



# **International Monetary and Financial Committee**

Thirty-Fourth Meeting  
October 8, 2016

**IMFC Statement by Arun Jaitley  
Minister of Finance  
India**

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

**Written Statement by Mr. Arun Jaitley, Minister of Finance and Corporate Affairs,  
India (Representing the Constituency consisting of  
Bangladesh, Bhutan, India and Sri Lanka)**

**to the International Monetary and Financial Committee**

**October 8, 2016**

Mr. Chairman,

1. Since we met in April 2016, the global recovery has remained sluggish and is marked by increasing macroeconomic uncertainties, including those arising out of the UK vote in favor of exiting the European Union. Weak confidence indicators and financial sector conditions hamper the outlook for advanced economies while prospects for most emerging markets and developing countries are subdued by diverse factors such as commodity price uncertainties and structural reform challenges.

2. The unfolding of political and economic developments in Europe could have adverse macroeconomic repercussions around the world. The risks of persistent ultra-accommodative monetary policies and negative interest rates could result in spillovers in the form of large and volatile capital movements, thus endangering financial stability. Advanced economies should be mindful of the possible adverse consequences of accommodative monetary policies on EMDEs.

3. There is growing consensus that monetary policies are near the limits of their effectiveness and need to be supported by fiscal policies and structural reforms that can boost actual and potential growth. Structural reforms in the face of limited space in national public finances can help in improving resource allocation and boosting productivity growth. We welcome the IMF's recent emphasis on the use of all policy tools to increase demand and enhance growth, while ensuring macroeconomic stability. We also welcome the Fund's call for policy coordination across countries, which can magnify the effectiveness of domestic policy interventions. The G-20 meeting held in Chengdu emphasized prioritizing structural reforms for high short term growth impact, and the recently concluded G-20 Hangzhou summit reiterated the importance of collective and coordinated efforts to raise growth while calling for free and fair trade and reduction in inequalities.

**The Role of IMF – Architecture of Global Cooperation**

4. The emerging risks to the global economy necessitate enhanced surveillance by the Fund to address incipient vulnerabilities in the global monetary and financial systems. The Fund needs to be adequately resourced to be able to fully discharge its responsibility, while remaining primarily a quota based institution. With the present composition of Fund resources skewed excessively toward borrowed resources, it is necessary to increase its quota resources. Further, as recent simulations with updated data have highlighted, there is also a need to realign quota shares to better reflect the current global economic realities. Thus, the

IMF membership should show urgency in completing the 15<sup>th</sup> 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 the Spring Meetings of 2019. The IMF membership needs to remember that it was their collective legal obligation to complete the 15<sup>th</sup> Review in 2015, apart from the fact that frequent and excessive delays in completing or implementing the General Reviews of Quotas erode the credibility and legitimacy of the organization. We hope that in future the IMF will show more determination and focus in working toward completing the 15<sup>th</sup> Review, including agreement on a new quota formula as a basis for realignment of quota shares to likely result in an increased share of emerging market and developing countries as a whole. We expect that the new deadlines that will be set will be honored and adhered to in letter and in spirit.

5. It is also important for the Fund to work toward integrating the different layers of the Global Financial Safety Net (GFSN) in order to create a more effective and coherent crisis prevention mechanism. We look forward to IMF's initiatives to strengthen cooperation among different layers of the GFSN.

## **Developments in the Constituencies**

### **Bangladesh**

6. Bangladesh has demonstrated resilience amidst global headwinds and domestic challenges. The preliminary estimate of real GDP growth is 7.05 percent in FY16 (ending in June 2016) and 7.2 percent in FY17. Headline inflation eased further in FY16, with annual average CPI inflation reaching 5.77 percent in August 2016, compared to 6.29 percent in August 2015. Food inflation has eased on the back of a good harvest and declining global prices.

