Statement by

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

India

Representing the Constituency of Bangladesh, Bhutan, India, and Sri Lanka
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1. We are happy to be here today and hope that this meeting ushers a new era in the history of the WBG and multilateralism. As the world is still dealing with the impact of poly-crises, it is important that we achieve convergence of thought and action to secure our shared future, and global peace and stability.

2. The current headwinds and strained global supply chains have put a tremendous pressure on the global economy which is marked by persistently high interest rates, northbound inflationary pressures, and currency depreciation. The recent turbulence in the banking sector in some advanced economies has further increased the challenges to global economic recovery and increased fiscal pressures, especially on EMDEs and LDCs.

3. Continued disruptions to global supply chains are still straining supplies of food, fuel, and fertilisers and endangering food and energy security. This is disproportionately impacting the poor, the disadvantaged and the marginalised, particularly in the developing world. The need of the hour is a people centric, equity driven, consensus-based, and collective approach to face global developmental challenges.

4. These circumstances challenge multilateralism more than ever before. And, against the backdrop of the WBG ‘Evolution Road Map’ discussion, we encourage the World Bank Group to evolve into a bigger and better bank, which is ‘fit for purpose’ to address the new world challenges. We call upon all shareholders and stakeholders to adopt an innovative, bold, and robust approach to transform the WBG into an institution capable of effectively addressing present and future challenges. We look forward to a WBG that deploys innovative ways to mobilize resources, unleashes its full potential as a solutions and knowledge bank, and fully leverages its comparative advantage to build a better world.

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

INDIA

6. Despite challenges and global headwinds, the IMF in its Global Economic Outlook forecasts above 6% economic growth rate for India, making it the only major economy growing at that rate. With a manageable current account deficit and a growth rate highest among the major economies in FY23, the Indian economy has shown resilience in navigating the turbulence of the pandemic as well as geopolitical spill overs.

7. An optimistic business environment, robust industrial output and rapid vaccination coverage have provided a strong momentum to the Indian economy, as evidenced by an estimated GDP growth of 9.1 percent for the previous financial year. India has moved on beyond the pandemic, staging a full recovery in
FY22-23, ahead of many countries, and positioned itself in an upward pre-pandemic growth path. The unparalleled vaccination drive has not only ensured quick economic recovery but also ensured economic prospects for this year and beyond. Successful implementation of agriculture and labour reforms have provided the boost for medium-term growth.

8. The Q3 estimate of real GDP in FY 23 reflects the sustenance of sequential growth momentum in the economy, as further verified by high-frequency indicators. This is a reaffirmation of the ability of the Indian economy to grow on the strength of its domestic demand, amidst the slowing of global output. Agencies worldwide continue to project India as the fastest growing major economy at 6.5 - 7.0 percent in FY23. 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. Various parameters such as total GST collections, the quantum of digital transactions, FASTAG collections, demand for electricity, passenger and freight traffic via rail and air, petroleum products consumption etc. have displayed a positive trajectory.

9. The inclusiveness of resilient economic growth in the third quarter is also reflected in the improvement in employment indicators. As per the Periodic Labour Force Survey (PLFS), the overall urban unemployment rate for people aged 15 years and above declined from 8.7 percent in the December quarter of 2021 to 7.2 percent one year later in December of 2022.

10. The growth momentum gathered in Q3 of 2022-23 is likely to be sustained in Q4, as reflected in the performance of various High-Frequency Indicators for January- March 2023. GST collections have now, in March 2023, crossed the ₹1.4 Trillion INR (about $21.5 billion) benchmark for twelve successive months. Overall, demand conditions have remained conducive to sustaining growth momentum as deduced from robust tractor sales, auto sales, high UPI transactions and double-digit credit growth.

