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Statement by Mr. Das
India

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

Statement by Mr. Shaktikanta Das, Governor, Reserve Bank of India (on behalf of Mr. Arun Jaitley, Member, IMFC representing the Constituency consisting of Bangladesh, Bhutan, India and Sri Lanka), Leader of the Indian Delegation, to the International Monetary and Financial Committee

April 13, 2019

The Global Economy

1. I am pleased to have the opportunity to discuss global economic developments. After robust performance in 2017 and early 2018, global growth is slowing, and is less synchronized among countries. Trade tensions, rising debt levels, receding confidence, financial vulnerabilities and higher policy uncertainty across many economies are dominating the economic and financial landscape. Policy space is still available but mounting challenges leave limited room for maneuver. In the face of this scenario, the economic dimension of the Hippocratic Oath, "first do no harm", advocated by IMF is judicious and compelling. However, mitigating the slowdown and sparking accelerated and renewed growth will require much more than the doctrine of do no harm.

2. At country levels, governments need to adopt broad-based reforms for inclusive growth, and deploy a balanced mix of fiscal, structural and monetary levers. But no country is an island in today's integrated world. Continuous global cooperation at the multilateral level, especially in resolving trade tensions and in avoiding the temptation of raising distortionary barriers, is indispensable.

3. Going forward, global growth is expected to slow down to 3.3 percent in 2019, before returning to 3.6 percent in 2020. Amidst the darkening scenarios, some positives emerge with growth patterns being heterogenous. Growth is expected to slow this year in several large advanced and emerging market economies, including the United States (US), China and Euro area, although it remains firm in India. Activity in the US is softening, the Euro area is slowing under idiosyncratic factors and cyclical weakening; and natural disasters have hurt activity in Japan. As we move beyond 2020, global growth is set to plateau at about 3.6 percent, sustained by the increase in the relative size of economies, such as China and India, which are projected to have stronger growth compared to advanced and other emerging market economies**.**

Opportunities for and Expectations from IMF

Synchronize growth in the global economy

4. India today is an open economy with strong linkages with the rest of the world. Therefore, it is important for us that the Fund plays a critical role in addressing the global challenges. Reducing global imbalances call for a well-calibrated macro-structural policy mix. The Fund can assist its members especially the vulnerable members, to identify an appropriate policy mix that can help address, among other objectives, public expenditure efficiency, social spending, volatile capital flows in the context of rising spillovers, and deepening macro-financial and external linkages. It can also advise countries that are the source of spillovers on appropriate calibration of their policies considering the global interdependencies. We encourage the IMF to continue advising its members on pro-growth policies while raising the flag on macroeconomic, structural, foreign exchange, and trade policies. It is important to keep the global trading system open as envisaged by our WTO commitments. We value the IMF's work including surveillance that helps countries build and maintain strong economies, extending loans to countries, monitoring the global economy, and lifting growth through tailored capacity development. We expect the IMF's continued contribution in analyzing and addressing wide-ranging challenges that the global economy faces and in developing common ground on the more contentious ones.

5. Taxation, fintech, digitalization and corruption remain the core elements, which transcend borders. Within the G20 and other international fora and also bilaterally, we have worked resolutely on these matters and we acknowledge the work IMF has done on these aspects in coordination with other international organizations. Anti-Money Laundering (AML), Countering Financing of Terrorism (CFT), Secrecy jurisdictions, cyber-risks and tax havens have considerable implications for financial stability, inclusion, and integrity, and we urge IMF to integrate them firmly within the surveillance mandate and in lending programs.

Debt and its sustainability

6. An important fragile spot in the global economy, which is in plain sight, is the issue of spiraling debt globally. Mounting levels, especially on a bilateral basis, on non-transparent and non-concessional terms, are aggravating financial vulnerabilities of many countries, especially the fragile, low-income and developing countries. In some cases, the lending terms are offering skewed trade-offs: the country is loosening the grip on its economic resources and their earning potential for more immediate short-term returns. We strongly support the IMF and the World Bank's multi-pronged agenda on enhancing debt transparency and sustainability. As an advisor to borrowing countries and under its surveillance mandate, the IMF has stressed on stability through debt sustainability frameworks, technical assistance and program lending. It must continue its work on an all-inclusive debt database and reinforce the need for joint responsibility of lenders and borrowers and transparency, amongst its membership, both being paramount for reigning in debt.

