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India

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

STATEMENT BY MR. SUBHASH CHANDRA GARG, SECRETARY, DEPARTMENT OF ECONOMIC AFFAIRS, MINISTRY OF FINANCE, ACTING IMFC GOVERNOR OF INDIA (REPRESENTING THE CONSTITUENCY CONSISTING OF BANGLADESH, BHUTAN, INDIA AND SRI LANKA) TO THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

October 13, 2018

Mr. Chairman,

1. At the outset, let me express my gratitude to the people of Indonesia for their warm welcome and hospitality. I also thank the Government of Indonesia for excellent and touching arrangements made for the smooth conduct of the Annual Meetings. We fully understand that it must have been a massive challenge organizing a global platform of such a scale and in circumstances where the memories of recent earthquake in Sulawesi are so fresh. And yet, despite these difficulties and challenges, the host Government has provided most conducive setting for the discussions which, I am sure, will contribute to further strengthening of this important multilateral forum.

2 Since we met in April this year, we note that global growth appears to have lost some momentum due to plateauing of growth in some advanced economies (AEs) as well as disruptions in some emerging markets and developing countries (EMDCs). Growth prospects are diverging among countries due to mounting trade and geopolitical tensions, higher oil prices and tightening of financial conditions. While economic prospects in the United States remain buoyant, those in the euro area, Japan and the United Kingdom appear subdued. Growth in EMDEs is expected to remain robust but faces substantial downside risks from tightening of global financial conditions, intensification of market pressures, rising oil prices and reversals in capital flows. Accelerating structural reforms, rebuilding policy buffers, enhancing financial resilience and promoting growth-friendly and inclusive policies would serve to foster a higher and sustainable trajectory of global economic activity. Most importantly, if major advanced countries were to think of the entire World, and not merely their national constituencies, and work in a spirit of global cooperation, we would possibly be able to revert to expansion of global economy once again and contribute to development of all.

3 As called upon in the Third Meeting of G20 Finance Ministers and Central Bank Governors in Buenos Aires in July 2018, we should deploy all our policy tools to support economic activity and ensure price stability. Counter-cyclical fiscal policy with an eye on debt sustainability and

structural reforms that bolster growth potential are critical. At the same time, we must renew our commitment to the call given by G20 Leaders at the Hamburg Summit in 2017 to adopt cooperative approaches to promote trade in goods and services and investment frameworks. We must work constructively to mitigate risks from rising trade tensions through multilateral dialogue for resolving differences and modernizing the rules-based multilateral trade system to attenuate risks to global growth and welfare.

The Role of IMF- Architecture of Global Cooperation

4 Although the quota increases under the 14th General Review of Quotas (GRQ), renewal of New Arrangements to Borrow (NAB) and fresh bilateral commitments have preserved the lending capacity of the IMF for the present and has enabled IMF to serve its member countries well, the IMF needs to strengthen its pool of resources to meet the demands for actual, potential, and prospective financing needs in keeping with its mandate. A strong quota-based permanent resource base for the IMF will alone serve to protect the Global Financial Safety Net (GFSN) from the stresses and crises which the World is bound to encounter in times to come. We, therefore, strongly support the shared multilateral commitment on completing the 15th GRQ by the 2019 Spring Meetings and no later than the 2019 Annual Meetings. At the same time, the IMF needs to make conscious efforts to reduce its dependence on borrowed resources, which are temporary in nature.

