The passage of the Bill is testimony to Bharat’s commitment to women-led development. Empirical evidence shows that women leaders focus on public goods and women legislators have been associated with improved economic outcomes and infrastructure development.

SRI LANKA

16. IMF-supported macroeconomic stabilization measures are being implemented with tangible results, and the economy is showing initial signs of recovery. Completion of the first review of the Extended Fund Facility (EFF) program, which is expected before the end of 2023, is likely to further boost Sri Lanka’s economic prospects, along with the finalization of debt-related discussion.

17. The impact of Sri Lanka’s worst economic crisis in 2022 spilt over to first half of 2023 as well. Double-digit year-on-year contraction observed in the third and the fourth quarters of 2022 continued in the first quarter of 2023, which registered a contraction of 11.5 percent. With economic activities gradually returning to normalcy, the contraction in the economy was limited to 3.1 percent in the second quarter of 2023. Overall, in the first half of 2023, Industry-related activities contracted by 18.3 percent, with manufacturing as well as construction activities contracting. The pickup in tourism helped limit the contraction in Services-related activities to 3.2 percent during the first half of the year. Relatively favorable weather conditions and the availability of fertilizer helped Agriculture- related activities record a growth of 2.2 percent during this period. Real GDP growth is expected to

return to the positive territory from the second half of 2023, and gradually move towards the potential in the medium term. While macroeconomic stabilization measures could have a downside effect on growth in the near term, such measures are likely to result in improved economic sentiments, thereby aiding medium term growth prospects, with the support of economic diversification and investment promotion activities that are being implemented at present. In the meantime, marginal improvements were observed in labor market indicators during the first quarter of 2023. Accordingly, the labor force participation rate (LFPR) recorded a marginal improvement in the first quarter of 2023, rising to 49.9 per cent from 48.9 per cent recorded in the fourth quarter of 2022. The unemployment rate declined marginally to 4.7 per cent during the first quarter of 2023 from 4.8 per cent in the fourth quarter of 2022.

18. The tight monetary policy stance that was in place from 2022 helped ease inflation from a historic high of 70 percent in September 2022 to 1.3 percent by September 2023. In addition to tight monetary policy, the tightness of the fiscal policy stance, the easing of food and energy prices in global markets and strengthening of the Sri Lankan Rupee also contributed to the deceleration of inflation. Considering the moderation of inflation, gradual dissipation of inflationary pressures and further anchoring of inflation expectations, the Central Bank commenced monetary policy easing from June 2023 onwards. Impacted by the lagged effects of tight monetary policy, credit extended to the private sector contracted significantly thus far during 2023, and measures were taken to accelerate monetary policy transmission through lower bank interest rates. Meanwhile, credit obtained by State Owned Business Enterprises (SOBEs) from the banking system contracted substantially. The high exposure of banks and non-bank institutions to the Government continued during the year. The enactment of the new Central Bank Act is expected to enable the Central Bank of Sri Lanka (CBSL) to maintain inflation in mid-single digits in the medium term, supported by greater autonomy and prevention of monetary financing of fiscal deficits by the CBSL.

19. The stability of the financial system was preserved amidst spillovers from adverse macroeconomic developments and uncertainties arising from debt optimization. Although inflation has ebbed, reduced income of households and corporates increases the credit risk of financial institutions, which has been heightened by the Government debt restructuring. Amidst these developments, total assets of the banking sector contracted along with a contraction in loans and advances. Easing of monetary policy and other liquidity injection

measures of the CBSL in recent months contributed to banking sector liquidity positively. The stock market performed well due to the announcement of domestic debt optimization plans, with price indices recording substantial year-to-date growth rates led by banking sector shares. Yields in the government securities have been declining supported by low inflation expectations and clarity on domestic debt restructuring leading to a flattened yield curve.

