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Governor's Statement No. 28

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Statement by the Hon. **ARUN JAITLEY,**
Governor of the Bank and the Fund for **INDIA**

Written Statement by Hon'ble Arun Jaitley,

Minister of

Finance, Corporate Affairs and Information & Broadcasting, India

and

Governor of the World Bank and the IMF

Representing the Constituency of Bangladesh, Bhutan, India and Sri Lanka

2015 Annual Meetings Plenary

Peru, Lima

Mr. Chairman,

1. Since we last met, the global recovery has become slower and downside risks to the global economy have heightened. Though global growth in advanced economies is expected to pick up slightly in 2015, growth in emerging markets is likely to decline for the fifth consecutive year. The outlook for low income countries also appears less encouraging. The recent episodes of volatility in global financial markets exemplify the heightened financial stability risks that we face today. World trade volume has recorded its biggest contraction since the financial crisis. An already weak potential global growth outlook has worsened.

2. Stability and integrity of the global financial architecture is the key to providing necessary financial resources and an enabling environment for the developing economies to grow, prosper and develop sustainably. The developing countries are facing a challenging economic environment, with low commodity prices and falling exports. Global capital flows are very sensitive to changes in interest rates in the AEs. Monetary policies in the AEs need to be mindful of implications for the EME, & LICs. The developing countries will also need to organize their financial management, individually and collectively, in such a manner that the adverse implications of such policy volatility in advanced economies are contained.

3. The global economic outlook presented to us suggests that the top priority for all of us, advanced, emerging and low income economies alike, is the promotion of growth inducing investment. Private sector investment is sluggish all over the world due to low expectations of

growth. Promotion of productivity enhancing investment in infrastructure, would crowd in private investment as well. We should resolve to work together to do this in a coordinated manner.

4. 2015 also marks the historic transition from the Millennium Development Goals (MDGs) to the Sustainable Development Goals (SDGs).The SDGs are ambitious and demand targeted interventions in areas such as health, education, social protection; infrastructure, energy, water; cities, habitat and ecosystem; in addition to addressing cross cutting issues like gender and environment. Financing of SDGs is a challenge to both low income countries and middle income countries. In line with the Addis Action Agenda 2030, countries need to mobilize resources both from domestic and international sources.

5. The Multilateral Development Banks need to play a proactive role to support the SDGs and mobilize large scale resources for their financing. The World Bank Group is well-placed to assist the developing countries achieve the SDGs with its strong country engagement strategy under its new operating model to better serve clients with integrated solutions. The World Bank Group must build on the gains of the past experience in implementing the MDGs and present a comprehensive and actionable strategy for the next 15 years to achieve the SDGs.

6. The World Bank and the IMF must respond to the changes around them. The changing economic landscape brings us to the question of the steps required to increase the credibility and legitimacy of these institutions in response to these changes.

7. The share of the developing and transitioning economies in the world GDP has increased from 39% in 2008-2010 to 49% in 2012-14. Economic weight has been the fundamental determinant of shareholding in the World Bank. As shareholding is the most important pillar of voice, there is an urgent need to take up shareholding realignment to reflect these changes. The Bank also needs to scale up its resources substantially to meet the challenges of financing SDGs and increasing demand from client countries which would require the Bank to consider a General Capital Increase soon.

8. Similarly, recent global economic developments have implications for IMF's operations. There is now greater likelihood of new demands emerging for the use of the Fund's resources. This is a situation that the Fund should tackle as a strong, adequately resourced and quota based institution. Continued heavy reliance on borrowed resources is inconsistent with the principles on which the Fund was established. (It also not guaranteed that in the absence of adequate quota resources the Fund would always be able to find members willing to lend.) The urgency, therefore, for implementation of the 2010 Reforms has never been greater. (A failure to do so would have serious implications for its legitimacy and credibility. Continued delay in this regard would also have medium term implications for the Fund's governance.)

9. As mandated by its Articles of Agreement, the Fund has successfully conducted and implemented Quota reviews every 5 years. We are now in an unprecedented situation where the 14th Review has not been implemented even after 5 years of its adoption and work on the 15th Review has not even begun. We need to collectively reflect on a constructive way forward so that the IMF continues to be well resourced through quota resources, and also reflects the changing global economy in its governance structure. We cannot continue indefinitely with the current stalemate.

10. The need of the hour is to work as global partners for achieving the sustainable development goals in the true spirit of oneness and effectively respond to the changing economic landscape.