5 The latest data update based on the current formula reveals that while the share of EMDCs in the GDP blend remained at 50.4 percent, their calculated quota share (CQS) has fallen to 42.4 percent as per 14th quota review indicating the inability of the current formula to capture actual position of EMDCs in the global economy. In addition to the significant underrepresentation of EMDCs vis-à-vis AEs, the CQS of EMDCs as a group has declined in the current update in all the formulas considered. This continued misalignment of members' quota shares needs rectification through a revamping of the quota formula that can realign quota shares in favor of dynamic EMDCs corresponding to their relative positions in the global economy. At the same time, we are committed to protecting the quota and voting share of the poorest members under the 15th GRQ. We are disappointed to note that while preliminary views on this subject have been expressed by all countries, the march forward necessary to complete 15th GRQ within the agreed timeframe still eludes us. We understand that further progress of the Fifteenth Review will depend on important elements of judgement and compromise. It would be useful for all stakeholders to identify topmost priorities and most preferred deliverables and make earnest efforts to narrow down differences and build consensus. Based on IMFC guidance, we appeal to all stakeholders to work constructively to complete the 15th GRQ within the envisaged timeline, yielding an outcome that is perceived to be fair by all stakeholders. As members of the Fund, it is also our legal commitment to

complete review of quotas at least once every five years. This is essential to ensure the continuing legitimacy of the IMF as the anchor of the GFSN.

6 The IMF should continue to strengthen its capacity for multilateral surveillance in core policy areas including areas of macro-critical importance to assess new and evolving global vulnerabilities. We welcome the emphasis by the IMF on sharpening its toolkit to support the membership especially low-income countries (LICs) with timely policy advice and financial support. We call on the IMF to assess the existing facilities to LICs and strengthen its capacity development work to enable them to catalyze durable financial support from their development partners. We also strongly support the Fund's engagement with regional financing arrangements (RFAs) to bolster the GFSN.

7 We call upon the IMF to actively encourage the rebalancing of the global economy while drawing attention to the adverse implications of spillovers resulting from prolonged accommodative policies followed in the AEs. The IMF should encourage AEs to adopt "responsible" economic policies and continue to closely monitor the pressure on capital flows in EMDCs. The intensifying threat of protectionism and rising trade tensions must be resisted and countered wholeheartedly with deep analytical rigour and coordinated global efforts in order to preserve the multilateral trade and financing framework for beneficial outcomes for all. We believe that severe escalation of trade tensions would reduce confidence and cause disruptive effects on global growth. We urge a forceful advocacy by the Fund for an open and rules based international trading and financial system and wider efforts to sensitize the membership of the immense macroeconomic dividends that can be obtained by embracing multilateralism.

DEVELOPMENTS IN THE CONSTITUENCY

A. BANGLADESH

8 Bangladesh economy continues to perform well, supported by steady monetary policy management and fiscal discipline. 7.86 percent real GDP growth in FY18 (ending in June 2018) has outperformed the target of 7.4 percent. Inflation in FY18 has marginally exceeded the central bank's ceiling of 5.5 percent to record 5.78 percent, on account of weather-related shocks and rising global inflation. In FY19 so far, point-to-point inflation has risen to 5.51 per cent in July 2018 as against the target of 5.4 percent for FY19.

9 Monetary policy stance will continue to remain prudent, and the authorities remain vigilant against upside risks to inflation and in readiness for policy rate adjustment. Liquidity in the banking system has tightened due to negative growth in net foreign assets, primarily on account of higher import growth. The central bank is engaged in strengthening supervision

and corporate governance in banks that can lead to lower credit and concentration risks and, subsequently, lower NPLs.

10 On the external front, the current account deficit widened to 3 percent of GDP (US$ 9.78 billion) during FY18 as against a small deficit of US$ 1.33 billion in FY17, because of strong import growth (25.23 per cent) in capital goods and infrastructure related goods, higher commodity and oil prices and a sharp one-off increase in food imports after the floods last year, despite an acceleration in exports (6.43 per cent) and a surge in remittance inflows (17.33 per cent), resulting in forex reserve depletion and Taka depreciation. The FY19 current account deficit is projected at US$ 10.16 billion. Import coverage by reserves – currently at US$ 32.92 billion – was at 5.5 months at end-FY18 – slightly lower than in FY17. Bangladesh government is proactively engaging in bilateral and multilateral trade negotiations towards widening market access and diversifying the export basket.

