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Statement by the Hon. **NIRMALA SITHARAMAN,**
Governor of the Bank and the Fund for **INDIA**

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1. We note that world economy had slowed down in 2018 and is projected to grow at 3.0 percent in 2019. With a forecast of moderate recovery, growth is expected to improve slightly to 3.4 percent in 2020. A general slowdown is expected in the advanced economies (AEs). Though emerging market and developing countries (EMDCs) drove part of the decline in 2019, they will also contribute the bulk of the projected recovery in 2020. The strengthening of growth in India in 2020 and beyond would be a key driving factor behind the eventual global growth pickup.

2. We express our concern that the uncertainties and associated risks arising out of the escalation of trade tensions and geopolitical developments have played a considerable part in slowing down of global economic activity. This has had impact on investment decisions, business activity and global trade. Following on these uncertainties, the world economy faces difficult headwinds despite decline in long-term interest rates.

3. Among the AEs, the Euro area is expected to have slower growth due to weaker external environment and softening private consumption, combined with smaller fiscal impulse. After the momentum experienced in the first half of 2019, the US economy has shifted to a slower pace of growth. Japan too is expected to slow down from the recent strong pace of growth. Many AEs are facing ageing-related spending requirement in social security and health care. Industrial output, particularly slump in the automobile industry is reflective of demand influences and technology shifts.

An accommodative monetary policy would be a guard against deceleration. A contingent fiscal policy response in AEs based on macro-prudential and proactive supervisory approach would also be essential.

4. The outlook is optimistic for the EMDCs in Asia, which are the main growth areas for the world economy. A right mix of macroeconomic and financial policies along with structural reforms to strengthen institutions and governance can boost its growth prospects. In India, we have undertaken major policy reforms to address cyclical issues and boost investor and business confidence. Strengthening compliance of goods and services tax (GST), accelerated resolution of non-performing assets and revitalizing the governance of public sector banks have already been given impetus. The governance and policy measures would help achieve sustainable growth with inclusive development. Energy prices have eased to a certain extent, particularly due to stable oil prices and reduced coal and natural gas prices. This has led to the strengthening of current account balances in many oil importing countries. On the prices front, inflation is expected to remain stable in the EMDCs.

5. Middle East countries are expected to grow at a higher rate. However, the financial vulnerabilities arising out of high public debt to GDP has adversely affected debt sustainability of many low-income countries (LICs).We urge for expeditious operationalization of the WBG-IMF multipronged approach to address emerging debt vulnerabilities for ensuring transparent debt management in LICs. At the same time, we also advocate attention to the need to develop capital markets in local currency in developing world.

6. The IMF, with its repository of evidence-based research combined with analyses emanating from its macro-economic surveillance function, is in a unique position to advise its member economies. It should advise on what policy mix would work best for economies at different points of time. The IMF should continue to be flexible in providing policy guidance to its members rather than assuming a rigid stance, as policy measures cannot be the same at all points of time. If for instance growth weakens relative to the baseline, macro-economic policies will need to turn more accommodative, depending on country circumstances. Also, fiscal policy can have multiple objectives - smoothing demand, protecting the vulnerable, boosting the growth potential with spending that supports structural reforms, and ensuring sustainable public finances over the medium term. A right balance of these objectives will be necessary.

7. In the context of increasing global financial vulnerabilities, the IMF's lending capacity would increasingly come into question, as to whether its resources are adequate enough to provide stability to the international monetary and financial system. That role IMF would be able to play effectively only if its permanent resources denoted by quotas are adequate. The five-yearly General Review of the Quotas (GRQ) should ensure that this core resource of IMF majorly determine its lending capacity. Moreover, to instill fairness in the governance structure of the IMF, the review of quotas should lead to higher quota shares in favor of dynamic emerging market countries in line with global economic realities while protecting the shares of poor and LICs. While the quota reviews now lag by about four years, and we indeed hope that over the next few successive reviews, this lag can be erased, a somewhat more

immediately disappointing development is the lack of adequate support for a quota increase in the 15th Round of the GRQ that will conclude this year.

8. In the context of volatile market sentiments, major central banks have turned more accommodative. Rate cut by central banks of some AEs are associated with the decline in sovereign yield and widening of credit spread. Financial flows from and to AEs have remained subdued as can be seen in the case of decline in foreign direct investment. This is, in part, due to the effect on change in nature of financial operations of multinational corporations in the changed tax regime. In many EMDCs, including India, central banks have cut policy rate in 2019. Capital flows to emerging markets reflect the risk sentiment among investors, who, however, differentiate individual countries based on economic and political factors.

9. In such a global context, the role of multilateral development banks and International Financial institutions can be critical in ensuring that investments in emerging economies and low-income countries are designed in such a manner so as to enhance development outcomes, including job creation, domestic entrepreneurship and gender parity in the workforce. The economic transformation of countries trapped at the lower end of the Global Value Chains can be accelerated with the right mix of development finance, private investment and policy reforms. The work of the World Bank Group and the Fund in helping developing countries build strong institutions and good governance would certainly improve the investment climate and attract long term investments. Developing countries also need to be encouraged to build the right policy environment including action against illicit financial flows and tax avoidance that would support domestic resource mobilization of much needed

infrastructure and human capabilities. We look forward to more effective action through the multi-pronged approach of the Fund-Bank to help countries facing debt distress in making well-informed choices in financing their public spending.

10. The Bank has also been actively pursuing the Cascade approach to Mobilize Finance for Development. While private investment can bring in innovation and efficiency in these new markets, international cooperation is required to ensure that they are accompanied by creation of competitive and transparent markets and concern for environment and inclusion. In particular, with the rise of the digital economy, developing countries need to be empowered to be able to address data privacy and tax issues related to platforms firms. We also look forward to more South-South cooperation, leveraging the private sector solutions, in health, education, skilling, water management, affordable housing and renewable energy. This would be a significant contribution to the attainment of the Sustainable Development Goals 2030.

11. We note the work commencing on the International Development Association (IDA) voting rights reform and expect an outcome that encourages participation and contribution across all members in accordance with their capacity. The financial and cooperative nature of the Association must be kept at the forefront.

12. We look forward to IFC, with its substantially enhanced capital base, helping investments in developing countries succeed through its due diligence, mobilization, capacity building and advisory services. We commend IFC and MIGA’s contributions to increasing investment in developing countries through access to long-term

financing at lower cost. We look forward to effective use of the Cascade approach and IFC 3.0 strategy to catalyze private sector investments for development impact.