The Global Financial Safety Net (GFSN)

7. To adapt to the changing times, the 2020 Comprehensive Surveillance Review, the 2020 Review of the Financial Sector Assessment Program (FSAP) and design and conditionality, and the facilities for low-income countries are underway at the IMF. The IMF must advance and strengthen these frameworks with a strong emphasis on promoting inclusive development through focused policies and internalizing of sustainable networks of growth, which work even much after IMF moves away.

8. The size of the GFSN has expanded significantly, and many alternative and innovative sources of liquidity and financial funding, such as bilateral swap lines and regional financing arrangements have evolved, in part, due to the reluctance of the Fund members to increase quotas, and the voice and representation of the dynamic emerging market economies. We firmly believe that the IMF should remain at the center of GFSN and in complex world economy encompassing fresh and greater risks. Adequate IMF resources are a vital stabilizing factor in global markets. We express our deep disappointment at the insufficient support for a quota increase under the 15th General Review, as a quota review every five years is an obligation of the Fund members in accordance with the Articles of Agreement. We hope, going forward IMF will be restored as a quota-based organization and its dependencies on temporary lines will be reduced. We also hope that, going forward, the voice and representation of the poorest members will be protected, and the quotas of the countries will be aligned with their relative position in the world economy.

DEVELOPMENTS IN THE CONSTITUENCY

A. BANGLADESH

9. Growth momentum in Bangladesh economy continues gaining pace, clocking 8.13 percent real GDP growth estimated for FY2019 (July 2018-June 2019) against 7.86 percent growth in preceding FY2018; supported by both external (export) and domestic demand.

10. Cautious monetary and fiscal stances have helped drive down headline (y-o-y annual average) CPI inflation from 5.78 percent of end June 2018 to 5.49 percent by end February 2019, well within the targeted 5.6 percent FY2019 ceiling. However, robust domestic demand driven by rapid GDP growth gain has nudged point-to-point and core (non-food, non-fuel) CPI inflation upward since January 2019, indicating need of continued caution against buildup of inflationary pressures.

11. Fiscal deficit of 4.9 percent of GDP projected for FY2019 remains within its typically moderate lower single digit trend level, with more than half (2.8 percent of GDP) of it to be funded by domestic borrowing. A substantial sustained boost in tax receipts is expected from the revamped new VAT law coming into force from July 2019, widening fiscal space for larger fiscal expenditure outlays without widening deficit in GDP percentage terms.

12. The sudden sharp FY 2018 worsening in the BOP current account deficit to over 3 percent of GDP from less than half percent of preceding FY2017 (arising from soaring food crop imports due to flood related domestic crop losses, and from one-off high capital goods imports of mega projects under implementation) has turned around to a more sustainable level in 2019. Besides post-flood rebound in domestic food crop output and project related imports coming down to normal trend levels, healthy growth in exports and workers' remittance inflows thus far in FY2019 and market based adjustments in exchange rate of Taka have also helped in rapid and substantial narrowing down of the BOP current account deficit, projected to remain under 2 percent of GDP by end FY2019.

13. Bangladesh authorities are pursuing the soonest feasible graduation of Bangladesh to Upper Middle Income economy status on an inclusive, environmentally-benign development path, fully in tune with the UN SDGs. To that end, the authorities are focusing on broad based inclusive human development, with adequate fiscal expenditure outlays for healthcare, education and job oriented training; besides ample outlays for expansion and maintenance of physical infrastructure to crowd in domestic and foreign private investments in job-rich, environmentally-benign output initiatives.