11 Fiscal deficit (excluding grants) in FY19 is expected to remain at around 4.9 per cent. Budget financing is to be mainly done through National Savings Certificates (NSCs) and from bank and non-NSC sources. Larger expenditure has been budgeted for the Annual Development Programme. Gross investment, as percent of GDP, has risen in FY18 to 31.231 percent from 30.51 percent in FY17, aided by the high domestic savings rate. While donor support will continue to be essential in meeting additional spending pressures from the Rohingya crisis, the deferral of VAT (value added tax) is not likely to pose any major concern if strong revenue growth momentum continues and expenditures are kept in check. The government's reform initiatives to improve the business climate and ease infrastructure bottlenecks, including by developing special economic zones, should help crowd in both private domestic and foreign direct investments that can create more jobs, raise productivity, and potential growth.

B. BHUTAN

12 Bhutan’s economic growth continued to accelerate in 2016 at 7.99 percent, in line with the performance of the preceding three years where growth averaged a little over 6 percent. The high growth continued to be driven by the secondary and tertiary sectors. The medium-term outlook is also promising, with the commissioning of new hydropower projects expected to provide further impetus to output and exports, as well as to fiscal revenues.

13 The overall CPI inflation (measured by the year-on-year change of the consumer price index) recorded at 2.55 percent in June 2018 compared to 4.94 percent during the same month of previous year. The fall in inflation was mainly due to decrease in the prices of non-food commodities. On the other hand, the domestic inflation during June 2018 was recorded at

1.47 percent while imported inflation was recorded at 3.56 percent. The imported inflation of 3.56 percent was due to the food prices.

14 During the FY 2016/17, the actual expenditure was Nu. 48,017.99 million with total realized resources of Nu. 42,673.26 million. This resulted in improving the fiscal deficit to Nu. 5,344.862 million, which is 3.3 percent of GDP. As the final year of the 11FYP, the budget for FY 2017-18 ensured completion of priority programs and activities of the plan. The revised budget for the FY 2017/18 was Nu. 56,513.49 million. Despite increase in the revised budget, the fiscal deficit improved from 2.47 percent of GDP to 1.01 percent with the higher improvement in the resources.

15 On the external front, both the trade and current account improved in FY 2017/18. The current account deficit decreased slightly from 24.11 percent of GDP in FY 2016/17 to 23.91 percent of GDP in FY 2017/18, mainly on the account of the trade deficit, which improved to Nu. 26,959.11 million from Nu. 31,149.17 million in the previous year, driven by higher merchandise goods export. At the end of June 2018, the gross international reserves recorded at USD 1,110.9 million. Reserves were sufficient to finance 13.01 months of merchandise imports.

16 Broad money (M2) was recorded at 10.43 percent as of June 2018, a decrease of 21.08 percent point from 31.51 percent in June 2017. The growth in the broad money was contributed by growth in narrow money (M1) and other deposits. The narrow money and other deposits growth recorded at 9.19 percent and 12.19 percent respectively as of June 2018. On the other hand, net foreign assets recorded negative growth of 3.61 percent and domestic credit recorded growth of 17.91 percent. Credit to private sector growth remained at similar level of 15.69 percent in June 2018 with a slight increase from 15.39 percent in June 2017. The growth in credit was mainly contributed by the access to credit transmitted through financial inclusion initiatives.

C. INDIA

17 India is one of the fastest growing major economies and is currently the world’s sixth largest economy. Real GDP grew by 8.2 per cent in 2015-16 but slowed to 7.1 per cent in 2016-17. Despite introducing major structural reforms of Goods and Services Tax (GST), cleaning of black money through demonetization of high value currency and introducing bankruptcy and insolvency regime in the country in 2017-18, we managed a growth of 6.7 percent in FY 2017-18. The growth accelerated to 7.7 percent in Q4 of 2017-18, which was the fastest in the last seven quarters. The GDP growth for 2018-19 is estimated to be around 7.5 percent. With the recent trends of the recovery in investments and capacity utilization in the manufacturing sector and the improved traction of the GST system, it is possible that the GDP growth for

