DEVELOPMENT COMMITTEE
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Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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Statement by

H.E. Nirmala Sitharaman
Minister of Finance and Corporate Affairs

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India

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

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108th Meeting of the Development Committee

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Marrakech, Morocco

1. At the outset, I express deep condolences to 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 endeavour to recover from the devastating impact of these disasters.

2. Today, as we meet, the **global economic landscape is still marked by unprecedented challenges to economic growth and stability**. In the aftermath of the COVID-19 pandemic, as economies seek to navigate complex paths to recovery, they continue to be confronted by supply chain disruptions, labor market shifts, high interest rates, inflationary pressures, currency depreciation and banking sector vulnerabilities, all of which have increased fiscal pressures. While many economies have shown resilience, many others are grappling with slower growth rates, rising debt burdens and socio-economic disparities.

3. The **headwinds to global economic growth**, exacerbated by multiple and overlapping crises of recent years, and increasing geo-political tensions, **threaten the achievement of the 2030 Sustainable Development Goals (SDGs)**. These are indeed, testing times for multilateralism and there is a pressing need to reimagine multilateral institutions so that they remain relevant, capable and effective to address the challenging circumstances with speed and scale. Therefore, the **significance of our collective efforts towards transforming the World Bank into a 'Better, Bigger and more Effective Bank'** can hardly be overemphasized.

4. With these brief remarks, I take this opportunity to outline the recent economic developments in our constituency countries.

INDIA

5. Despite global headwinds, on account of stronger-than-expected growth in the fourth quarter of FY23 driven by robust domestic investment, the IMF, in its World Economic Outlook of July 2023 has **revised India's real GDP growth forecast for FY24 to 6.1 per cent**. Forecasts by other international organisations are higher. The robustness of domestic investment is the result of the **government's continued emphasis on capital expenditure**, which is expected to drive growth in the coming years. In FY24, the Union Government increased the capital outlay by 33.3 per cent, raising the share of capital expenditure in total expenditure from 12.3 per cent in FY18 to 22.4 per cent in FY24.

6. Given the importance of private investment in accelerating economic growth, the Government has been making various attempts to raise investment by the private sector. **The Production-Linked Incentive (PLI) scheme is providing capital expenditure-linked incentives to 14 key sectors**. The PM Gatishakti scheme, coupled with the National Infrastructure Pipeline (NIP), is expected to encourage private-sector participation in creating new infrastructure and help in onboarding major private-sector

infrastructure players. Going forward, the PLI and new-age sectors (such as green hydrogen, semiconductors, wearables and solar modules) are expected to account for significant capex in the coming years.

7. While growth prospects have been strong, and domestic economic activity is maintaining resilience with a healthy balance sheet of the private sector and increased capex spending of the government, crowding in private investment. Overall inflation is projected to decline to 5.5 in FY2023/24 while **core inflation stayed at a 39-month low of 4.8 percent**.

8. In response to the developments in retail inflation and prices, the RBI's Monetary Policy Committee (MPC), has decided to keep policy rates unchanged and remained focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth.

9. Amidst the weak global growth outlook, India's **exports performed well during the current financial year** (FY24 till July 23), **mainly led by the services export growth**. During July 2023, India's trade deficit has almost halved compared to a year ago, reflecting the robustness of services exports and a greater decline in the value of merchandise imports than exports. Improvement in external balance was accompanied by **investor confidence in India, as reflected in the strong foreign investment inflows**. As a result of robust foreign inflows and a decline in imports, India's **foreign exchange reserves have strengthened and stood at USD 603.9 billion** at the end of July 2023.