7. Monetary policy stance will continue to remain prudent, and the authorities remain vigilant against upside risks to inflation. The combination of upward pressure on nonfood inflation from higher public sector and minimum wages in the garment industry, as well as the recent increases in energy tariffs, is expected to result in an upward pressure on inflation. However, a prudent monetary policy stance, with broad money growth set at 15.5 percent, should keep inflation below 6 percent.

8. On the external front, the current account balance continued to be positive in FY16 and is projected to be in moderate surplus in FY17. External reserves have risen to a comfortable level of over six months of import cover. Inbound remittances recovered in FY15, but have weakened in FY16 due to persistent low oil prices. However, lower remittances have been more than offset by improved trade balance and stronger service balance, and the risk to external stability is low. Bangladesh still retains significant advantages in the form of abundant and relatively low-cost labor and a large existing production base in garments.

9. Fiscal deficit (excluding grants) in FY16 is estimated to have risen to 5.0 percent from 3.9 percent in FY15. The increase reflects mainly the increase in public sector wages. Public investment has increased and subsidies as a share of GDP have come down, helped in part by a lower fuel subsidy. The fiscal deficit is projected to decline gradually over the medium term, as the planned implementation of the VAT Act is expected to boost budget revenues. The FY17 budget targets a deficit of 5.0 percent of GDP.

10. In the banking sector, financial stability continues to receive a high priority. Bank stress testing has now become a new supervisory tool, and regulatory authorities hold regular consultations with financial sector. Following the BB's reserve heist, increased attention is being paid to improve cyber-security in the banking sector.

11. The Government of Bangladesh envisages the economy to grow at a faster pace over the medium term with the help of higher public investment in infrastructure and measures to enhance private investment. Expenditure on infrastructure and social spending are low compared to countries at similar levels of development. To enhance public investment and social spending as also to boost growth and reduce poverty, while keeping fiscal policy sustainable, it is critical to augment revenue and implement the VAT by FY18. The PPP Act passed in September 2015 should enable private participation in public infrastructure projects, particularly in the power and transport sectors, along with future measures to improve the business and investment climate.

## **Bhutan**

12. Bhutan's economic outlook continues to be promising as the authorities endeavor to build on the impressive record of the last three decades. GDP grew by 5.4 percent in 2014/15, a recovery from the lows of below 4 percent in the two preceding years. It is estimated to have picked up further to over 6 percent in 2015/16. The acceleration of growth was mainly driven by a pick-up in services, mining and hydropower-related construction. In the medium-term, commissioning of new hydropower projects is expected to provide further boost to output and exports, as well as to fiscal revenues.

13. Consumer price inflation has eased: after peaking at 11.3 percent in Q4 2013 (y-o-y), it fell to 6.6 percent in 2014/15 and further to 3.3 percent in Q2 2016. On account of rapid growth in current spending, the 2014/15 (revised) budget envisaged a deficit of 2.4 percent of GDP, in contrast to the fiscal surplus of 4.1 percent of GDP in 2013/14. However, an updated estimate shows a smaller deficit of 1.5 percent, with somewhat stronger tax and nontax revenues and grants, and lower capital spending. In 2015/16, a further increase in capital spending has resulted in weakening of the fiscal balance, and the fiscal deficit is estimated at 3.2 percent of GDP.

14. The 2014/15 current account deficit at 30.2 percent of GDP was higher than in the preceding year as imports and interest payments on hydropower-related loans increased. In the first half of 2016, mainly as a result of higher hydropower project-related imports, it has increased by about one third relative to the same period of 2015. The current account deficit is projected to remain high until 2017/18 as large hydropower projects continue to be in the

construction phase. Subsequently, with hydropower exports increasing sharply due to the commissioning of new power plants, the current account balance is expected to return a surplus in the longer term.

15. Following the September 2014 termination of the ban on vehicle and housing loans, the slowdown in credit growth witnessed in 2013 and 2014 was reversed. Credit growth stabilized around 15 percent during the first half of 2016.