2018-19 could even exceed this. Already the first quarter growth for 2018-19 estimated at 8.2 percent reflects a strong momentum gaining in growth resurgence and indicates that a V-shaped recovery is now complete. India's commitment to fiscal discipline, sound external position, liberalized FDI inflows, comprehensive structural reforms, AADHAAR based efficient delivery of services and benefits, enhanced emphasis on social protection and financial inclusion along with increased resilience of the banking system from recapitalization and focused efforts to resolve impaired assets of public sector banks have provided strong ground for sustaining robust and inclusive growth going forward.

18 With a view to keep inflation in line with target, the policy (repo) rate was increased twice by 25 bps each - in June and August 2018. The policy rate kept unchanged at 6.50 percent in the Fourth Bi-monthly Monetary Policy Statement issued this month. While the policy repo rate was kept unchanged, the Monetary Policy Committee voted to change the stance of policy from neutral to calibrated tightening in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent, while supporting growth. Headline inflation in India declined from 4.9 percent in June 2018 to 3.7 percent in August. The Reserve Bank has projected inflation at 4.0 percent in Q2:2018-19 and 3.9-4.5 percent in H2 both of which are not too far away from the medium-term target for CPI inflation of 4 percent. The proactive supply management by the Government and RBI's inflation targeting framework are serving well to contain unwarranted building-up inflationary risks. Going forward, we will continue to strengthen our efforts to achieve our medium-term target of headline inflation of 4 percent on a durable basis.

19 The government is committed to the path of fiscal discipline. The central government finances have achieved substantial consolidation since 2013-14, aided by buoyancy in tax revenues and significant rationalization of expenditure, mainly subsidies. The fiscal deficit (GFD) has reduced to 3.5 percent of GDP in 2016-17 and 2017-18. This has been achieved without reducing public investment and social sector spending. The Government's commitment to fiscal rectitude is reflected in the amendments made to the Fiscal Responsibility and Budget Management Act (FRBM), 2003 incorporating the recommendations of the FRBM Review Committee. In the new FRBM framework, the Government aims to curtail Central Government Debt to 40 percent of GDP by the end of FY 2024-25 and fiscal deficit to 3 percent of GDP by the end of FY 2020-21. Restrictions on deviations from the above path have also been written in to the statute by specifying escape and buoyancy clauses. For example, the increases in fiscal deficit (of 0.5 percentage points) are allowed only when the difference in GDP growth rate of the current quarter compared to the average growth rate of previous four quarters is greater than 3 percentage points. The Medium Term Fiscal Policy Statement has pegged the budgeted fiscal deficit and total outstanding liabilities of the Central Government at 3.3 percent and 48.8 percent respectively of GDP for end FY 2018-19. These targets are in consonance

with the targets envisaged in the Act. In a time of structural changes in the economy, the focus of the Government remains on following a fiscally sustainable growth path.

20 The GST system introduced with effect from July 01, 2017 has reformed the system of indirect taxation of goods and services at federal and provincial levels in one stroke. By subsuming a plethora of central and state level indirect taxes, the GST has helped in streamlining payments and credits and enhanced the ease of moving of goods across the country. Simplification of taxation laws and related procedures including automation of tax payments and 'team-based assessment with dynamic jurisdiction' without direct interface with taxpayers have significantly enhanced buoyancy and increased the efficiency and transparency of revenue administration.

21 In recent years, India's external sector has benefited from lower current account deficit (CAD), robust FDI, build-up of reserves and improvement in other vulnerability indicators. Far-reaching liberalization of the FDI policy has given strong impetus to investments and employment growth. The UNCTAD's survey of multinational enterprises ranked India as the third most favourite host country for FDI for 2017-19 after the US and China. Gross FDI inflows during FY 2017-18 stood at US$ 60.97 billion compared with US$ 60.22 billion in the previous year, US$ 55.56 billion in 2015-16 and US $ 45.15 billion in 2014-15. The CAD to GDP ratio in 2016-17 was placed at 0.7 percent. It increased to 1.9 percent in FY 2017-18 and continues to remain sustainable. Foreign exchange reserves stood at US $ 400.5 billion as on September 28, 2018.