11. Inflationary pressures eased in February, with a slight moderation in CPI inflation and WPI inflation softening to a 25-month low. With WPI inflation easing, its transmission to CPI inflation is soon expected. Forecasts by various international agencies show that inflation will moderate in FY24 compared to FY23 RBI projected retail inflation rate below 6 percent for last quarter of 2022-23 and for FY24, with risks evenly balanced.

12. It is significant that even as the cost of inputs has risen, the manufacturing output has not stagnated. The Purchasing Manager Index of manufacturing has remained in the expansionary zone for 21 months since July 2021. The Index of Industrial Production (IIP) and the Index of Eight Core Industries have also observed positive YoY growth during April-Feb of 2022-23 (Apr-Jan for IIP), indicating an increment in output volume.

13. The Micro, Small, and Medium Enterprises (MSME) sector which plays a vital role in the Indian economy, with a share of 26.8 percent in the overall GVA and 38.5 percent in the manufacturing GVA (FY21), remains a significant contributor to manufacturing growth. The recent reorientation of the government’s initiatives has helped smaller firms to grow and reach their full potential. Their contribution to the economy is significant, not only quantitatively, but also qualitatively in terms of cultivating an entrepreneurial culture. A much-improved financial health of well-capitalized public sector banks has positioned them better to increase the credit supply. Consequently, the credit growth to the MSME sector has been remarkably high, over 14 percent in April-January 2022-23 compared to corresponding period last year.

14. India’s Production Linked Incentive (PLI) scheme in the 14 sectors is intended to make domestic manufacturers globally competitive, attract investment in cutting-edge technology and make the country an
integral part of the global value chain. The scheme is set to unlock manufacturing capacity, boost exports, reduce import dependence, and create jobs for both skilled and unskilled labour.

15. Given India’s investment needs, it is reassuring that India’s FDI inflows have been stable despite global headwinds. Total FDI inflows to India stood at US$ 83.6 billion in 2021-22, the highest since 2000-01.

16. Supported by lower merchandise trade deficit and robust growth in services exports and inward foreign remittances, India’s current account deficit is expected to remain moderate in FY23 and FY24, providing a buffer to the Rupee in uncertain times. This will provide a much-needed cushion to India’s external sector at a time when the Fed is likely to raise rates further and ensure that India’s external finances are not a major cause of concern.

17. Some major initiatives of the Government of India which has gained further momentum and strengthening in the last few months include:

a) A new Scheme, for North-East Region: The objectives of PM-DevINE are to Fund infrastructure convergently, support social development projects, enable livelihood activities for youth and women, and fill the development gaps in various sectors.

b) A Credit Guarantee Scheme for Startups aimed at providing credit guarantee up to a specified limit against loans extended by Member Institutions (MIs) to finance eligible Startups. The umbrella-based guarantee cover will provide guarantee to Venture Debt Funds. With the objective of mobilizing domestic capital for Indian startups, CGSS will complement the existing Programs under Startup India initiative.

c) The New Education Policy 2020 that places emphasis on the empowerment of the young minds and creating a learning ecosystem that can make the young readers/learners ready for leadership roles in the future world.

d) The PM-KISAN scheme, launched by the Hon’ble Prime Minister provides financial assistance to landholding farmers. Currently, over 110 million farmers have received benefits under this programme. A farmer-centric digital infrastructure has ensured the benefits of the scheme reach all the farmers across the country without any involvement of the middlemen. So far, over INR 2.42 trillion (approximately $29.54 billion) has been disbursed to over 110 million farmers in need.

e) A policy framework for private investment in infrastructure development under which Public Private Partnerships (PPPs) are being encouraged to bring private capital and efficiency in execution and operation of infrastructure projects.

18. India’s Long-Term Low-Carbon Development Strategy envisages transition to a low-carbon development pathway that entail costs towards deployment of new technologies, development of new infrastructure, and other transaction costs. The Budget pursued energy transition by encouraging domestic production of solar power equipment and batteries, in line with India’s climate commitments. Among the many measures undertaken by the Government, the latest has been the Production Linked Incentive Scheme (Tranche II) on ‘National Program on High Efficiency Solar PV Modules’, with an outlay of INR 172 billion ($2.3 billion approx.) for achieving manufacturing capacity of Giga Watt (GW) scale in High Efficiency Solar PV Modules.