20. The Balance of Payments (BOP) is estimated to have recorded a surplus in the first half of 2023. The external current account showed an improvement during the period from January-August 2023, due to a modest trade deficit with less than anticipated levels of merchandise imports amidst a moderation in exports, fast normalisation in tourist arrivals and workers' remittances observed in the recent months. Outflows on account of settlement of commercial bank and the CBSL liabilities, as well as the buildup of foreign assets by commercial banks in the absence of domestic foreign currency denominated instruments resulted in a subdued financial account outcome in the first eight months of the year. Gross Official Reserves (GOR) remained US Dollars 3.6 billion by the end of August 2023, compared to US Dollars 1.9 billion at end-2022. Despite some intermittent volatility throughout the year and the accumulation of foreign exchange exceeding US Dollars 1.5 billion by the CBSL thus far during the year, the Sri Lankan Rupee has appreciated by around 12 percent against the US Dollar so far in 2023, compared to the depreciation of 44.8 percent in 2022.

21. Leveraging on a series of revenue enhancement measures implemented in the latter part of 2022 and early 2023, the Government was able to gain a substantial nominal growth in revenue during the first half of 2023. Despite the overall revenue growth, there was a shortfall in revenue to meet the indicative target on tax revenue stipulated under the IMF-EFF supported program. Furthermore, even with the efforts made to rationalize expenditure, government spending escalated on account of substantially higher domestic interest costs, leading to an expansion of overall budget deficit and current account deficit. However, benefit of fiscal consolidation measures has been reflected in the primary account through the surplus recorded during the first half of 2023. Although the Government continued to rely on domestic sources to fund the budget deficit, reliance on monetary financing declined in the first half of 2023 compared to the same period in 2022. Meanwhile, the Government is engaged with the external debtors for seeking a debt relief and is

finalizing the domestic debt optimization process with the objective of transforming the debt stock to a sustainable level as per the targets envisaged in the IMF-EFF program. Improvements in revenue administration and expansion of the tax base remain key in increasing the government revenue going forward, as the space for increasing taxes remains strictly limited, given the subdued economic conditions, high cost of living experienced by the public and high cost of production experienced by businesses.

22. In the meantime, the Government focused on streamlining the major social safety net programs by introducing the Aswesuma Welfare Benefit Scheme in 2023. Under the Aswesuma Welfare Benefit Scheme, beneficiaries of the previous Samurdhi program were classified into four major categories, namely, transitional, vulnerable, poor and, severely poor. It is expected that the number of beneficiaries will reduce in the long term since the existing beneficiaries who are able to upgrade their living standards will be gradually removed from the scheme with the annual review of the beneficiary list, although social spending is subjected to a floor in the IMF-EFF program.

23. In addition, legislative reforms related to effective and transparent public financial management and debt management are in the pipeline. Enactment and effective enforcement of these legislations are paramount for the prudent fiscal management and fiscal sustainability while strict enforcement of the Anti-Corruption Act is expected to prevent losses to the economy through leakages.

BANGLADESH

24. Bangladesh has exhibited remarkable resilience in the face of ongoing global geopolitical uncertainties and the gradual economic recovery following the COVID-19 pandemic. In FY23, the country achieved a growth rate of 6.03 percent, a testament to the timely and judicious policy decisions undertaken by the Government and Bangladesh Bank. This robust growth was primarily driven by substantial expansions in the industrial and service sectors, with agriculture also contributing. Nonetheless, Bangladesh's economy is not without its challenges. Inflation is a growing concern, as it has the potential to impact overall economic stability adversely.

25. Additionally, a substantial balance of payments deficit has led to a reduction in foreign exchange reserves, exerting pressure on exchange rates. To counteract these issues, the central bank has implemented measures such as raising policy interest rates,

injecting significant foreign currency into the market, discouraging non-essential imports, enhancing supervision of import-related transactions, and simplifying procedures for repatriating export earnings and remittances. These measures are expected to help mitigate inflationary pressures and stabilize exchange rates in the near future.