10. The robustness of India's economic fundamentals is accompanied by strides made in human development. The recently released **National Multidimensional Poverty Index Report** by Niti Aayog **demonstrates a remarkable decline in the prevalence of multidimensional poverty in India**, attributable to the government's strategic focus on achieving universal access to basic amenities. With the national MPI nearly halving between 2015-16 and 2019-21, **India is likely to achieve the SDG Target on multidimensional poverty much ahead of the stipulated timeline of 2030**. The results are reinforced by India-related findings in the Global MPI report by UNDP and OPHI. From an economic growth perspective, the **135 million (13.5 crore) Indians escaping poverty between 2015-16 and 2019-21** and graduating to the middle class will boost the engine of self-sustained growth through consumption, savings, and human capital accumulation.

11. In terms of the outlook, **while domestic consumption and investment demand are expected to continue driving growth, global and regional uncertainties and domestic disruptions may keep inflationary pressures elevated in the coming months**, warranting greater vigilance by the Government and the RBI. The **government has already taken pre-emptive measures to restrain food inflation** which is likely to subside price pressure in the market soon. The external sector requires a closer watch to strengthen merchandise export growth in the face of slowing global demand. **Services exports continue to do well and are likely to continue doing so** as the preference for remote working remains unabated, typically manifested in the proliferation of Global Capability Centres.

BANGLADESH

12. Elevated to a lower middle-income country in 2015, Bangladesh has made **remarkable progress in all the socio-economic indicators for more than a decade**. Sustained high-income growth coupled with a dramatic reduction in poverty has changed the lives of millions. The nation is now **poised to graduate from the list of the Least Developed Countries (LDCs) in 2026**.

13. Despite the global economic turmoil and uncertainty, the **real growth rate of GDP was 6.03 percent in FY23** and is projected to be 7.5 percent for FY24. **Demand side growth contributors** like private consumption, export and public investment **suffered a setback in FY23**, with the growth in the agriculture sector being 2.6 percent (provisional), in the industry sector being 8.2 percent (provisional), and in the service sector growth being 5.8 percent (provisional). During the same year, private and public investments stood at 23.64 percent and 7.61 percent of GDP respectively. The 12-month average inflation during FY23 was 9.02 percent and is projected at 6.0 percent for FY24. **To curb inflationary**

pressures, the Bangladesh Bank has raised the policy rates in recent months and in January 2023 the Repo and Reverse Repo rates were raise by 25 basis points to stand at 6 percent and 4.25 percent respectively.

14. The Government has been consistently undertaking **various reform initiatives to make the revenue collection and public expenditure management systems more efficient** and transparent. It has decided to bring all cash transfer based social security payment under the G2P system and has abolished the requirement of prior approval from the ministries and Finance Division for spending money allocated in the budget of a development project.

15. The **fiscal Policy adopted by the Government prioritizes higher economic growth, poverty reduction, and sustainable development**, among others. To deliver the real benefit of development to the doorsteps of common people, the **Government is focusing on inclusive growth and equitable distribution of income** across society. As a result, poverty has declined significantly. **Headcount poverty reduced to 18.7 percent in 2022** from 38.4 percent in 2006, while Hardcore poverty reduced to 5.6 percent in 2022 from 24.2 percent in 2006. The rate of literacy among the people aged more than 15 years has risen to 75.6 percent in 2020, whereas the average life expectancy has reached 72.8 years. Maternal mortality rate and infant mortality rate are 1.63 and 21 per thousand respectively. Implementation of mega projects, economic zones, and infrastructure development projects such as power, energy, road, rail, bridges, ports etc. are also given priority in the national budget.

16. Until the outbreak of the COVID-19 pandemic and other global crises, the overall macroeconomic performance was quite satisfactory driven by the buoyant performance of external sector, which was marked by strong growth in export, gradual improvement of current account balance, stabilization of foreign exchange market and inflow of worker's remittances. However, **the financial account deficit and heavy pressure of import payment during the last fiscal year has put the foreign exchange reserve under some pressure**. The trade balance deficit stood at USD 17,162 million during FY23 July-May, while the current account deficit stood at USD 4,508 million during the same period. Exports have shown an increase of 6.67 percent from FY22 and can be attributed to rebound in demand from apparel, while imports have slowed down with a negative growth of 15.81 percent from FY22.