19. Further, a Sovereign Green Bonds Framework has been designed and approved which complies with all the four components and key recommendations of the International Capital Market Association
(ICMA) Green Bond Principles (2021). Under this framework, sovereign green bonds for a total of approximately $2 billion were auctioned by the Reserve Bank of India in two tranches in January and February 2023, split equally between 5 and 10 year tenors. The bonds were oversubscribed within the range of 2.69-4.84 times.

20. The Government has initiated a single window system for inter-sectoral convergence of Programs and programs meant for women. A Hub for Empowerment of Women (HEW) at National, State and District levels under ‘Samarthya’ is being established under the Umbrella Program for safety, security and empowerment of women.

21. The Unified Payments Interface (UPI) (the instant real time payment systems which helps transfer cash immediately via a mobile interface between two banks) has achieved a record of 7.8 billion payment transactions with an average value of $1.6 billion each month.

BANGLADESH

22. Elevated to a lower middle-income country in 2015, Bangladesh is achieving notable improvement in macroeconomic indicators and sectoral growth. It has increased its per capita income many times over, reduced poverty rate in successive years has achieved the vast majority of the Millennium Development Goals (MDGs) and is on track of achieving Sustainable Development Goals (SDG).

23. The country 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.

24. The government formulated an overall program with short, medium, and long-term targets to address the crisis arising from the COVID-19 pandemic and overcome the potential adverse effects of the pandemic on the economy. Quick and decisive actions by the Government, supported by the favourable external environment, have led to a much quicker rebound than expected.

25. Bangladesh’s GDP growth stood at 7.10 in FY 22-23 vis-à-vis 6.94 in FY 21-22. The agriculture sector’s contribution to GDP was 11.61 percent whereas contributions by the industry and service sectors were 36.92 percent and 51.48 percent respectively. Per Capita Gross National Income (GNI) grew by 7.7% while consumption as a percentage of GDP marginally increased by 0.12% while the Consumer Price index increased by 0.59%. Although investment by Government increased by about 0.21 % of GDP, the overall investment both by private and public sector increased by 1.03% of GDP.

26. After remaining stable for a long period, inflation rose in FY22, partially due to rising cost of global energy, food, and commodity prices. In January 2023, the point-to-point inflation rate stood at 8.57 % (food inflation- 7.76 % and non-food inflation- 9.84%), while the 12-month average inflation was 7.92%.

27. As a result of the Government focus on inclusive growth and equitable distribution of income across society, poverty has declined significantly. Headcount poverty declined to 20.5 percent from 38.4 per cent in 2006. Hardcore poverty decreased to 10.5 percent from 24.2 percent in 2006.

28. The fiscal Policy adopted by the Government prioritizes controlling inflation with maintaining higher economic growth, poverty reduction, and sustainable development, among others. Sectors such as education, health, skill and human capital development have been given priority in the fiscal policy. Implementation of mega projects, economic zones and infrastructure development projects such as power, energy, road, rail, bridges, ports etc. have also given priority in the national budget.
29. The government has taken several countercyclical measures for enhancing industrial production and boosting the export sector. A total of 28 fiscal and monetary packages worth TK. 2,37,679 crore have been announced for boosting economy from COVID-19 aftershocks.

30. Total revenue collection in FY22 was 8.27 percent of GDP and 84.84 percent of the revised budget target. For FY23 the revenue target is set 4,33,005 crore taka which is 9.73 percent of the estimated GDP. Up to December 2022, 37.2 percent of total revenue target has been achieved. Total actual operating spending up to December 2022 in the current fiscal year (FY23) is 30.7 percent of the operating budget estimates.