22 In the recent past, the government has worked vigorously on multifarious fronts to remove impediments that have impeded India's economic growth. The enactment of the Insolvency and Bankruptcy Code, action against shell companies, tax reforms including legislative measures against fugitive economic offenders, institution of comprehensive systemic improvements in the banking sector including provision of banking facilities to the un-banked, FDI liberalization, strengthening of power, roads and other infrastructure, enhancing employment opportunities through the introduction of 'fixed-term' employment, provision of sanitation, affordable housing and insurance and risk coverage to the poor, universal health coverage through 'Ayushman Bharat', preventing leakages through DBT (direct benefit transfer) as well as wide ranging structural and regulatory reforms and enhanced transparency in government administration have been reflective of affirmative action to foster ease of living

23 The strong record of implementing reforms and good governance with an aim to 'reform, perform and transform' has enhanced India's global ranking in the World Bank's Ease of Doing Business remarkably. With an improvement of 42 places, India has broken into the top 100 positions for the first time. Significant jump in the doing business ranking is the result of the vision of 'Minimum Government and Maximum Governance', which has encouraged

government agencies in carrying out hundreds of reforms in policies, rules and procedures. The World Bank Doing Business Report for 2018 has acknowledged India as one of the top 10 improvers having implemented reforms in 8 out of the 10 'Doing Business' indicators and commended us as the only large country to have achieved such a distinctive shift. We expect further improvement in India's ease of doing business ranking in next edition to reflect continued momentum of reforms and simplification in India.

24 Recognizing the pivotal role of infrastructure in boosting growth, India has attached highest priority to infrastructure development through a holistic approach of improving multi-dimensional connectivity. The Government is developing five industrial corridors including the Delhi-Mumbai Industrial Corridor that will act as engine of growth in these regions through improved infrastructure availability for greater industrial investment. Rejuvenation of all transport sectors would be the key. The Bharatmala scheme has an ambitious programme for development of national road corridors and highways. The Sagarmala project has been undertaken for enhancement of port connectivity, port modernization and port-linked industrialization. If Sagarmala is aimed at improving the infrastructure for external trade, the Jal Marg Vikas project for capacity augmentation of navigation on National Waterways is aimed at internal trade carried through inland water transport. Dedicated freight corridors are being developed to mitigate the congestion of our railway network. These initiatives will improve the logistics tremendously, thereby reducing the cost of transportation and increasing the competitiveness of domestically produced goods. To provide air connectivity to smaller cities and to enable the common citizens of the country to avail air travel, the UDAN scheme has been launched aimed at connecting 56 airports and 31 helipads. The High Speed Rail project connecting Mumbai and Ahmedabad is an ambitious project that we are undertaking with the assistance of Japan. It will demonstrate the power of technology and how it can bridge distance and shrink time. The work on power connectivity – One Nation, One Grid – has been completed to ensure power availability to states at affordable rates. Schemes have been implemented to strengthen the power distribution network in villages and towns.

D. SRI LANKA

25 The Sri Lankan economy continued to perform below potential and expanded at a modest rate of 3.6 per cent, in real terms, during the first half of 2018, compared to 3.2 per cent growth recorded during the corresponding period of the previous year. The growth was mainly driven by the Services sector and the recovery of the Agriculture related activities, which were continuously hampered by adverse weather conditions in the recent past. The growth in the Industry sector remained subdued. In terms of value addition, key growth drivers in the first half of the year were financial services, wholesale and retail trade, tea, growing of rice, vegetables and fruits, and manufacturing of textiles and wearing apparel. The growth is expected to recover and move to a higher path benefiting from the ongoing structural reforms

to support export and investments, and improved productivity. Accordingly, Sri Lankan economy is projected to grow by around 4.0 per cent in 2018 and around 5.5 percent by 2022.