17. As a consequence of import payments and deficit in the financial account for debt payment, the **foreign exchange reserves stood at USD 29.73 billion at the end of July 2023**. In this context, Government's 2.5% fiscal incentives for remitters, improvement in the mobile financial services, and higher financial inclusion in the economy have resulted strong remittance inflow in the formal channel. To improve the foreign exchange reserve, the government has taken various cautionary measures, i.e., price & volume monitoring of the import items and other monitoring steps and is expecting to build the foreign exchange reserve to more than USD 30 billion by the end of FY24.

BHUTAN

18. The **risks to the economic outlook of Bhutan remain unusually large due to the slowdown in the global economy** on account of ongoing geopolitical tensions and its effects on commodity markets, supply chains, trade and related activities, inflation, and the rising cost of living.

19. Over the medium-term, **growth is expected to be driven by a recovery in the services, manufacturing, and hydropower sectors**. Hydropower generation capacity may double and support growth, the current account balance, and the fiscal position. **Economic growth will be export-driven**, and the overall export is **estimated to grow at an average of 5 to 6 percent annually over the next five years**. However, the consequences of rising geopolitical conflicts and spiralling food and energy prices pose risks to growth prospects and debt dynamics.

20. The **economy grew by 5.2 percent in 2022** as economic activities normalized, supported by expansionary fiscal policy, monetary support, and progressive relaxation of containment measures. The industry sector is grew at 5.6 percent in 2022, an increase of 1.7 percentage points from 2021, mainly

attributed to improved performance in the manufacturing (6.7%) and construction (16.4%) sectors. The service sector is grew by 6.6 percent in 2022, contributing around 53.5 percent to the GDP. The resumption of tourism in September 2022 will spur growth in the services industry.

21. A **10.2 percent increase in total revenue for FY 2022-23 is expected**. There is a slight decrease in capital expenditure in FY2022-23 compared to FY2021-22 due to rationalization measures to reduce wasteful and non-economic spending. Both the capital and current expenditure on training, awareness, and procurement of vehicles/plants/equipment/ office furniture have decreased compared to the same period in the previous FY.

22. The **fiscal deficit is estimated to improve from 7.9 percent of GDP in FY 2021-22 to 4.8 percent of GDP in FY 2022-23**, as the revenue mobilization improved by 10 percent. Over the medium term, in the next 5-year period, fiscal consolidation shall be inevitable given the large fiscal deficit in the current FY. The current and capital expenditure would require adjustment as the total revenue as a percentage of GDP would decline with the likely receipt of lower grants. With the consolidation path, the overall fiscal balance will be -3.4 percent of GDP on average.

23. The **overall balance of payment situation may worsen as the current account balance deteriorates in the medium term**. There are decreasing net financial inflows used for financing the current account deficits over the period due to a lower official grants inflow, thereby impacting the gross international reserves. A gradual medium-term fiscal consolidation supported by increased expenditure efficiency and revenue mobilization is essential to increase policy space and accelerate development goals.

24. A gradual but substantial growth-friendly fiscal consolidation is expected to support macroeconomic stability by reducing debt vulnerabilities while balancing developmental needs. Revenue mobilization, including a gradual rationalization of tax exemptions, could help offset declining grants. Fiscal consolidation will be critical in supporting external rebalancing, bringing the current account balance closer to its norm, and helping accumulate international reserves to more adequate levels.

25. In absorbing shocks and correcting imbalances, Bhutan imposed moratoriums on certain imports, revised existing tax policies, introduced property tax, and implemented fiscal consolidation. However, due to the high magnitude of global uncertainties and economic imbalances, such corrections and measures are merely adequate for improving the national economy. Therefore, in the near term**, Development Partners accelerated support to Bhutan** through grants and concessional financing facilities **will help the country sail the twin deficit while rebalancing the economy**.