31. Public debt level remained within the sustainable level (33.8 percent of GDP at the end of FY2022, much below the threshold of 55 percent set by IMF-World Bank). Domestic credit recorded an increase of 14.98 percent at the end of December 2022 compared to the same month of the previous year. During this period, credit to the public sector grew by 12.89 percent.

32. For controlling inflation and maintaining stable economic growth, Bangladesh Bank has raised the policy rates in recent months. In January 2023, the Repo and Reverse Repo rates stood at 5.75 percent and 4.25 percent respectively. Call money rate was 6.66 percent in January 2023.

33. During July-December of FY23, the Current Account Balance marked a deficit of USD 5.27 billion as compared to a deficit of USD 8.3 billion during the same period of the previous fiscal year. During July-December, FY23 import (C&F) marked a 2.20 percent decline whereas export marked growth of 9.81 percent during July-January period of FY23. The various restrictions imposed on imports have started to show positive impact upon the trade balance. During the July-February period of FY23, remittance inflow grew by 4.28 percent, compared to the same period of the previous year. The foreign reserve stood at USD 32.3 billion in March 2023.

34. Bangladesh is also conducting climate public finance tracking covering both development and operating budgets and using statistical methods for identifying, classifying, weighting and marking climate-relevant allocations in the budget system. Currently, the expenditure of 25 ministries is tagged and monitored. In FY23, a total of TK 30531.99 crore has been allocated for 25 ministries for addressing the adverse effects of climate change. This is 8.07 percent of their annual budget.

BHUTAN

35. The risks to the economic outlook of Bhutan also 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.

36. 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. The economic growth will be export-driven, and the estimated export is 5.2 percent over the next five years. At the same time, government spending continues to boost aggregate demand.

37. The economy is expected to grow by 4.8 percent in 2022 as economic activities picks up, supported by expansionary fiscal policy, monetary support, and progressive relaxation of containment measures. With the resumption of economic activities, the industry sector is expected to grow at 4.3 percent in 2022, an increase of 2.3 percentage points from 2021, mainly attributed to improved performance in the manufacturing (4.0%) and construction (18.1%) sectors. With the revival in retail trade, hotels and
restaurants, and other domestic businesses, the service sector is expected to grow by 5.1 percent in 2022, contributing around 46.0 percent to the GDP. The resumption of tourism in September 2022 will spur growth in the services industry.

38. A 12 percent increase in total revenue for FY 2022-23 is expected. While a marginal increase is expected from direct and indirect taxes, a substantial increase will be from profit transfers from SoEs and royalties from tourism.

39. 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.

40. The fiscal deficit remained elevated as resource mobilizations were lower than increased spending. The fiscal deficit for the current FY2022-23 is revised downward to 9.4 per cent of GDP (Provisional) from 11.5 percent of GDP (Budget), with the upward revision in domestic revenue by 12 percent.

41. The fiscal deficit is expected to moderate as pandemic-related measures gradually phase out and revenue reforms deepen. The current account deficit and reserve coverage is expected to improve from declining hydropower-related imports and rising hydropower exports. However, amidst heightened global and regional uncertainties coupled with emerging issues within the domestic economy, downside risk to growth is anticipated.

42. 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.

43. 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.

44. 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.

45. 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

46. Sri Lanka is currently emerging from an unprecedented level of macroeconomic crisis. The economy is crippled by numerous headwinds including the ‘twin deficit syndrome’ - a simultaneous chronic current account deficit in the Balance of Payments and fiscal deficit in the fiscal sector - and extraordinary tax cuts in end 2019 exacerbated the fiscal deficit and necessitated excessive monetary financing. On top of this, exogenous shocks, including the Covid-19 pandemic further exposed these vulnerabilities as key external inflows such as tourism and remittances dramatically reduced. As a result, Sri Lanka has seen a rapid depletion of usable reserves to near zero levels, historically high inflation, sharp rupee depreciation and a major contraction in economic growth this year.

