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

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1. We note with concern the slowing down of the global economy with growth projected to decline from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.6 percent in 2023. The slowdown is more pronounced in advanced economies with the USA recording a sequential contraction in the first half of 2022, the Euro area facing contraction in second half of 2022 and slow-down in China amid lockdowns on account of 'zero covid policy' and the growing crisis in its realty sector. The growth in emerging market and developing economies (EMDEs) is also expected to slow from 6.6 percent in 2021 to 3.7 percent in 2022 and 2023. India remains the only large economy with growth projection of above 6 percent for both 2022 and 2023.

2. Both advanced economies and EMDEs are dealing with high inflation, though of varying degrees. Global inflation is expected to rise from 4.7 percent in 2021 to 8.7 percent in 2022 but may decline to 6.4 percent in 2023 and 4.1 percent by 2024 as projected by the IMF. Inflationary pressures began to surface in advanced economies in 2021 and got further exacerbated with the geo-political uncertainty in 2022 which accentuated existing supply chain disruptions and resulted in unprecedented surge in commodity prices especially fuel and food. The uncertainty has weighed down on the economic outlook of EMDEs with growing import bills and repercussions for current account deficit. The low-income countries have to bear the brunt of the slowdown in growth and surge in commodity prices and many of them face threats of food insecurity which is partly due to climate related disruptions in agriculture sector in these countries.

3. A confluence of factors ranging from geo-political uncertainty to elevated inflation has exacerbated downside risks to global growth. Multi-decade-high inflation, partly an outcome of geopolitical disruptions, has led to aggressive normalization of monetary policies in advanced economies triggering the flight to safety. EMDEs face disorderly capital outflows with their currency markets under pressure from the appreciation of the US Dollar. Financing high CADs may be a major challenge for some of these countries. Medium-term outlook remains clouded with many downside risks. We are quite concerned by the prospects of fragmentation in the world economy further intensifying supply side constraints. With the regime of sanctions getting wider and deeper, the fragmentation in the financial systems can pose serious threats to international financial stability. A lot depends on the pace of policy normalization in the coming months and the trajectory of the conflict in Ukraine and its global spillovers, including high food and energy prices, and possibility of further pandemic-related supply disruptions.

4. Among the AEs, growth in US/Canada has slowed down while the LACs continue to recover though increasing headwinds are expected. Broad-based inflationary pressures and tightening

financial conditions constitute the third economic shock after the shocks from pandemic and the conflict in Ukraine coming sequentially. With risks tilted to the downside, slower growth and entrenched inflation in coming years is likely to have socio-economic ramifications which call for appropriate policy response. We need to restore price stability, continue fiscal consolidation, and support the vulnerable sections of the society.

5. In the Euro area, growing spillovers from the geo-political tensions with Russia and record high energy prices have pushed prices up and reduced real incomes. High inflation and aggressive monetary policy tightening has impacted growth process and dampened domestic demand. A sharp growth slow-down is expected as policy normalization would continue through 2023. Policy makers have to complement monetary policy through a measured fiscal consolidation as support to households is needed to alleviate stress from the cost-of-living crisis owing to unmitigated rise in energy prices.

6. In the Asia Pacific region, recovery continued well but the slow-down in China has raised concerns. Both manufacturing and services recovered strongly but now the signs of softening are visible largely due to slowing economic pace in China. The region has witnessed inflation but not as severe as in the AEs, mainly driven by food prices though core inflation has picked up recently. EMDEs in Asia face volatility in their capital and currency markets as the US Dollar appreciates and policy normalization triggers the capital outflows. But markets have generally responded well to these policy shifts and the capital outflows have not been any greater than recent historical stress episodes. The economic outlook shows intensification of downside risks with the sharp slow-down in China which may impact growth negatively, but growth would remain in the positive territory. Public debt has been on the rise and many countries face undue debt distress and have limited fiscal space to respond to the food and energy shocks. The situation in Sri Lanka is clear case of where the international community must step in to arrest the slide in to economic and social chaos. The policy makers have to pursue consolidation and reduce debt levels and rebuild buffers while mitigating the cost-of-living burden on the vulnerable sections of the society.