SRI LANKA

26. With the ambitious reform initiatives spanning fiscal, monetary, financial, and external sectors, **Sri Lanka is gradually progressing on a path toward economic stabilization**. Positive signs in the economy can be witnessed in terms of deceleration of inflationary pressures, enhanced foreign currency inflows through remittances and tourism earnings, appreciation of the Sri Lanka Rupee, increase in foreign currency reserves, etc.

27. Sri Lanka is currently **implementing a 48-month Extended Fund Facility (EFF) arrangement with the IMF** amounting to approximately USD 3 billion which complements a comprehensive reform agenda. With the IMF-EFF programme, **other development partners pledged their support to Sri Lanka** including the ADB which approved USD 350 million as a special policy-based loan to provide budget support to Sri Lanka for economic stabilization and the eligibility of Sri Lanka to access concessional financing to broaden the options to bridge urgent financing needs. In addition, the World Bank approved USD 700 million in budgetary and welfare support.

28. The **borrowing programme of the Government has been affected by the debt standstill policy adopted in April 2022**. As such, disbursements and new financing commitments received from conventional bilateral creditors declined in the first quarter of 2023. **Multilateral creditors continued**

their operations and some of their projects were repurposed to cater to the budget financing requirements of the Government. Under the Extended Fund Facility (EFF) 2023–2026 of the IMF, Sri Lanka received the first tranche of USD 333 million. The country also received USD 250 million from World Bank under Development Policy Operation and USD 350 million from ADB. USD 131 million was received under the Emergency Credit Lines from the Government of India in the first quarter of 2023.

29. However, many headwinds remain on the path toward economic stabilization. A **contraction was recorded in the economy in the first quarter of 2023**. Nevertheless, the agriculture sector is showing signs of returning to normalcy and recorded a growth of 0.8 percent in the first quarter of 2023. However, overall industrial activities contracted by 23.4 percent in the first quarter of 2023, while the services sector recorded a contraction of 5.0 percent during the same period.

30. **Inflation has decelerated throughout 2023 with headline inflation declining 12.0 percent** in June 2023 from a peak of around 70 percent (in September 2022. Food inflation also reduced to 4.1 percent in June 2023. Inflation is expected to reach single-digit level in Quarter 3 of 2023.

31. The **external sector showed improved performance in the early months of 2023**. The merchandise trade deficit declined to USD 1.9 billion in the first five months of 2023, compared to USD 3.5 billion recorded in the same period in 2022. USD 4.9 billion worth of exports were recorded in the first five months of 2023, marking a decline of 7.7 percent from USD 5.3 billion recorded in the same period in 2022. Expenditure on imports considerably declined. Workers' remittances increased by 75.7 percent in the first five months of 2023, compared the same period of 2022. Earnings from tourism, too, increased by 30.4 percent in the first five months of 2023. compared with same time period in the last year. With the improved foreign currency inflows, **gross official reserves continued to increase, reaching USD 3.5 billion** as at end May, 2023 which includes the swap facility from the People's Bank of China.

32. The Government **exceeded the primary balance target for the first quarter of 2023 mainly due to the enhanced revenue collection**. Policy measures such as the removal of preferential Corporate Income Tax (CIT) rates and exemptions, re-introduction of mandatory Advanced Personal Income Tax (APIT), withholding taxes and increasing Personal Income Tax rates (PIT) and Value Added Tax (VAT) rates, mainly contributed to the improved revenue performance in the first four months of 2023.

33. Total **government revenue increased by 30.0 percent** in the first four months of 2023 compared with the same period of 2022. Tax revenue increased by a significant 36.6 percent in the first four months of 2023 achieving 23.7 percent of annual estimate for 2023. Non-tax revenue declined by 11.2 percent. **Government expenditure increased by 42.4 percent** in the first four months of 2023, compared to Rs. 1,155.2 billion in the same period of 2022. Recurrent expenditure increased by 46.0 percent while capital expenditure and net lending increased by 16.0 percent. The upswing in expenditure was mainly due to the increased spending on interest payments, pensions and welfare programs.

