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Statement by the Hon. **SUBHASH CHANDRA GARG,**
Governor of the Fund and the Bank for **INDIA**

Statement by the Hon. Subhash Chandra Garg,
Governor of the Fund and the Bank for India
on behalf of the Hon. Arun Jaitley
Representing the Constituency of Bangladesh, Bhutan, India and Sri Lanka

2018 Annual Meetings Plenary

1. Since we met in April 2018, several threats to the global economy have emerged. While Global growth for 2018-19 at 3.7 percent is projected at its highest level since 2010-11, downside risks from rising trade tensions, geopolitical uncertainties, rising oil prices and market pressures on EMEs and developing countries could moderate global growth. Meanwhile, though global financial conditions are largely easy, medium-term risks to global financial stability remain elevated due to persisting financial vulnerabilities rooted in high debt levels and asset valuations. Sustaining the ongoing momentum of global activity would need a range of proactive policy measures aimed at reducing structural barriers, paring large debt burdens, taking cooperative actions to encourage free and fair multilateral trading system, rebuilding policy buffers and investing in structural reforms.

2. Economic activity in AEs has lost some momentum in the first half of 2018 after peaking in the second half of 2017. While outcomes fell short of expectations of projections in the euro area, Japan, and the United Kingdom; growth in world trade and industrial production has declined. In the United States, growth momentum is strong due to fiscal stimulus. Core inflation remains varied across advanced economies—well below objectives in the euro area and Japan, but close to target in the United Kingdom and the United States. As output gaps close and monetary policy begins to normalize, growth in most AEs could be expected to decline to well below the averages reached before the global financial crisis.

3. Across EMDEs, medium-term prospects are mixed. Projections remain favorable for Emerging Asia and Emerging Europe, excluding Turkey, but are tepid for Latin America, the Middle East, and sub-Saharan Africa, where—despite the ongoing recovery—the medium-term outlook for commodity exporters remains generally subdued, with a need for further economic diversification and fiscal adjustment. Growth was revised down for Argentina, Brazil, India, Iran, and Turkey among others, reflecting county-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. For Emerging markets and developing economies, forecast for investment growth is slightly higher reflecting higher capital spending in India. Growth

in China will remain robust but is expected to decline gradually as both as credit growth and fiscal stimulus diminish and impact of US tariffs come fully into force. Prospects in some other EMDEs remain subdued, especially for per capita growth, including in commodity exporters that continue to face substantial fiscal consolidation needs or are afflicted with war and conflict. EMDEs should continue to implement structural policies to promote growth while building buffers to safeguard against downturns. In keeping with this proposition, India has recently undertaken important reforms, including Goods and Services tax, Insolvency and Bankruptcy Code along with steps to liberalize foreign investment.

4. Financial conditions in EMDEs except China have worsened in general with threats of intensified capital outflows, owing to normalization of monetary policy and US fiscal policy. The implications of prolonged accommodative monetary policies in AEs would come to the fore when progressively stronger policy actions are taken to deal with inflationary pressures, particularly in the United States. The effect of such adjustments in global monetary conditions could potentially disrupt financial markets and cause adverse spillovers in EMDEs. Central banks in major advanced economies should be mindful of their policy actions on developing countries and should have well communicated strategy to move forward towards normalization. Further, EMDEs need to work on preserving policy credibility and should use of micro and macro prudential policies focused on risk management practices to mitigate risks to financial stability.

5. Growth in low income developing countries is expected to strengthen form 4.7 percent in 2018 to 5.2 percent in 2019. Given their generally high levels of public indebtedness, low-income developing countries would need to take concerted actions to make decisive progress to strengthen their fiscal positions, while prioritizing well-targeted measures to reduce poverty. They must also strengthen the resilience of their financial systems. Therefore a multi-pronged strategy including a focus on supporting domestic resources and strengthening Infrastructure, Energy, Food Security and Nutrition for Growth and Development is essential. Promoting inclusion and opportunity by investing in Human capital, developing and supporting trade and global value chains, enhancing financial inclusion and generating employment and inclusive business environment will need to be adopted to deal with resource constraints. Moreover, continued progress toward the 2030 United Nations Sustainable Development Goals would foster greater economic security and better living standards for a rising share of the world's population.

6. The global financial system at present has marginally tightened, though the divergence between AEs and EMEs has increased. We note that while financial conditions in AEs

and China remain easy, those in EMEs in general have tightened due to rising financing costs, trade tensions and capital flows. It is expected that capital outflows from EMEs excluding China could intensify further under severely adverse scenarios resulting in outflows of up to US$ 100 billion from debt portfolios. Under these challenging circumstances, preserving resilience and policy credibility by EMEs would be necessary to mitigate risks of capital outflows. At the same time medium-term risks to global financial stability remain elevated due to persistent financial vulnerabilities embedded in high debt levels and exuberant asset valuations including risks of rising trade and geopolitical tensions as well as tightening of global financial conditions. Vulnerable EMEs with weak buffers and policy frameworks including those facing trade shocks and external financing risks must remain vigilant against the likelihood of further intensification of capital outflows.

7. The evolving risks to the global macroeconomic and financial stability have significant implications for IMF's lending operations, especially in the context of the increasing vulnerabilities as noted in the GPA. The IMF needs to be resourced adequately with permanent quota-based resources to meet its mandate of securing the stability of the global monetary and financial system. To instill fairness in the governance structure of the IMF, it is important to review quota shares in favor of dynamic emerging market countries in line with global economic realities while protecting the shares of poor and LICs. We urge the IMF membership to work constructively to complete the 15th GRQ according to the envisaged time line by the 2019 Annual Meeting.

8. At a time when the global economic outlook appears to be receding and capital flow reversals and currency volatility is on the rise, the role of Multi-lateral Development Banks and International Financial institutions in financing development in low income countries and emerging economies has become more significant. The scale of resources for development financing remains inadequate to meet the ambitions of the SDG 2030 and the aspirations of millions in developing countries. The Role of Multilateral institutions to support development financing must be strengthened and made more effective. We urge the member countries to take expeditious steps for the approval of the capital increase resolutions and encourage the Bank institutions to enhance operations in line with Forward Look.

9. Given the growing numbers entering the workforce in developing countries, we also highlight the urgency of the job creation agenda in IDA 18 and urge IDA to focus on delivering measurable results on the theme of Jobs and economic transformation. We welcome the strong progress on IDA18 implementation, the launch of the new Private Sector Window, and the first IDA bond issuance.

10. We urge for expeditious operationalization of the WBG-IMF multipronged approach to address emerging debt vulnerabilities for ensuring transparent debt management in low income countries. At the same time, we also advocate attention to the need to develop capital markets in local currency in developing world.

11. We look forward to IFC, with its substantially enhanced capital base, helping investments in developing countries succeed through its due diligence, mobilization, capacity building and advisory services. We commend IFC and MIGA's contributions to increasing investment in developing countries through access to long-term financing at lower cost. We look forward to effective use of the Cascade approach and IFC 3.0 strategy to catalyze private sector investments for development impact.

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