7. In the Middle East, the recovery has been uneven with varying degrees of vaccine roll-out in the countries in this region. While the GCC countries have done well, there is slow progress in many low-income countries and fragile and conflict affected states. The region faces increased risks as vaccination pace remains slow. The risks from geo-political tensions and climate shocks weigh on the economic outlook over the medium term with the possibility of high inflation and declining growth. Unsustainable levels of debt in the region is a cause of concern and fiscal policies over the medium term should target reduction of public debt and improve debt service coverage.

8. For Africa, the multiple economic shocks have exacerbated macro-economic imbalances and many countries face rising levels of debt distress. Food insecurity has turned in to a dominant

challenge in many of these countries. Considering the limited fiscal space, more targeted cash transfers to support the vulnerable may be adopted by policymakers while phasing out distortionary subsidies in food and energy. Consolidation of public finances would be critical to stabilize public debt through a well-defined medium term fiscal framework. Inflation in these countries is largely externally driven but gradual tightening of monetary policy may be adopted as recovery remains fragile.

9. India stands out as it has put up the best *performance* among major economies with a 13.5 per cent y-o-y growth in the Q1 2022-23. India's fiscal performance also has been encouraging with better-than-expected rise in revenue collections and it is hoped that fiscal deficit targets would be met at 6.4 per cent, down from 6.7 per cent in the previous year. Despite the capital market volatility and adverse external sector developments, India maintains a comfortable level of foreign exchange reserves and with the global commodity prices expected to decline further, there would be no challenge in financing the CAD. The focus on capex spending and the rationalization of expenditures through digitalization is expected to create the necessary fiscal space to support the vulnerable sections. India has embarked on an ambitious digitalization of its economy and the success of its UPI in the payments space has led to increasing formalization of its economy and substantial reduction in transaction costs. The use of information technology and data analytics has been the key driver in the revenue augmentation strategy. Consumer confidence in India remains high. The services sector PMI has improved substantially and the PLI scheme has given a fillip to the manufacturing sector. The growth rate this year would be about 7 per cent which would be perhaps the highest among major economies. India's macro-economic policy stance would focus on further consolidation and containing inflation while implementing structural reforms to sustain the growth momentum over the medium term.

10. The tightening global financial conditions have further pushed countries into debt distress as debt service challenges have become more onerous and they have limited fiscal space to maneuver. Many LDCs are currently in the need of debt relief in some form or the other. The Common Framework has been in operation for two years but has been quite slow. Delay in getting financing assurances from creditor committees has been a major factor. It is encouraging to know that the creditor committee for Zambia has given its financing assurances paving the way for potential restructuring of its debt. It is important that further work in the case of Chad and Ethiopia is taken up expeditiously. At the same time, debt situation in many middle-income countries like Sri Lanka has become precarious. It is urgent to either expand the scope of the common framework or come up with an alternate model to deal with the debt restructuring issues forthwith.

11. Most advanced economies and EMDEs are facing high and persistent inflation. The surge in prices of fuel and food has caused an acute cost-of-living crisis in most countries. The supply side disruptions and high prices have created the challenge of food insecurity in many developing and

low-income countries. Although prices have moderated recently, they remain high, and supplies remain affected. Further trade liberalization measures may be warranted to ease supply side constraints including removal of restrictions on State owned undertakings entering the international food grains market. We welcome the addition of the IMF Food Shock Window to its rapid financing /emergency financing lending toolkit to support countries facing food insecurity and a balance of payments crisis jeopardizing their access to food imports.

12. Policymakers have difficult choices going forward and need to tread carefully for policy calibration in the growth-inflation trade-off. Further tightening of monetary policy may be necessary to anchor long term inflationary expectations across major economies. Some degree of fiscal consolidation would be needed to complement monetary policy. The impact on growth may be substantial and proper calibration of monetary policy is, therefore, critical to avert a potential deep recession. High interest rates in AEs and the appreciation of the Dollar can further destabilize capital and currency markets. The high uncertainty in the global markets has already shaken the confidence of markets and risk aversion is on the rise. Need for international co-operation in monetary policy is critical as the chances of policy slippage are high and better communication and a data driven approach can possibly allow room for a soft landing.