14. Also, the country's financial sector is being shored up towards getting it ready and able to respond adequately to the larger domestic and external financing needs of an Upper Middle Income economy, with institutional strength and soundness to withstand volatility shocks from increasing exposures to global markets. Activation of markets in corporate bonds and asset backed securities, introducing crop insurance schemes and other risk mitigation and hedging instruments are also high on priority in Bangladesh's financial sector development agenda.

15. Sustained steady GDP growth is enabling Bangladesh to finance much of her ambitious multifaceted development initiatives out of domestic resources; the once dominant role of external ODA has dwindled to a minor one. Nonetheless, substantial need still persists for external financing in softer terms (particularly from the multilateral global institutions), including inter alia for attaining some of the key UN SDGs like climate change risk mitigation and adaptation, and for larger physical infrastructure projects. Bangladesh looks forward to continuing role of the Breton-Woods Institutions and their subsidiaries in catalyzing such external financing support.

B. BHUTAN

16. The growth dynamics continue to be guided by the hydropower development and domestic inflation is strongly correlated with that of India. With slowdown in hydropower investment, the economic growth dipped to 4.6 percent in 2017 against 8 percent growth in 2016. The modest growth was primarily supported by endured fiscal expansion and restoration of private consumption spending. The higher investment for public infrastructure development and increased capital grants disbursement to public entities expanded government investment demand by 23.4 percent in real terms.

17. The overall CPI inflation (measured by the year-on-year change of the consumer price index) recorded at 3.13 percent in December 2018 compared to 3.30 percent during the same month of previous year. The inflation remained at the range of 3.0-3.5 percent with a slight decrease in the prices of both food and non-food commodities for the month of October through December 2018 compared to the previous year. On the other hand, the domestic inflation during December 2018 recorded higher at 3.24 percent, while imported inflation recorded at 3.03 percent. Food prices recorded higher increase for both domestic and imported, compared to non-food group which increased by 2.65 percent for both. However, domestic food prices increased by 4.26 percent as compared to 3.55 percent for imported food prices.

18. During FY 2017/18, the fiscal deficit recorded low at 1.1 percent of GDP, with a surplus primary balance. In the final budget of the 11th FYP, Government spending limit was almost 20 percent higher than that of previous expenditure outlay. However, higher mobilization of domestic revenue and external grants has positioned the overall fiscal deficit comfortably below the target of 3 percent of GDP. Owing to minimal fiscal deficit, a surplus primary balance was about one percent of GDP, reflecting motivation for creating some fiscal space for the future use.

19. On the external front, both the trade and current account deficits improved in FY 2017/18. The current account deficit decreased from 24.2 percent of GDP in FY 2016/17 to 19 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 and decrease in import. At the end of November 2018, the gross international reserves recorded at USD 1,016.09 million. Reserves were sufficient to finance 12.90 months of merchandise imports.

20. The broad money (M2) was recorded at 15.93 percent as of November 2018, a slight increase from 15.80 percent in November 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 14.75 percent and 17.58 percent respectively as of November 2018. On the other hand, net foreign assets recorded negative growth of 11.18 percent and domestic credit recorded growth of 26.96 percent. Credit to private sector growth was recorded at 18.89 percent in November 2018 with a slight increase from 16.21 percent in November 2017. The growth in credit was mainly contributed by the access to credit transmitted through financial inclusion initiatives.

C. INDIA

21. When we look at India, we have strong reason to be quite optimistic. The Indian economy this year has grown at a high rate and we remain the fastest growing among major economies in the world. The economy has achieved high growth amidst significant improvements in macro-economic stability, and on the strength of ongoing structural reforms, fiscal discipline, efficient delivery of services and financial inclusion. Besides generating high growth rates, India has dis-inflated from double-digit inflation to an inflation rate that is comfortably in its inflation targeting band of 4±2 per cent, while restoring fiscal balance at the same time. Despite somewhat elevated crude oil prices and a coming together of global headwinds, India’s medium-term macro outlook remains bright. Growth is projected to pick up to 7.3 percent in 2019-20 and 7.5 percent in 2020-21, well buoyed by the continued recovery of investment, strong consumption and right impetus from fiscal and monetary policies. This is higher as compared with 7.0 percent recorded in 2018-19. Further, from the high of almost 6.0 percent seven years ago, the fiscal deficit is expected to be brought down to 3.4 percent of GDP in 2018-19. The current account deficit against a high of 4.8 percent six years ago is likely to be 2.5 percent of GDP in 2018-19.