26 Although headline inflation moved to the upper limit of the desired 4-6 per cent band in July/August 2018 reflecting upward adjustments in administered prices, sharp depreciation of the rupee and impact of low base prevailed in the previous year, it moderated thereafter as envisaged with the onset of harvest. Meanwhile, core inflation has also remained low, reflecting the containment of demand driven inflationary pressures in the economy resulting from restrictive monetary policy measures adopted since end 2015. The Colombo Consumer Price Index (CCPI) based headline and core inflation remained at 4.3 per cent and 3.8 per cent, respectively, on a year-on-year basis in September 2018, and the National Consumer Price Index (NCPI) is also expected to follow a similar trend. In April 2018, the Central Bank signaled the turnaround from its tight monetary policy stance by reducing the upper bound of the policy rate by 25 basis points, and remains vigilant on domestic and global developments that could threaten domestic price stability. Meanwhile, necessary legal and regulatory reforms are being made to formally establish the flexible inflation targeting framework by 2020.

27 The fiscal sector showed a mixed performance during the first half of 2018. The initiatives under revenue based fiscal consolidation continued. During this period, the government revenue increased in nominal terms but was below the expected level as a per cent of GDP. However, supported by the government’s continuous efforts to rationalize expenditure, the primary account recorded a surplus of 0.3 per cent of GDP during the first 6 months of 2018. The budget deficit during this period also declined to 2.4 per cent of GDP from 2.6 per cent in the corresponding period in 2017. Moving forward, a substantial surplus is expected in the primary account of the budget in 2018, which is envisaged to increase considerably in the medium term reflecting government’s fiscal consolidation efforts and helping to reduce the overall budget deficit further. These developments will be supported by the full impact of the recent tax policy reforms and ongoing measures to improve tax administration. Prudent expenditure management, improvement in public debt and public financial management and reforms in state owned enterprises (SOEs) will also help achieving this improvement.

28 The external sector recorded a mixed performance during the first half of 2018, mainly owing to significant external pressures. Export earnings continued to grow during this period, but higher import demand, driven mainly by the surge in fuel, personal motor vehicles and gold imports, widened the trade deficit significantly. The current account deficit also widened reflecting the expansion in the deficits in trade and primary income accounts. Improved earnings from tourism and inflows of worker remittances helped partially offset the current account deficit. Net inflows to the financial account increased during the first half of 2018 mainly due to the FDI inflows, including proceeds from the divestiture of the Hambantota port,

international sovereign bond proceeds and the receipt of the fifth tranche of the IMF-Extended Fund Facility (EFF). However, foreign investment outflows from the government securities market and the Colombo Stock Exchange (CSE) since the second quarter of 2018 exerted pressure on the balance of payments. Meanwhile, the higher import growth and capital outflows, in the context of a strengthening US dollar, exerted significant pressure on the exchange rate. Accordingly, in line with several other peer countries, the Sri Lankan rupee depreciated at a faster pace of 9.7 per cent against the US dollar during the year up to 01 October 2018. The Central Bank intervened to contain disorderly adjustment in the exchange rate, particularly during the first weeks of September 2018. This was complemented by several policy measures implemented by the central bank and the government to ease the excessive demand for foreign currency and the pressure in the domestic foreign exchange market. The country's gross official reserves stood at US$ 8.6 billion by end August 2018 compared to the historically high level of US$ 9.9 billion recorded at end April 2018.

29 The financial sector continued to expand with improved stability and soundness during the first half of 2018. The capital adequacy, liquidity and asset quality of the banking sector remain robust. Measures are also being taken to strengthen the non-bank financial sector, which grew at a modest pace during this period, affected particularly by the implementation of macro-prudential policy measures and stronger prudential requirements. Other financial institutions sector that includes insurance, primary dealers, unit trusts and stock brokers continued expanding the business operations without major stability concerns.

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