26. Inflation has emerged as a prominent concern in recent times. Headline CPI inflation (point to point) in August 2023 reached 9.92 percent, marking an increase since its peak in August 2022. This upward trend can be attributed to global factors, including rising commodity and fuel prices, and the pass-through effect of exchange rate fluctuations in the domestic market. Similarly, the twelve-month average CPI inflation rose to 9.24 percent in August 2023, exceeding the FY23 budgetary target of 7.50 percent. The surge in inflation is primarily driven by food components, which have been steadily increasing due, in part, to seasonal factors and supply chain disruptions. Controlling inflation has been the central focus of the most recent monetary policy, which transitioned from a monetary targeting to an interest rate targeting framework. The policy interest rate is set at 6.50 percent, with a ±200 basis points symmetric corridor consisting of a Standing Lending Facility (SLF) rate at 8.50 percent and a Standing Deposit Facility (SDF) rate at 4.50 percent. These changes are designed to closely align the interbank call money rate with the policy rate, ensuring economic stability. The repo rate was raised by 50 basis points to 6.50 percent, and the SDF rate, previously known as the reverse repo rate, was increased by 25 basis points to 4.50 percent, effective from July 1, 2023.

27. The fiscal stance in FY23 exhibited a sluggish trajectory, characterized by slower revenue growth and government expenditure compared to FY22. Total revenue collection in FY23 increased by 9.9 percent, reaching nearly 90 percent of the targeted amount. A significant portion of the budget deficit was funded through domestic sources, particularly from the banking system, accounting for 55.30 percent of the government's deficit financing. The domestic debt (public) to GDP ratio slightly increased to 18.03 percent at the close of FY23 compared to the preceding fiscal year.

28. The consequences of the Russia-Ukraine conflict, global instabilities, the implementation of stricter monetary measures, and escalating geopolitical tensions have significantly affected Bangladesh and other nations. While there was some improvement in the current account balance, the overall balance of payments (BoP) deficit widened to USD 8.2 billion in FY23 from USD 5.4 billion in FY22 due to an unusual shortfall in the financial

account driven by trade credit and other short-term loans. This continued to exert depreciation pressure on the Bangladeshi Taka (BDT). Bangladesh Bank (BB) injected a net total of USD 13.58 billion into the foreign exchange market during FY23 to mitigate excessive exchange rate volatility. The gross official foreign exchange reserves, which had declined to USD 31.20 billion (USD 24.75 as per BPM6) by the end of FY23, were stabilized through several BB policies to curb luxury and unnecessary imports. During Q1FY24, BB injected approximately USD 3.04 billion. In July FY24, the current account witnessed a surplus, reflecting a decline in imports amid steady export growth. Despite solid growth in overseas employment, wage earners' remittances face challenges.

29. In the banking sector, the ratio of Non-Performing Loans (NPL) to total loans increased in Q3FY23 compared to Q2FY23 due to unfavorable business conditions. However, BB responded to the situation with favorable loan repayment policies. The NPL ratio remains elevated primarily due to state-owned commercial banks. Furthermore, there was a deterioration in provisions maintenance. Although there was moderate growth in bank deposits and a slight decrease in bank advances, the overall Advance-Deposit Ratio (ADR) rose to 79.36 percent at the end of Q3FY23, up from 79.00 percent at the end of Q2FY23. Liquidity surplus in the banking sector tightened during the first two- quarters of FY23 but modestly improved in Q3FY23. Bangladesh Bank remains vigilant in addressing abrupt liquidity stress and plays a decisive role in supplying adequate liquidity in the financial system through open market operations. The capital market of Bangladesh exhibited mixed performance during Q3FY23 compared to the previous quarter, characterized by almost unchanged price indices, a marginal rise in market capitalization, a slight improvement in the price-earnings ratio, and a significant decline in turnover. These trends were influenced by concerns among equity investors due to unfavorable national and global macroeconomic conditions, a decline in the share price index, commodity price instability in both global and domestic markets, sharp depreciation of BDT against USD, and financial tightening in advanced economies.