22. On the basis of an assessment of the current and evolving macro-economic developments and outlook, the Monetary Policy Committee (MPC) decided to reduce the policy repo rate by 25 bps each in February and April, 2019. The policy repo rate now stands at 6.0 percent. In April 2019, the MPC has also decided to maintain a neutral stance of monetary policy. This decision of the MPC is consistent with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent with a band of +/-2 per cent, while supporting growth. Headline inflation in India rose to 2.6 per cent in

February 2019 after four months of a continuous decline. The upturn reflected an increase in prices of items excluding food and fuel and weaker momentum of deflation in the food group. Households' inflation expectations declined by 40 bps each for the three months ahead and for the one year ahead horizons. Taking into account these developments, the MPC revised the path of CPI inflation downwards to 2.4 per cent in Q4: 2018-19, 2.9-3.0 per cent in H1: 2019-20 and 3.5-3.8 per cent in H2: 2019-20, with risks broadly balanced.

23. On the fiscal front, the Government is firmly committed to fiscal discipline. The substantial consolidation in the central government finances since 2013-14 has been aided by buoyancy in tax revenues and significant rationalization of expenditure, especially subsidies. The fiscal deficit, which has reduced to 3.5 per cent of GDP in 2016-17 and 2017-18, has been achieved without any sacrifice on public investment and social sector spending. That the Government is committed 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 3.0 percent of GDP by the end of FY 2020-21. Restrictions on deviations from the above path are also contained in the statute through escape and buoyancy clauses. For instance, an increase in fiscal deficit of 0.5 percentage points (pp) is 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 pp. Fiscal deficit is expected to be 3.4 percent of GDP in 2018-19, and the Medium Term Fiscal Policy Statement has pegged the total Central Government debt at 48.9 percent of GDP at end FY 2018-19. These targets are in line with those envisaged in the FRBM Act. The focus of the Government would always remain on following a fiscally sustainable growth path.

24. The Goods and Services Tax (GST), a monumental reform in the system of indirect taxation of goods and services at federal and provincial levels, has streamlined payments and credits, thereby enhancing the ease of moving goods across the country. By removing the cascading effect of tax on tax, GST has led to increased tax base and higher collections, besides ease of trade. As returns are fully online now and e-way bill system is in place, inter-state movements have become faster and more efficient. The full benefits of the GST reform and revenues are expected to continue accruing in the coming years.

25. We continue to shape an inclusive and dynamic economy for the progress and better quality of life for all our people. Wide-ranging opportunities have been provided to empower people through access to quality healthcare, education, finance and social protection, including for youth and women. Significant steps have been taken to strengthen financial sector balance sheets with an accelerated resolution of non-performing assets under a state-of-the-art bankruptcy framework. The Insolvency and Bankruptcy Code has institutionalized a resolution-friendly mechanism. It is helping in the recovery of non-performing loans while preserving the underlying businesses and jobs. To restore the health of public sector banks, an investment of about USD 37 billion has been made to recapitalize them. Amalgamation of banks has also been done to reap the benefits of scale economies, improved access to capital and increased geographical cover.

26. The Government has strengthened the legislative framework to usher in greater transparency. The Real Estate (Regulation and Development) Act, 2016 (RERA) and the amendment to the Benami Transaction (Prohibition) Act, 1988 have helped the cause of transparency in the real estate sector. The Fugitive Economic Offenders Act, 2018 will help confiscate and dispose off assets of economic offenders who escape the jurisdiction of the Indian laws.