## **India**

16. India has emerged as the fastest growing major economy globally. GDP growth stood at 7.6 percent in 2015-16, higher than 7.2 percent in 2014-15. In 2016-17, the growth rate for the first quarter at 7.1 percent continues to exhibit strength. The robust pace of economic growth is creditable especially in view of tepid export demand and two successive shortfalls in monsoon rains.

17. CPI inflation eased sharply to 5.05 percent in August 2016 against 6.07 percent in the previous month. The positive supply impact of good south-west monsoon precipitation and food management policies will moderate consumer prices, enabling us to achieve CPI inflation of 5 percent by March next year. On moderation in the momentum of inflation, the Reserve Bank reduced the policy rate by 25 bps from 6.5 percent to 6.25 percent on October 4.

18. Significant improvements have been made in the institutional framework of monetary policy to strengthen transparency, continuity and independence. The inflation target of 4 percent with a range of plus/minus 2 percent in the medium term is enshrined as a part of the monetary policy framework agreement.

19. The Government and the Reserve Bank are aware of the problem of non-performing loans (NPLs) which are being addressed through various restructuring mechanisms as well as Asset Quality Review which has led to realistic recognition of NPLs and enhanced provisioning. The amendments made in the asset recovery laws including the legislation of the 2016 Bankruptcy Code will provide legal basis for the recovery of bad debts and allow speedier resolution than hitherto.

20. India has liberalized the FDI policy in several sectors and permitted entry through the automatic route in most cases. In fact, today India is one of the most open economies so far as FDI is concerned. The liberalisation of the FDI policy in the last two years has helped in increasing net FDI inflows to US \$ 36.02 billion in 2015-16 compared to US \$ 31.25 billion in the previous fiscal year. India's foreign exchange reserves rose to US \$ 372 billion as of last month. We have improved the current account deficit (CAD) to sustainable levels of 1.3 percent and 1.1 percent in 2014-15 and 2015-16, respectively.

21. The Gross Fiscal Deficit (GFD) at 3.9 percent in 2015-16 was led by better quality of consolidation without curtailing capital spending or allocations for welfare schemes for the poor. Budget 2015-16 outcomes are also noteworthy due to lower revenue deficit and enhanced capital spending. The Government is committed to pursuing fiscal consolidation by ensuring that the targets of 3.5 percent and 3.0 percent fiscal deficit are adhered to in 2016-17 and 2017-18 by improving spending efficiency, tax revenue mobilization and effective targeting of subsidies. The legislative approval for biometric based identity is providing a sound basis for transparent delivery of direct benefit transfers (DBT) and significant reduction in leakages from transfer of subsidy payments.

22. The GST Constitutional Amendment Bill has been approved by the Parliament and has received Presidential assent. This paves way for a landmark tax reform that will improve the ease of doing business, reduce transaction costs and prevent tax evasion. This also represents a new benchmark in co-operative federalism.

23. India has embarked on ambitious structural reforms to facilitate higher growth and equity. Since 2014 major efforts have been taken to expand financial inclusion by facilitating opening of bank accounts for every Indian family under Prime Minister's Jan Dhan Yojana (PMJDY). 240 million accounts have been opened so far under the PMJDY. Attractive Accident Insurance and Pension Schemes have established universal social security framework for weaker sections of the society.

24. Infrastructure investment is an integral part of the economic development programme of the Government. The National Investment and Infrastructure Fund (NIIF) set up to incentivise infrastructure development in commercially viable projects by attracting investments from domestic and international sources have generated considerable interest. The Government has also established 'Invest India' as the National Investment Promotion and Facilitation Agency to proactively source and facilitate foreign investment in India. A full-fledged 'Investment Facilitation Cell' is set-up under the 'Make in India' program to help potential investors.