13. The IMF has a critical role to play in this hour of crisis for the world economy. The Fund can advise member countries through tailored advice as to the appropriate policy mix to navigate through these challenging times. The Fund has a repository of data and information and expertise to provide analysis backed by evidence as part of its macro-economic surveillance function. A deeper engagement with member countries and adopting a flexible approach and using all tools such as Technical Assistance and Capacity Development would be appropriate considering the deteriorating scenario with overlapping risks. The IMF should not be found lacking in terms of its resources or its lending toolkit to rise to the occasion in these rather tumultuous times.

14. The 16th GRQ provides a great opportunity for governance reforms to ensure that the IMF remains adequately resourced at the centre of the Global Financial Safety Net (GFSN) and can play an important role as per its core mandate in supporting countries facing structural issues. The 16th GRQ needs to be completed by December 2023 as per the timeline agreed. We believe that quota shares should be enhanced to a level where IMF gets most of its resources from quota allocation. The current round of bilateral borrowing arrangements (BBAs) and the New arrangements to borrow (NAB) are set to expire in 2023 and 2025 respectively and it is important that the Fund’s lending capacity does not drop due to this and its resources are enhanced through quotas before this. We also support increase in the size of the resource envelope based on rational projections of demand on Fund resources taking in to account the elevated risks facing global economy. We believe that persistent misalignment in quota shares with respect to member country’s relative

position in the world economy is likely to weaken the legitimacy of the Fund and in this round of governance reforms, we must address it head-on.

15. The current quota formula needs to be revised substantially or replaced with a new one which is robust and reflects the structural shifts in the global economy, especially the increasing weight of EMDEs in the world economy relative to AEs. At the same time, the interest of the poor countries should be adequately protected under the new formula. We believe that the basic principles behind the current formula need to be revisited especially concepts such as “openness” and “variability” in the quota formula. We do not see their relevance in the context of today’s global economic order. It is time to go back to the drawing board and establish new determinants that would help us to come up with quota shares that better represent the current economic landscape.

16. We believe that while we navigate the current challenges and uncertainty, we should keep our long-term focus on structural changes needed in the world economy including the efforts to combat climate change and achieving energy transition. In this context, we welcome the establishment of the Resilience and Sustainability Trust which would support countries in need of financing for long term restructuring to facilitate their green transition. We call for the early operationalization of RST and encourage the SDR channelling towards the goal of 100 billion USD funding to support the effort to build resilience to external shocks, ensure sustainable growth and contribute to stability in balance of payments for low income and developing countries.

17. The unfinished tasks of economic recovery from the COVID-19 pandemic and reversing developmental setbacks caused by it, especially to the twin goals require the World Bank Group institutions to continue to push the envelope in both financing and knowledge, as they ably did during the pandemic. It is encouraging to note that IBRD and IDA together committed a record USD 71 billion during the FY 2022 and that IBRD financing for Small States returned to pre-crisis levels. We welcome the recent establishment of the FIF-PPR for pandemic preparedness. As the Knowledge Bank with tremendous global credibility the Bank must rise to the occasion and help client countries identify newer drivers of growth and support them in their pursuit of Sustainable Development Goals with greater vigor.

18. IFC is well positioned to support the private sector to survive, recover, and innovate to create new opportunities. Mobilization of private capital in overcoming the losses in learning, skills and jobs should take the center stage in the wake of IFC’s increased global footprint, and a strong financial position. We also look forward to the new Platform Approach being expanded to include private sector investments in agribusinesses, value chains, green buildings and other major development transitions across LICs and LMICs. Given the increased fragility and political risks across developing countries, the role of MIGA to crowd-in foreign investments has become extremely

important. We believe that a determined One WBG approach in every venture in the coming days, weeks, months and years will greatly help fight the adverse tides and headwinds.

19. We deeply appreciate the recent bold decision of the IBRD to raise the Single Borrower Limit to enable a robust support for the poor and for impactful climate investments. We also call upon the Bank to lead and leverage its convening power in the work emanating from the recommendations of the G-20 expert panel on Capital Adequacy Frameworks of MDB's.

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