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

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Governor of the Bank and the Fund for India

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

1. Since we met in April 2017, we find it reassuring that economic recovery has gathered pace. Global GDP growth is poised to increase in 2017 and 2018 with improving traction in growth performance in Euro area, Japan, emerging Asia and Europe as well as in the Russian Federation. While the persistence of low productivity and potential growth in advanced economies (AEs) remains worrisome, growth in emerging markets and developing economies (EMDEs) is expected to recover going forward. The prospects in commodity exporting countries continue to remain challenging due to ongoing adjustments to low commodity prices. India will continue to perform robustly on the back of credible macroeconomic adjustments and structural reforms.

2. We are happy to note that the near-term global financial stability has also strengthened due to cyclical recovery in global growth amid supportive monetary conditions. On the other hand, although improved capital and liquidity buffers have enhanced the health of the banking sector in general, many of them continue to grapple with legacy problems and low profitability. Moreover, financial risks stemming from the rapidly raising leverage of the private non-financial sector amid low interest rates have increased medium-term risks to financial stability. Sudden reversal of monetary accommodation by AEs could increase policy strains in EMDEs. The risks of growing populism and consequential loss in trade volumes will affect global recovery adversely - and it is incumbent upon all of us to foster cooperative multilateral efforts to boost fair trade practices.

3. The growth in the US and the Euro area is expected to improve in 2017 compared to 2016. The recovery in Japan is continuing and is likely to get better in 2017 on the back of stronger domestic and external demand. It is now well understood that monetary policy accommodation alone may not be enough to re-energize growth in AEs, and structural reforms in alignment with growth supportive fiscal policies would enhance productivity and potential growth.

4. Improved momentum in the Chinese economy during the first half of this year due to rising domestic demand is reassuring for global growth, although the risks to financial stability owing to large overhang of financial leverage require close monitoring. Going forward, Brazil is expected to overcome recession and Russia is likely to grow robustly this year on recovery of domestic and external demand. Sub-Saharan economies are

also likely to improve their performances this year. As for the Indian economy, the sound fundamentals and number of progressive policy initiatives taken in the last few months will provide the basis for a strong prognosis and convergence with growth potential.

5. Growth in EMDEs is poised to strengthen this year. However, commodity-exporting countries among them remain challenged by their ongoing adjustments to declining export earnings. Policy frameworks would have to be strengthened by implementing structural policies in alignment with fiscal policies such as promoting growth friendly investments and/ or building buffers where the fiscal space is limited. At the same time, proactive micro and macro prudential policies would be needed to sharpen risk management practices to reduce financial vulnerabilities and enhance resilience.

6. Low income countries are expected to perform robustly this year and would benefit from growth enhancing structural reforms and durable fiscal adjustments while efforts to reduce financial vulnerabilities will strengthen resilience. We have serious concerns about the prolonged accommodative monetary policies in AEs, and especially their disruptive effects on financial markets and spillovers in the event of abrupt normalization. EMDEs could face increased volatility in capital flows and financial instability. Central banks in major advanced economies should, therefore, follow a well communicated strategy for exit keeping in mind the concerns of other countries.

7. The risks to global financial and economic stability have significant implications for IMF's operations, in terms of growing amplitude of financial crisis, and owing to increasing vulnerability of the international monetary system (IMS) to emerging transitions and growing complexity of economic and financial linkages which could cause correlated financial crises/ contagion – placing large demands on IMF resources. The Fund needs to be adequately resourced to meet these demands while functioning as a strong quota based institution. Presently, the Fund's resource base is overly tilted towards borrowed resources and must be realigned appropriately in favor of quotas going forward. At the same time, there is an urgent case for revising quota shares in favor of dynamic emerging market countries in line with global economic realities to maintain fairness in the governance structure of the Fund. We hope that all this can be accomplished as part of the 15^{th} General Review of Quotas (GRQ). We should make every effort to complete the 15^{th} Review by the agreed timeline of 2019 Annual Meetings.

8. Similarly, for the World Bank Group (WBG), a delayed but unanimously agreed Lima Roadmap had envisaged to see a conclusion of the 2015 shareholding review by Annual Meetings 2017. While we note that we failed to deliver it, given the progress that has been made so far, we strongly urge all to commit to deliver an equitable conclusion of this process for both the IBRD and IFC by the Spring Meetings 2018. Any further delay

in concluding the review will risk not only development in the client countries but the existence and leadership of both Bank and IFC in MDBs.

9. Delay in concluding the voice realignment is coupled with risks and delays to the critical agenda of capital increase. The possibility of generating sufficient resources through the management levers has had only a marginal impact given the scale of capital requirement, and hence, early capital infusion into WBG is an imperative. We look for an expeditious decision on capital enhancement through both selective capital increase (SCI) and general capital increase (GCI) for both the IBRD and IFC, by Spring Meetings 2018.

10. In the context of augmenting resources for development finance, we share the basic premise of the MFD (Maximizing Finance for Development) paper that private sector solutions need to be mainstreamed and leveraged for this purpose. However, we feel that the excessive emphasis on the ‘Cascade Approach’ to determine suitability of the financing source and mechanism does not have potential to make a big difference. Applying cascade approach to every project posed to the World Bank will lead to considerable delay. We should be careful in applying this approach especially to social sector projects.

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