47. **GDP saw a contraction in the first half of 2022 of 4.8 percent** from the sharp growth of 9.3 percent in the first half of 2021 due to the sharp contraction in agriculture by 7.6 percent and industries by 7.1 percent and moderate contraction of Services sector by 0.6 percent. Agriculture sector production was hampered by the shortage of inputs such as chemical fertilizer and Industry sector was affected due to supply chain disturbances.

48. The unemployment rate, which has shown a declining trend from the fourth quarter of 2021, bounced back to 4.6 percent in the second quarter of 2022, reflecting the contraction in economic activities. The poor and vulnerable have been the most affected by these adverse economic developments. Government cash flow was severely affected as expenditure outpaced revenue growth resulting in debt increasing beyond already elevated levels. The government debt remains unsustainable which has caused the government to announce a debt standstill for the repayments of foreign debt obligations until the progress with creditors for the treatment of debt appropriately.

49. However, there are initial signs of economic stabilization and potential recovery in the second half of 2022. Monetary financing has been contained, the external sector has been stabilized through aggressive policy measures to contain imports, and the pace of inflation reduced in October 2022.

50. Sri Lanka’s real GDP is expected to contract significantly by 8.7 percent in 2022 and a further by 3.0 percent in 2023, according to the World Economic Outlook issued in October 2022 by the IMF. The slowdown of Chinese economy, the geo-political situation, and the rising global inflation and global monetary tightening will add further headwinds to Sri Lanka’s domestic economic recovery. The IMF expects that global economic growth will be closer to 3.2 percent in 2022 and will slow down further to 2.7 percent in 2023.

51. After the record of more than 10 percent of budget deficits in 2020 and 2021, the budget deficit is expected to be contained to a single-digit level with revenue-based fiscal consolidation efforts commencing from June 2022. The central government debt in 2021 was Rs. 17,590 billion or 99.5 per cent of GDP of which 36.9 percent was foreign currency-denominated debt. Outstanding Central government debt has increased by 37.9 percent to Rs. 24,264.4 billion by the end of June 2022 from Rs. 17,589.4 billion as of the end of 2021. At the end of June 2022, the total outstanding domestic debt increased by 14.8 percent to Rs. 12,738.5 billion while the rupee value of total outstanding foreign debt increased by 77.5 percent to Rs. 11,525.9 billion.

52. The Sri Lankan rupee depreciated over 70 percent during January-May 2022, after the Central Bank of Sri Lanka announced the relaxation of the currency peg on March 07, 2022. The Central Bank announced a middle rate and a variation of margin of the interbank weighted average spot exchange rate effective from May 13, 2022, to curtail the volatility in the intraday exchange rate which has helped significantly reduce the gap between the official and grey market exchange rates.
53. The government has implemented several revenue-based fiscal consolidation measures to mitigate the pressures evident in the fiscal deficit. The positive outcomes of the several revenue measures are yet to be realized, although there has been some improvement in revenue collection in recent months. The government implemented revenue enhancing measures including the imposition of Surcharge Tax and Social Security Contribution Levy, increased VAT rate from 15 percent to 18 percent on financial services and increasing standard VAT rate from 8 percent to 12 percent effective from June 01, 2022, and to 15 percent effective from September 01, 2022, and the increase of Telecommunication Levy from 11.25 percent to 15 percent. The government announced a progressive tax reform package in 2022. This package announces: (i) increasing the marginal Personal Income Tax (PIT) rate schedule, raising the top marginal rate to 36 percent, and reducing the tax-free threshold to Rs.1.2 million per year of assessment, with the tax rate rising by 6 percentage points for every Rs.500,000 above this allowance up to the rate; (ii) reintroduction of non-final withholding taxes on all payments other than dividends and introduce final withholding tax for dividends; (iii) unifying Corporate Income Tax (CIT) rate of 30 percent while removing all sector specific CIT exemptions; and (iv) lowering the VAT registration threshold to Rs. 80 million per annum from Rs. 300 million per annum.