27. The above efforts reinforced by expediting infrastructure development, rapid liberalization of the FDI policy, and enhancing gains from our demographic dividend are creating opportunities for our 'young' India. Business confidence is at an all-time high with consistently high FDI inflows, and the ranking in the Ease of Doing Business (EoDB) jumping rapidly. The total FDI flows has been in excess of USD 60 billion in both 2016-17 and 2017-18. In 2018-19 (Apr- Dec), the total FDI flows is USD 46 billion, thereby continuing the trend of high FDI flows into the country. 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. The predictable regulatory regime, the consistently high growth figures and strong macro fundamentals justify the rankings. The FDI numbers only confirm the same. Another reputed international survey that has shown tremendous improvement in India's rankings is the World Bank's EoDB. From a rank of 130 as per the Doing Business Report (DBR) 2017, India's rank had jumped to 100 in the DBR 2018. With India ranked 77 in the DBR 2019, we have shown an unprecedented jump of 53 ranks in the last two years. India counts amongst the top ten reformers in both DBR 2018 and DBR 2019, which is a unique distinction for a major economy. This surge in EoDB ranking is the manifestation of the Government's effort at ushering in wide-ranging, deep impact reforms and good governance measures.

28. Infrastructure development through the improvement of multi-dimensional connectivity is the key to healthy economic growth. Development of industrial corridors; development of national road corridors and highways (*Bharatmala* scheme); enhancement of port connectivity, port modernization and port-linked industrialization (*Sagarmala* project); capacity augmentation of navigation on National Waterways (*Jal Marg Vikas* project); dedicated railway freight corridors; improved air connectivity to smaller cities (*UDAN* scheme), and the High Speed Rail project to connect Mumbai and Ahmedabad are few ambitious initiatives in this direction. These will improve logistics, reduce the cost of transportation and increase the competitiveness of domestically produced goods.

29. The Government has laid focused attention on rural infrastructure, on account of which, the urban-rural divide in the country is fast disappearing. Targeted expenditure is aimed at providing urban facilities in villages and improving the quality of life. Under the Pradhan Mantri Gram Sadak Yojana (Prime Minister's Rural Roads Scheme), construction of rural roads has taken on a war footing. 143,000 out of a total of 158,000 habitations have already been connected with *pucca* roads, with work on-going to complete the rest very soon. Under *'Saubhagya Yojna'*, the Government has provided free electricity connection to almost every household. By providing 1.43 billion LED bulbs with the participation of private sector, annual savings of about USD 7 billion in electricity bills of poor and middle class families have been achieved.

30. The Direct Benefit Transfer (DBT) is a landmark initiative of the Government to ensure that benefits under various social welfare programmes reach the intended beneficiaries and are delivered to them at their doorstep or in their bank accounts. The DBT framework has effectively leveraged digital technology for better targeting of beneficiaries and timely delivery of benefits, thereby ensuring greater transparency and accountability in the public delivery system. The Pradhan Mantri Jan Dhan Yojana (PMJDY) aimed at financial inclusion of the poor and the legislative approval for use of Aadhaar biometric identification as proof of identity for delivery of subsidies, services and benefits have propelled the DBT efforts even further. DBT today has 434 schemes of the Central Government under its ambit. In the context of the digital revolution ushering in good governance in the country, more than 0.3 million Common Service Centres (CSCs) employing about 1.2 million people, are digitally delivering various services to the citizens. These CSCs are not only expanding their services but also creating digital infrastructure in the villages, including connectivity, to convert the villages into Digital Villages. The Government envisages converting 100,000 villages into Digital Villages over the next five years.

D. SRI LANKA

31. Sri Lanka's growth performance unfortunately continued to remain subpar during 2018, recording a growth rate of 3.2 per cent during the year compared to 3.4 per cent in 2017. While favorable weather conditions helped record a turnaround in the growth of the Agriculture sector in 2018, a notable slowdown in the growth of Industry sector related activities was observed during the year with the contraction in the growth of construction and mining and quarrying activities amidst reasonable growth in the food and beverages and textiles and wearing apparel subsectors. Meanwhile, growth of the Services sector remained robust during 2018 driven by financial services, wholesale and retail trade, telecommunication, IT services and other personal services activities. Amidst increasingly uncertain global economic conditions, the domestic economy is expected to gather momentum in 2019 driven by increased inflows through higher exports as well as foreign direct investments, with domestic structural reforms also contributing towards this end, thereby enabling Sri Lanka to gradually leap to a higher growth trajectory in the medium term.

