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

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1. At the outset, I express deep condolences to the families of the victims of the earthquake and floods in Morocco and Libya. India stands in solidarity with the people and authorities of Morocco and Libya as they engage in the process of recovery, reconstruction and rehabilitation.
2. Global economic shocks in the past were severe but spaced out in time. However, this has changed in the third decade of this millennium – with multiple shocks hitting the global economy since 2020 – starting with the pandemic-induced contraction of the global output, followed by rising geopolitical tensions. As a consequence of the headwinds to global economic growth, the achievement of the 2030 Sustainable Development Goals (SDGs) appears to be in jeopardy.
3. The global economic outlook remains highly fluid intensifying growth-inflation trade-offs in major economies. Advanced economies are facing a growth slowdown, wherein their growth is expected to dip down to 1.5 % in 2023. This is likely to exacerbate challenges for EMDEs (emerging markets and developing economies).
4. With fluctuating financial conditions and shifting sentiments, the overall growth forecasts for 2023 have not changed much. We note with concern that global growth as per the IMF's World Economic Outlook (WEO) is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. The sharp slowdown in global growth since the turn of 2022, has gone against the expectations of a soft landing with a progressive slide in inflation and an upward steady trend of economic growth. Unfortunately, the turmoil in the financial sector, its underlying pressures and tight money markets in many economies are not providing the desired outcomes in the reduction of poverty, production, and increased livelihoods to trigger economic growth. The dear-money policy continues to weigh on economic activity, and accentuates debt vulnerabilities. Rising inflation and debt servicing costs could lead to increased risks causing complications for policymakers in LDCs and EMDEs.
5. Global headline inflation peaked in 2022 at 8.7%, and eased temporarily, but continues to remain above central bank targets in most of the developed economies (DEs) and EMDEs due to continued northbound interest rates. Inflation would likely level around 7% in 2023 against the backdrop of anticipated easing of commodity prices. Estimates suggest that the hiking cycle is likely to ease out in 2024, especially in the DEs and reach its targeted levels in 2025.
6. The increase in the interest rates in the US has adversely affected vulnerable economies. The tightening of US federal rates has impacted the financial conditions of a number of EMDEs especially those with weak credit ratings having sovereign spreads exceeding 10 percentage points, leading to loss of market access and a high likelihood of default on repayments.
7. Global property markets have come under pressure with a sharp fall in offtakes in several markets due to high interest rates. Tighter monetary policies of central banks have led to a fall in price growth over the past 12 months vis-à-vis the rapid surge

before monetary tightening. Based on the data collected by the Bank for International Settlements - 50 out of 58 markets recorded a decline in real house prices over the course of 2022 and 2023. This is expected to have some spillover effects on the real economy, as housing-related spending moderates.

8. Labour markets have shown mixed signs of a rise in unemployment rates in some markets and a decrease in others. The fluctuation is more in EMDEs where the labour force largely caters to the service sector and witnessed huge variations on a quarter-to-quarter basis in the last 12 months.

9. Our major concern is that the rising borrowing costs for LICs and MICs are increasing the debt burden and limiting fiscal space for spurring investment and growth. It is worrying as this could hurt global efforts to tackle longer-term problems including efforts to reduce poverty and the impact of climate change, among others.

10. Against the backdrop of anaemic medium-term growth and rising divergence, it is also essential to strengthen the Global Financial Safety Net (GFSN) with IMF at its centre. For achieving the twin goals of the Global Policy Agenda of Safeguarding macro-stability while enhancing prosperity and Reinforcing Collective resilience, considerable work is required to review and reform the IMF lending Toolkit, bolster debt architecture, improve economic institutions through capacity development and for joint action that transcends border on climate change and digital transition. To achieve these goals, it is imperative that the governance structure of the IMF remains representative of its members and the Fund has adequate resources to fulfil its responsibility of being the Global financial safety net. The Fund being a quota-based institution, quotas should have a predominant share in the resource mix for the Fund as they enable prompt and reliable support to members. The continued dependence on borrowed resources has impacted the progress on governance reforms and the traction of the Fund’s policies. There needs to be a serious discussion on the basic principles behind quota shares.

11. In addition, MDBs also have an important role and responsibility in pooling their knowledge and resources to help LDCs and EMDEs through these turbulent times. We look forward to MDBs and IFIs sharing the responsibility in developing country-based debt sustainability frameworks to help LDCs/MICs manage debt, control inflation and support their central banks in implementing relevant monetary policies.

12. The Indian economy appears to have moved on and is positioning itself to ascend to the pre-pandemic growth path. Measures taken by the government and RBI, along with the easing of global commodity prices, have finally managed to bring retail inflation below the RBI upper tolerance target. Agencies worldwide continue to project India as the fastest-growing major economy. These optimistic growth forecasts stem in part from the resilience of the Indian economy seen in the rebound of private consumption seamlessly replacing the export stimuli as the leading driver of growth. The uptick in private consumption has also given a boost to production activity resulting in an increase in capacity utilisation across sectors.

13. The Capital Expenditure (Capex) of the central government, which increased by 48 percent in the first five months of FY24, continues to be an important growth driver of the Indian economy in the current year, crowding in the private Capex. A sustained

increase in private Capex is also underway with the strengthening of the balance sheets of the Corporates including a significant rise in their internal resource generation and the increase in credit financing. A much-improved financial health of well-capitalised public sector banks has positioned them better to increase the credit supply. Consequently, the credit growth to the Micro, Small, and Medium Enterprises (MSME) sector has been remarkably high, supported by the extended Emergency Credit Linked Guarantee Scheme (ECLGS) of the Union government. The increase in the overall bank credit has also been influenced by the shift in borrower's funding choices from volatile bond markets, where yields have increased, and external commercial borrowings, where interest and hedging costs have increased, towards banks.

14. India's economic growth in FY24 so far, has been principally led by private consumption and capital formation. It has helped generate employment as seen in the declining urban unemployment rate and in the faster net registration in the Employee Provident Fund. Recovery of MSMEs is proceeding at pace, as is evident in the amounts of Goods and Services Tax (GST) they pay, while the Emergency Credit Linked Guarantee Scheme (ECGLS) is easing their debt servicing concerns. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) has been directly providing jobs in rural areas and indirectly creating opportunities for rural households.

15. India remains committed to fostering economic growth, financial stability, and inclusive development. Reforms in India today are an ongoing process with the endeavour to adapt and leverage changing global needs while addressing medium- and long-term growth challenges. India is entering 'Amrit Kaal', the final quarter of its centenary leading up to India@100, with impetus on growth and development. The economy has undergone a transformative process of New Age reforms that have enhanced the economy's overall efficiency and boosted its potential for growth.

16. As a client country and shareholder, we firmly believe that the World Bank Group needs to be invigorated to deliver a more ambitious, country-driven and globally coordinated effort that improves peoples' lives in an inclusive, resilient, sustainable and just manner. As such, we look forward to the evolution of the World Bank into a 'Bigger, Better and more effective Bank, which is fit for purpose to address national and global development challenges at scale and speed for maximizing developmental impact. This agenda has been fully supported by the G20 Leader's Declaration in New Delhi. We acknowledge the progress made on the Evolution Roadmap and recognize that the efforts will continue beyond Marrakech and set the template across the MDB ecosystem.

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