'Evolution of the World Bank Group'

34. Coming to today's agenda, I recall that a year ago, we embarked on a collective effort to transform the World Bank Group into an institution that is 'fit for purpose' to address national and global development challenges which, amplified by multiple and overlapping crises, threatened to reverse decades of progress towards achievement of the Sustainable Development Goals (SDGs).

35. Today, as we meet in Marrakech, **we are encouraged by the progress towards our common goal of creating a 'Better, Bigger and a more Effective' Bank** to address national and global challenges at scale and speed for maximising developmental impact**. This agenda has been fully supported by the G20 Leader's Declaration in New Delhi** and, we believe that the **direction of the World Bank's Evolution Roadmap will set the template across the MDB ecosystem.**

36. Turning to the agenda paper, we are pleased to **endorse the World Bank's new vision** 'to create a world free of poverty on a liveable planet'. We also **support its new mission** 'to end extreme poverty and boost shared prosperity on a liveable planet' by strengthening inclusion, resilience and sustainability. We are also **in agreement with the eight global challenges identified for focus** in view of the Bank's comparative advantage.

37. We **appreciate the efforts made towards the design of elements of the new World Bank playbook** for strengthening the Bank's operational and financial model to enable impactful delivery at greater scale and speed to all its clients. We **support the direction of the Knowledge Compact** for leveraging knowledge to drive impact and the commitment to deepening partnerships with other players in the development space, including improving coordination across the multilateral system for enhanced knowledge generation and sharing as well as co-financing. We also **recognize the ongoing work on the Bank's crisis preparedness and response toolkit**, including the launch of the Climate Resilience Debt Clause for the most vulnerable borrowers.

38. In the context of the recommendations of the G20's Independent Review of the Capital Adequacy Frameworks (CAF) of MDBs, we **welcome the reduction in the equity-to-loan ratio to 19 per cent, the proposal to remove the Statutory Lending Limit from the IBRD Articles, and the increase in limits on bilateral shareholder guarantees** which have created up to US$50 billion in additional lending capacity. We also **acknowledge the potential of additional measures proposed** like the shareholder participation in the Portfolio Guarantee Platform and the hybrid capital instrument, as well as the pilot issuance of hybrid capital to the market to further strengthen IBRD financing capacity.

39. **Recognizing that further work is needed beyond Marrakech** in terms of detailing the implementation strategy to increase the Bank's operational and financial capacity for realizing our objective of a 'Bigger, Better and a more Effective' Bank, we have the **following observations and suggestions**:

    - **First**, country demand and ownership are key to responding effectively to national development challenges and addressing interlinked global challenges. Therefore, it is **important to ensure that the augmented WBG country engagement model is firmly rooted in national development priorities**, and that **core analytics** informing the Country Partnership Framework (CPF) **are undertaken with substantive country engagement**. We also suggest that a synthesis report of the core analytics be shared with the country to ensure that the CPF process is participative and transparent. Also, **while engaging in climate action** in line with the principle of "common but differentiated responsibilities and respective capabilities", we encourage the Bank to **be more ambitious in its commitment to adaptation finance.**

    - **Second**, we see tremendous **value in the Bank's knowledge proposition** but notice a tendency to mainly work with knowledge and research institutions of the Global North. We **suggest that knowledge institutions of the Global South be actively involved in the Bank's knowledge products and verticals**. This will add value to the knowledge compact, in terms of incorporating diverse intellectual perspectives and development experiences, as well as building knowledge ecosystems in client countries.