25. India's push to infrastructure has been strong and visible. Be it Railways, Roads, or Shipping; the Government is focusing on augmenting the infrastructure to improve connectivity. In the roads sector, a transformative project called 'Bharat Mala' has been started for construction of roads in far flung and coastal areas. Likewise, in the Shipping Sector, the 'Sagar Mala' project has been rolled out to harness port led development along India's 7,500-kilometer long coastline. New Greenfield ports are being planned, both in the eastern and western coasts of the country, and development of inland waterways along the River Ganga. 100 Smart Cities are coming up with the objective to promote cities that provide core infrastructure and give a decent quality of life to its citizens, as well as a clean and sustainable environment.

## **Sri Lanka**

26. The Sri Lankan economy continued to grow moderately by 3.9 percent in the first half of 2016 compared to 4.8 per cent annual growth in 2015. The industry sector expanded at a relatively high rate led by higher value addition from the construction and manufacturing

activities. The Services sector, recorded a moderate growth supported mainly by financial services and trade activities. However, the agriculture sector production dropped due to adverse weather conditions. The economy is expected to grow by 5.5 per cent in 2016 supported by relatively higher expansion in economic activities during the second half of the year. With the anticipated structural adjustments in the external and fiscal sectors, and the implementation of sound macro-economic policies, Sri Lanka's economy is expected to expand by 6.3 per cent in 2017 and to grow thereafter at an annual rate of around 7 per cent.

27. Consumer price inflation, which remained below mid-single digits during the first quarter of 2016, indicated an upward movement during the second quarter reflecting the domestic supply side shortages due to adverse weather conditions and the immediate impact of some tax adjustments introduced by the government. The headline inflation as measured by the change in National Consumer Price Index (NCPI) increased to 5.8 per cent in July 2016 compared to 4.2 per cent at end of 2015. Meanwhile, core inflation also showed an upward trend recording 6.8 per cent in July 2016 from 5.8 per cent at end of 2015 reflecting the build-up of demand driven inflationary pressures in the economy. The upward trend in inflation along with high monetary and credit expansion required preemptive monetary policy measures by the Central Bank. Accordingly, the Central Bank tightened the monetary policy by raising the Statutory Reserve Ratio (SRR) by 1.5 percentage points to 7.5 per cent and raised policy interest rates twice by 50 basis points each, during 2016. The revenue collection of the government recorded an improvement during the first half of 2016 reflecting increases in both tax and non-tax revenue. This together with the rationalization of expenditure supported to reduce the budget deficit during the first half of 2016. However, revenue collection remained below the target due to delays in implementing some of the tax measures and hence achieving 2016 budget deficit target of 5.4 per cent appears challenging. Sri Lanka entered into a 3-year extended arrangement under the Extended Fund Facility (EFF) of USD 1.5 billion with the IMF to support its economic program 2016 – 2019 with the intention of strengthening external and fiscal balances of the economy.

28. Sri Lanka's external sector performance has remained subdued during the first half of 2016 largely due to the impact of substantial decline in international commodity prices, and lower demand for exports. The deficit in the trade account increased during the period as a result of the considerable decline in exports compared to marginal decline in imports. However, the current account improved with the increased inflows to the services and secondary income accounts. Net inflows to the financial account declined, mainly reflecting outflows in the government securities market and slowdown in foreign direct investments. These developments resulted in an overall deficit in the balance of payments during the first half of 2016.

29. Meanwhile, the EFF supported economic program contributed to positive investor sentiments resulting in a reversal in the net outflow from the government securities market. Inflows to the financial account were further supplemented by the proceeds from the dual-tranche International Sovereign Bond issuance amounting to US dollars 1.5 billion as well as receipts from the syndicated loan of US dollars 300 million and rolling over of US dollars 400 million under the SAARCFINANCE currency swap arrangement. Accordingly, country's gross official reserve level was maintained at US dollars 6.5 billion by end of July

2016 which was equivalent to over 4.2 months of imports. The Sri Lanka rupee depreciated against the US dollar by 1.2 per cent against the US dollar during the first eight months of 2016. The banking sector stability and soundness improved, along with improvements in capital adequacy, liquidity and asset quality.