2016 ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 18
October 7, 2016

Statement by the Hon. **ARUN JAITLEY,**
Governor of the Fund and the Bank for **INDIA**

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Representing the Constituency of Bangladesh, Bhutan, India, and Sri Lanka

1. Since we met in April 2016, global recovery has been sluggish, and is marked by uncertainties, including those arising out of the UK referendum for leaving the EU. Global growth is expected to decelerate in 2016 because of a slowdown in advanced economies

2. Global financial stability appears to have improved with easing external financing conditions and some recovery in commodity prices. However, risks to global financial stability persist because of low and negative interest rates, overhang of private debt and significant loan impairments in the banking system. Also, growing populism and isolationism could lead to further deterioration of global trade. Clearly, multilateral efforts are needed at this juncture to boost trade to support global growth.

3. The emerging market and developing economies (EMDEs) as a whole have performed better than the advanced economies, with India registering robust growth. However, the outlook in the EMDEs remains uneven and generally weaker than in the past due to challenging macroeconomic conditions arising from weak global demand and difficulties faced in wake of adjusting to lower commodity revenues. Disorderly deleveraging of private debt could also impact growth. In order to guard against these risks, policy frameworks would have to be strengthened by accumulating buffers and deleveraging balance sheets. Gains from product and labor market reforms and strengthening of risk management practices to address balance sheet vulnerabilities would be helpful in further enhancing resilience.

4. Low income countries are affected by low growth and the uncertainties surrounding food and commodity prices, and would benefit from structural reforms that foster economic diversification and higher productivity. Additionally, building buffers, increasing capital and social outlays along with structural reforms would strengthen resilience.

5. Prolonged accommodative monetary policies in advanced economies will have serious implications for the EMDEs, including resultant spillovers. There are also concerns that normalization of the US monetary policy could have adverse consequences for global financial market volatility and capital flows to EMDEs. Central banks in major advanced economies should be mindful of financial stability risks arising out of monetary policy normalization.

6. The entrenchment of risks to the global financial and economic stability has implications for the operations of both the IMF and the World Bank, particularly in terms of increasing the likelihood of larger demands on their resources. Both organizations need to be adequately resourced, specifically to meet the wider canvas of development aspirations arising out of Sustainable Development Goals (SDGs). The global economic scenario, especially the low interest rate regime and depressed commodity prices, has reduced the availability of resources, both domestically and through foreign investment. There is concomitant need for trillions for bridging the gap in financing required to meet the developmental goals of

adequate infrastructure, employment, education and health service and our heightened engagement in delivering global public goods, prevention and mitigation of crises, fragility and conflict.

7. In this context, the forward look strategy of the Bank is a timely one. It rightly acknowledges the capital constraints faced by IBRD and IFC, and makes a strong pitch for capitalization of IBRD and IFC while mobilizing private sector investment. Our ambitions of annual funding of $40 billion by the Bank, doubling of IFC's annual financing and $75 billion replenishment for IDA-18; although much bigger than the present size of these institutions; are quite modest considering the magnitude of the resources required for achieving the global mission of SDGs and twin goals of the Bank, i.e., ending extreme poverty and boosting shared prosperity. The focus on Low and Middle Income Countries (LMICs) is very much the need of the hour where residual poverty is heavily concentrated. We welcome the strategy to build up IBRD portfolio for the LMICs, including IDA graduates, by significantly increasing lending to LMICs over the next decade. Similarly, we support the focus on a stronger share in IDA-18 for the LICs affected by situations of fragility, conflict and violence (FCV) and small states. The strategy to take measures to expand WBG's work with the private sector is also critical to its success.

8. The EMDEs are expected to contribute more than three-quarters of total global growth this year and next. The voice of EMDEs in IMF and World Bank should be commensurate with their changing weight in the global economy. In IMF, this can be accomplished as part of the 15th General Review of Quota by realigning quota shares with the changed global economic realities. It is also important that the formula for determining quotas is suitably revised including the weight that is given to PPP GDP in the 15th quota review to better reflect the true economic strength of the EMDEs. With the present composition of Fund resources skewed excessively towards borrowed resources, IMF membership should show urgency in completing 15th Review. It is in this context that we are extremely disappointed that a situation has arisen necessitating the proposal for shifting the deadline for completing the review to Spring meeting of 2019. We should remember that it was the collective legal obligation of IMF membership to complete 15th review in 2015, apart from the fact that frequent and excessive delays in completing the GRQs erode the credibility and legitimacy of the organization. We hope that in future IMF will show more determination and focus on working towards completing the 15th review including agreement on a new quota formula. We also expect that the new deadline will be honored as well as adhered to in letter and spirit.

9. Similarly, the World Bank Group shareholding realignment must dynamically and truly represent the evolving role of its member countries. A fair and robust dynamic formula is a pre-requisite for this purpose. The draft report to the Governors has proposed a formulation for the formula based on GDP and IDA contributions, with 80% weight for GDP and 20% weight for IDA. While this formulation is acceptable, the shareholding review should necessarily lead to an outcome where the voice of the developing and transitioning countries is stronger than at present. The exercise also needs to ensure that small and poorest states are protected and that no shareholder should face excessive dilution of its voice as a result of this exercise.

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