

**WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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**INTERNATIONAL MONETARY FUND**

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Statement by the Hon. **CHAKRAVARTHY RANGARAJAN**,  
Alternate Governor of the Fund for **INDIA**,  
at the Joint Annual Discussion

Statement by the Honorable C. Rangarajan  
Governor, Reserve Bank of India  
Leader of Indian Delegation  
Annual Meetings, Hong Kong

Mr. Chairman:

1. The Annual Meetings of the World Bank Group and the International Monetary Fund at Hong Kong, China are of historic significance, coming as they do immediately after the unification of Hong Kong with China. In many ways Hong Kong epitomizes the tremendous potential for economic development through openness to foreign trade and investment within a framework of a sound regulatory environment. Hong Kong has a fairly large community of Indian origin which has contributed to Hong Kong's development for more than a century, and I am sure it will continue to do so in future. We thank the Chinese authorities for the excellent arrangements and warm hospitality.

2. World growth has continued to be strong, thanks in part to the high growth of developing countries and the prolonged boom of the US economy. Inflation has also remained low. However, there are some reasons for concern. World trade growth decelerated significantly in 1996, with sharp slowdown in export growth in many Asian countries. The medium-term outlook for developing country growth is less buoyant than in the spring of this year. There is, therefore, a need for concerted policy action to reverse any incipient sign of deceleration of growth in these countries. In this context, it is essential to encourage rapid

recovery through strengthening of an open, non-discriminatory multilateral trading system operating within the WTO framework. Along with free trade and buoyant private capital flows, there is a need to augment flows of ODA, which remain crucial for the development of poorer countries with limited access to private capital markets.

3. The crisis in some East Asian currencies has been an important feature of the global economy in the recent months. Led by the IMF, the swift action on the part of the international community in putting together a rescue package has helped to reduce the costs of the crisis and contain the spill-over effects on other countries. It is clear from these developments that there can be no substitute for prudent macroeconomic policies, effective economic reforms and strong domestic financial systems to facilitate growth with price stability and orderly external payments conditions. It is essentially through such a strategy that countries can avoid currency crises and also lay the foundation for a rapid and sustained development that is necessary for raising general living standards and alleviating poverty.

4. The accelerating pace of globalization and integration of markets requires strengthening of institutions, both at the national and international levels. At the international level, policy coordination is needed to strengthen economic linkages. Multilateral institutions must help promote an environment that is conducive to world-wide prosperity. These institutions, therefore, need to be strengthened, with decision making in these institutions being made more transparent and democratic. The conclusion of the Eleventh General Review of Quotas has given the Fund extra strength, although regrettably the voting share of developing countries has declined in the process. There is a clear need to review the formulae for quota calculations before the next Quota Review so that the fast growing developing

economies get their due share. The one-time special allocation of SDRs is a reflection of international goodwill, since it will help those members which could not participate in previous allocations while at the same time ensuring some allocation to every country.

5. We fully support the proposal to infuse capital into MIGA through subscription by member countries. On the HIPC and ESAF initiatives, my Government has already agreed to contribute its entire balances in SCA-2 as a non-interest bearing deposit towards funding these arrangements. These initiatives of multilateral institutions need to be supplemented by further measures to ensure that the transfer of resources to developing countries is maintained at an appropriate level. In particular, there is an urgent need to review the international commitment to IDA.

6. Infrastructure development is the key to rapid economic growth in developing countries and we are very happy that the Bank Group is charting an active role for itself in promoting private investment in infrastructure. We strongly support this initiative.

7. India is the largest functioning democracy in the world with all the attributes of a free society, ensuring that good governance is in place. The Government of India is fully committed to deal with the menace of corruption which is reflected in the statements of the Prime Minister of India made in various fora.

8. Let me take this opportunity to apprise this distinguished gathering of the recent developments in the Indian economy. We are indeed happy that our structural programme of economic reforms and commitment to macroeconomic stability continue to yield substantial rewards. In 1996/97, the Indian economy grew by 6.8 percent. Growth has averaged 7

percent in the last three years. Inflation has been brought under control and is currently at around an annual rate of 4 percent. The Central Government's fiscal deficit declined to 5 percent of GDP in 1996/97 and is budgeted at 4.5 percent for 1997/98. The external sector has remained strong with the current account deficit at one percent of GDP in 1996/97 and is expected to be around 1.5 percent in 1997/98. The debt service ratio is projected to decline substantially from 25.4 percent in 1996/97 to about 21 percent in 1997/98. Foreign currency reserves (excluding gold and SDRs) increased by \$5 billion in 1996/97 and by a further \$4 billion in the first five months of 1997/98. These reserves stood at \$25.5 billion as of mid-September. Foreign investment rose to nearly \$6 billion in 1996/97 and is expected to be substantially higher in the current fiscal year, 1997/98. All in all, the economic fundamentals are strong.

9. We are deeply conscious that to maintain and improve on a strong economic record, we have to deepen economic reforms and conduct vigilant economic management. Our reforms have accorded special attention to the financial sector. Our banking prudential standards have been strengthened to be comparable to the international ones. We use both on-site and off-site supervision of banks. Government securities market has been widened, with introduction of new instruments with an array of maturities and are sold on an auction basis. Stock market reforms have been pursued vigorously. Monetary policy has been made more flexible, with virtual deregulation of interest rates, and sharp reduction of reserve requirements. The exchange rate is market-determined. Restrictions on the current account of balance of payments have been eliminated. We are exploring possibilities of liberalization of

capital account. An expert committee recently submitted a report providing a road map on capital account convertibility. This is under examination by the central bank and the Government of India.

10. Let me not give the impression that we do not face any policy challenges. Very recently, we have had to deal with the problem of coping with a large wage settlement for government employees. In order to contain the fiscal deficit at the budgeted level, the Government has acted promptly to raise fresh taxes, cut expenditure and expand the programme of disinvestment of government owned enterprises. We have also had to tackle the problem of large capital inflows in the context of monetary and exchange rate management. Our experience shows that monetary and financial policies geared to maintain a reasonable degree of price stability can serve the purpose of not only maintaining a stable domestic environment, but also avoid the need for disruptive exchange rate adjustment.

11. We are aware that we still have to tackle the problem of poverty. We are however confident that with an external environment that is conducive, the Indian economy will be able to realize a sustained growth of over 7 percent per year which, besides enhancing living standards in general, will directly reduce poverty and provide resources for expanding programmes of social development.