32. Despite the transitory fluctuations arising from the impact of volatile food prices and administratively determined price adjustments, particularly fuel prices, consumer price inflation remained well contained during 2018. Accordingly, year-on-year headline inflation as per the National Consumer Price Index (NCPI) decelerated sharply from 7.3 per cent at end 2017 to 0.4 per cent by end 2018, before accelerating to end at 2.4 per cent by February 2019. However, core inflation which declined during the first half of the year, gathered pace thereafter ending at 3.1 per cent at end 2018 from 2.7 per cent at end 2017. A further acceleration in core inflation to 5.5 per cent was observed in January 2019. In view of the low inflation and low real economic growth environment on the one hand, and possible risks arising from global financial market developments on the other, the Central Bank maintained a neutral monetary policy stance while marking an end to the policy tightening cycle which was in effect since end 2015. Accordingly, the Central Bank reduced the Standing Lending Facility Rate (SLFR) by 25 basis points to 8.50 per cent in April 2018. As domestic money market liquidity remained in deficit levels persistently, measures were taken to reduce the Statutory Reserve Ratio (SRR) by 1.50 percentage points in November 2018, but its effect on market interest rates was neutralized by raising the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8.00 per cent and the SLFR by 50 basis points to 9.00 per cent. The SRR was reduced again by a further 1.00 percentage point to 5.00 per cent effective March 2019 to ease the deficit liquidity conditions.

33. The budget deficit declined to 5.3 per cent of GDP in 2018 from 5.5 per cent in the previous year, on account of the reduction in government expenditure amidst a drop in total revenue resulting from a decline in tax revenue following administrative measures to reduce imports through higher excise tax and duties. A primary surplus of 0.6 per cent of GDP was achieved during the year, displaying the commitment of the government towards fiscal consolidation. The re-continuation of the arrangement under the Extended Fund Facility (EFF) of US dollars 1.5 billion with the IMF, which stalled due to political uncertainties in late 2018, is expected to strengthen both the external and the fiscal sector performance going forward.

34. Unfavorable developments in the global economy in the form of escalated trade tensions and tight financial conditions exerted substantial pressure on Sri Lanka's external sector. Growth of earnings from exports witnessed some slowing in 2018, while expenditure on imports, which grew at a rapid pace during the first quarter of 2018, eased particularly with macroprudential policies being imposed to contain the import of gold and motor vehicles. Meanwhile, earnings from tourism and other services buttressed the current account notwithstanding the marginal decline in workers' remittances. Further, foreign direct investment increased substantially in 2018, reaching a historic high albeit from a low base, while inflows to the government also increased. However, net outflows were recorded from both the government securities market as well as the Colombo Stock Exchange (CSE) following the tightening of global financial market conditions, thereby exerting pressure on the domestic foreign exchange market, necessitating Central Bank intervention. As a result of these developments and debt service payment outflows, gross official reserves declined to US dollars 6.9 billion by end 2018 from US dollars 8.0 billion at end 2017. Contrary to the surplus recorded in the previous year, the balance of payments recorded a deficit of US dollars 1.1 billion in 2018. During 2018, the Sri Lanka rupee depreciated against the US dollar by 16.4 per cent, although the pressure eased somewhat in early 2019 ultimately resulting in an appreciation of the domestic currency and enabling the Central Bank to commence building its international reserves through foreign exchange purchases from the market.

35. While efforts towards implementing IFRS 9 and Basel III regulatory requirements are continuing to strengthen the banking sector further, some increase in the non-performing loans (NPLs) of the banking sector was observed amidst the acceleration in the growth of credit amidst tight domestic financial conditions. Steps have also been taken to address concerns on distressed licensed finance companies proactively.