30. The growth momentum is expected to strengthen in the near future, supported by ongoing growth-friendly fiscal and monetary policies, robust domestic and external demand, and the anticipated alleviation of economic challenges facing advanced economies. Additionally, inflationary pressures in Bangladesh are expected to subside, driven by improved inflationary conditions in major trading partner economies. Bangladesh Bank's

monetary policy remains cautiously restrictive to address inflation issues and anchor inflation expectations.

31. Bangladesh is set to graduate from the Least Developed Country (LDC) status in 2026, where it may face significant resource constraints in pursuing sustainable development goals and graduation. Achieving these goals will necessitate substantial financial resources, which may be challenging to secure given current economic challenges. Therefore, external funding from development partners and other sources will be crucial to bridge these funding gaps and support Bangladesh's efforts toward sustainable and environmentally friendly economic growth. Continuous support from development partners and their subsidiaries will be pivotal in mobilizing these resources, enabling Bangladesh to overcome challenges and achieve its development objectives.

BHUTAN

32. Bhutan’s real GDP growth recorded at 5.2 percent in 2022, largely contributed recovery in better performance in the service and industry sectors. The service sector, which includes hotel and restaurant, experienced a growth of 31.6 percent, indicating steep recovery from the contraction during COVID-19. The electricity sector, which constitutes around 15 percent of GDP and also the main drivers of the economic growth, experienced a negative growth of -1.14 percent in 2022. With easing of complete restriction and normalization of economic activities, private consumption picked to 5.5 percent in 2022 as compared to negative 2.4 percent. With the ongoing geopolitical tension, spillover effect of tightening of monetary policy in advance economies and adverse impact of global climate change, the economic growth is estimated to grow slower at 4.2 percent in 2023. With gradual pick-up in economic activities, the overall unemployment rate increased from 3.4 per cent in 2021 to 5.9 per cent in 2022.

33. Headline inflation recorded average of 3.8 percent in June 2023. The inflation was largely influenced by rise in prices of food (3.7 percent) compared to non-food (3.1 percent). Supply chain disruptions in the food sector are expected to continue, pushing up food prices over the medium-term. Nevertheless, a sizeable drop in aggregate demand will offset potential cost-push inflation; thereby, overall inflation is expected to remain at around 5.00 percent in the medium-term.

34. Fiscal deficit was recorded at 4.8 percent of GDP in 2022-23 as compared to 7.9

percent in 2021-22. The lower deficit was attributed to a substantial increase in resources by 10.18 percent, on account of a significant increase of domestic revenue in the form of business taxes in 2022-23. With the rising demand for resources to boost the economic activities and also increased proposals for the capital budget to accelerate the Plan activities, the fiscal deficit is expected to remain elevated at 9.90 percent of GDP in the medium-term.

35. Current account deficit widened in FY 2023 to 34.5 percent of GDP from 33.2 percent in FY 2021/22. The higher current account deficit was attributed to deterioration of trade balance due to increase in imports of non-essential items, followed by growth in secondary income receipts. However, the positive flows in financial and capital accounts turned the overall balance of payment positive and sufficient to finance more than 12 months of merchandise and service payments. While external position remained vulnerable due to the pandemic, the overall balance of payment was expected to improve further with a decrease in the import of non-essential goods and services and continued undisrupted export of electricity.

36. While the external debt position at 119 percent of GDP in 2022-23 was a major concern and a challenge, however, more than 60.00 percent of the external debt constitutes hydro-power project debt, which is on a contractual basis and is self- liquidating. With the increasing need to fill up the government resources gap, public debt was expected to increase by 136.1 percent of GDP in 2022-23 from Nu. 256.87 billion in 2021-22, both contributed by domestic and external borrowing. The domestic borrowing is largely influenced by the government borrowing through issuance of long-term bonds to finance the containment measures for the COVID-19 pandemic.

37. In the absence of a vibrant capital market, the financial institutions remain the main source of investment and lending avenue for private credit. The total domestic credit outstanding was recorded at 10.2 percent in FY 2022-23.

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