

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

**TEXT OF THE INTERVENTION MADE BY THE UNION FINANCE MINISTER
SHRI P.CHIDAMBARAM AT THE IMFC PLENARY MEETING IN
WASHINGTON D.C.**

New Delhi, 13th October, 2013

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Following is the text of the intervention made by the Union Finance Minister Shri P.Chidambaram at the IMFC Plenary Meeting in Washington, D.C. yesterday:

“We welcome the Managing Director’s Global Policy Agenda (GPA). It covers a wide canvass and I would like to congratulate the Managing Director for highlighting the important issue of **managing several transitions** for tuning policies towards sustainable growth and ensuring financial stability.

While we agree with the broad thrust of the GPA, I would like to underline **three issues**.

State of the Global Economy

Let me begin with the state of the global economy. Obviously, I speak from the point of view of an emerging and developing country. It is matter of great concern that even five years after the global financial crisis began, and despite extraordinary monetary and fiscal stimuli, the global economy is struggling to find its feet. Global economic growth continues to be impacted by one shock or the other, some of which have been on account of lack of adequate and timely action by policymakers. As such, despite some encouraging signs in the advanced economies, global growth continues to be uncertain.

A major challenge in the US and other advanced economies is to make an orderly exit from the unconventional monetary policies (UMP). Recent financial market developments triggered by the talk of exit from the UMP are a pointer to the kind of challenges that could be posed when the actual exit from the UMP begins. Given the

large amount of quantitative easing that has been resorted to, the task of a smooth exit from such policies will be very challenging. There are also no precedents to guide this process. Central banks in advanced economies also need to take into account the spillover effects on the global economy of their potential exit from the unconventional monetary policies and act in a manner so that disruptive effects on the rest of the world are minimized. We all have a shared interest in making sure that we address this problem collectively in the months and years to come, since I presume that unwinding will be with us for a few months or years.

On our part in EMEs, we need to better prepare ourselves for the eventual tightening of global financial and monetary conditions which are inevitable. We will have to consider all policy options, including unconventional ones, to shield ourselves from whatever headwinds that will be created from this unwinding. EMEs should take all the necessary steps to build resilience by strengthening domestic fundamentals, addressing vulnerabilities, building up reserves and preparing contingency plans. Emerging market economies should also implement structural reforms in the growth critical areas.

The Indian Economy

There is no doubt that the Indian economy has suffered from a significant downturn this year. However, we have taken several measures to put our economy on a sustainable growth path. We have taken steps to ease supply constraints and improve the investment climate. Projects amounting to more than US\$ 64 billion have been cleared in the last few months. Once these projects come on stream, they should have an all-round salutary effect. Necessary measures have also been initiated to contain the fiscal deficit and the current account deficit. Government policies are directly responsible for the fiscal deficit and current account deficit. The Government is committed to the path of fiscal consolidation and has drawn red lines for the two deficits. We shall not allow the red lines to be breached under any circumstances, and we shall remain within the red lines. We are prepared to take difficult decisions in this regard, should the need arise. Going forward, the commitment is to bring down the fiscal deficit to 3 percent by 2016-17. We have also taken measures to contain the current account deficit, which has remained elevated in the recent period. Another major challenge facing the Indian economy is persistent inflation. We have

taken measures to bring inflation down through a mix of demand-side and supply-side policies.

I would briefly like to touch upon some aspects of growth projections by the IMF. In some cases, the growth projections have been revised downwards significantly in the very next update. For example, India's growth rate, which was projected at 5.6 per cent(at market prices) in the WEO July Update, has now been revised significantly downwards to 3.8 percent. I would like to ask, respectfully, what is the information that IMF has gathered between July and September, that we do not have, that has impelled the Fund to drastically change the estimate? We do not share this pessimistic outlook. We also believe there is a need for reviewing the methodology for growth projections as in the past IMF projections have often been at divergence with final growth numbers.

IMF Surveillance

The second issue which I want to touch upon relates to the surveillance by the Fund. Recent financial market developments have taken all of us by a surprise. An important question is why on-going Fund surveillance failed to foresee the market impact of exit from unconventional monetary policy? The IMF's failure to identify certain risks and give clear warnings has demonstrated yet again the weakness of its Surveillance framework. It also questions the relevance and usefulness of the IMF exercise with regard to policy settings of member countries because repeated downward revisions could significantly influence market expectations besides spreading gloom.

Although the Fund has taken various measures to strengthen its surveillance activities, particularly with regard to spillovers, there is need for further reflection so that it is better able to foresee the oncoming significant global macroeconomic developments. The surveillance should be forward looking and it should forewarn the member countries of the impending threats, if any, to the global economy.

The Fund also has another role. As it is only a matter of time before the actual exit begins, the Fund needs to undertake a detailed study as to how the unwinding will unfold, what impact it will have on advanced and emerging market

economies, and how they should deal with the evolving situation. The Fund must play a role in better informing the spillover effects in a globally integrated world, so that advanced economies can take them into account while formulating their policies.

Governance and Quota Reforms

The third and the final issue which I want to emphasize relates to the old one of governance and quota reforms. Why does this problem remain with us in meeting after meeting? We are disappointed that the deadline for the 2010 Quota and Governance Reform of the Fund has not been met. Also, there is no clarity, even after the passage of a year, as to when this will be finally achieved.

Please do not forget that the IMF is essentially a quota based organization. In the absence of ratification of the 14th Quota review, and given its current commitments and possible needs in the future, it has had to place increasing reliance on the NAB and bilateral resources. The delay in ratification of the 14th Quota Review will only mean that the reliance on borrowed resources will increase. This is not desirable.

Governance and quota reforms are imperative to ensure the Fund's credibility, legitimacy and effectiveness. We must, therefore, immediately conclude the 2010 IMF Quota and Governance Reform, as well as complete the 15th General Review of Quotas and arrive at a new quota formula, by the due date of January 2014".