    - **Third**, we take **note of the proposals to increase private capital mobilization**, including by IFC and MIGA, updated Country Private Sector Diagnostics, and the Private Sector Investment Lab. While these are welcome, in our view, **enabling private capital mobilization at scale will require an enhanced 'One World Bank' approach, with emphasis on joint products**, where one part of the Bank can originate programs and projects while enabling other parts like MIGA and IFC link it to the markets. While this will involve a fundamental reflection on the targets, organizational changes, and staff incentives to drive Cascade implementation and reduce risk aversion, we must **also be realistic in our assessment of the potential of private capital mobilization, given the**

global economic outlook. Further, given the inherent commercial-returns focus of the private sector, it is important that countries are assisted in preparing a shelf of investable projects and in having a robust legal and risk-management framework to be able to partner with the private sector effectively and on an equal footing.

- **Fourth**, on the subject of **domestic resource mobilization**, we **encourage the adoption of a holistic approach to raising fiscal resources**, which is not limited to taxation alone. Analytical work through the new Public Finance Reviews should fully respect the country's sovereignty over tax policy. Also, the approach to addressing illicit financial flows should cover points of origin, transit and destination. We also **urge the Bank to work closely with the IMF on debt sustainability**, including supporting the implementation of the Common Framework for eligible countries and ad-hoc debt restructuring processes for middle-income countries.

- **Fifth**, the proposed **pilot Global Challenge Programs (GCPs)**, offer potential value in terms of speed, scale as well as effectiveness and efficiency of operations through a 'One World Bank' approach. However, we also need to recognize that **appetite for these pilots and impactful delivery, will depend on strong country demand and ownership, access to new and additional finance, as well as provision of concessional finance, for both LICs and MICs.**

- As we engage in the further development of the Global Challenge Programs, we **also look forward to the development of a framework for financial incentives for clients**, particularly concessionality for IBRD countries to address global challenges, including through the GPG Fund based on clear allocation principles. We should also explore increased collaboration with Trust Funds and Financial Intermediary Funds (FIFs) to optimize the use of concessional resources.

- **Sixth**, we **look forward to the finalization of the new World Bank Scorecard** to drive impactful action at scale with a focus on measurable outcomes and results aligned with the new vision and mission. While doing so, we should acknowledge that there is an increasing feeling that the **implementation of Bank-financed projects have become slow, cumbersome and expensive for client countries**. This situation needs urgent address, for ensuring continued leadership and relevance of the World Bank Group in the development space. In our view, the **efficiency and effectiveness of Bank operations can be substantially improved through simplification and alignment of processes and procedures** across the Bank Group **with increased delegation of authority, especially to country offices**. This will also reduce the transaction and compliance costs for client countries. Further, we also **encourage the Bank to take the lead in aligning its processes and procedures, to the extent possible, with other MDBs** – this will significantly benefit client countries who have to comply with multiple MDB systems. Also, in addition to reviewing our approach to attract, retain and motivate professionals of the highest calibre and address skill gaps to deliver on our new vision and mission, we should **ensure that our staff recognition and incentives program, places emphasis on accelerating project delivery and encourages responsible risk-taking**.

- **Last**, we **commend the BSO** (Balance Sheet Optimization) measures **undertaken and support the additional measures proposed** to increase the Bank's financial capacity. While we understand that additional capacity could be generated by allowing 'preferencing' of contributions, we feel that **the potential financial, operational and governance implications of 'preferencing' need to be carefully considered**.

40. This said, it is an inescapable truth that we need to look beyond BSO measures and **consider all options, including an IBRD capital increase to avoid the situation of an unfunded but enhanced mandate for the Bank**. We acknowledge the importance of enhanced replenishment for IDA, as IDA is the major source of long term cheap financing for LIC's and also strengthening of IDA. The recent **reports of the G20 Independent Expert Group on Strengthening MDBs**, give an indication of resource requirement and we urge **consideration of its recommendations on priority.**

41. In conclusion, as we seek to build consensus in evolving the Bank, ‘time is of essence’, but we would add that ‘timely delivery’ on this agenda is also equally important for accelerating progress towards achievement of the 2030 Sustainable Development Goals (SDGs) in the true spirit of Vasudhaiva Kutumbakam or ‘One earth, One family, One future’.