54. In parallel to the revenue enhancing measures, rationalization of government expenditure continued with the issuance of Budget Circular No. 04/2022 in April 2022 to curtail non-urgent capital expenditure and recurrent expenditure on new recruitments and overtime, among other measures specified in the Circular.

55. The fiscal deficit in nominal terms was contained at Rs.1,244.4 billion in the first nine months of 2022 from Rs.1,328.2 billion in the same period of 2021 benefiting from the growth of revenue outpacing the growth of expenditure during the period. As such, the primary deficit narrowed to Rs.317.0 billion in the first nine months of 2022 from Rs.495.2 billion in the same period of 2021, the enhanced revenue is expected to achieve a primary deficit target of Rs.954.0 billion in 2022. However, arrears of payments as at end September, 2022 of Rs.219 billion and delayed receipts of revenue flow would exert pressure on the achievement of the fiscal target.

56. The government relied on domestic sources in financing the deficit due to the limited access to global financial markets. Net domestic financing to fill the fiscal deficit amounted to Rs.1,303.5 billion and net foreign financing was a repayment of Rs.59.1 billion in the first nine months of 2022.

57. In this context, the government of Sri Lanka has formulated a macroeconomic path in line with the ongoing discussion with IMF towards enhancing growth through productivity and competitiveness, backed by export-oriented foreign direct investment, underpinned by fiscal and monetary discipline, while ensuring equitable outcomes by protecting the most vulnerable sections of society. In addition, managing expenditures within the framework of a reasonable revenue stream with a sustainable debt position would reduce the debt burden for future generations. The government has taken steps to fast track the implementation of tax reforms that have already been announced for fiscal consolidation, combined with a rationalization of expenditure, whilst ensuring public investment in critical and priority areas. In addition, restructuring State- Owned Business Enterprises (SOBEs) while strengthening their financial position would further reduce the burden on the General Treasury.

58. The government sought assistance from the International Monetary Fund (IMF) through an Extended Fund Facility (EFF) to lay the foundation for macroeconomic stability and debt sustainability along with comprehensive structural reforms in key spheres of the economy, mitigate the economic impact on the poor and vulnerable, safeguard financial sector stability, and strengthen governance and medium-term growth potential. Accordingly, the Executive Board of the International Monetary Fund (IMF) approved a 48-month extended arrangement under the Extended Fund Facility (EFF) with an amount of SDR 2.286 billion (395 percent of quota or about US$3 billion).
The fiscal path for 2023-2027 and the macroeconomic direction are detailed below:

(a) Generating a material primary surplus of exceeding 2 percent of GDP by 2025 in the government budget in the medium term through strong revenue based fiscal consolidation adjustments including strengthening tax administration combined with rationalization of expenditures.

(b) The expected primary deficit of 4.0 percent of GDP in 2022 will be improved to 0.7 percent of GDP in 2023 and a primary surplus is expected in 2024 and thereafter.

(c) Enhancing revenue to GDP ratio to at least 15 percent of GDP in the medium term with appropriate tax policy and tax administration measures. Containing the non-interest recurrent expenditure through the rationalization and management of expenditure while improving the quality of expenditure to increase fiscal space for development activities. Increasing allocation of funds and enhancing targeting of such funds for the most vulnerable segments of the society to uplift their livelihoods under the social safety net programme.

(d) Ensuring a robust selection and prioritization of public investment to ensure sustainable and equitable economic growth with a focus investment in areas such as education, healthcare, public transportation, digitalization and sustainable energy, among others.

(e) Improving the financial viability, competitiveness and governance of the State-Owned Enterprises (SOEs) including those related to energy, water, transport, and aviation sectors through a well-managed restructuring process combined with the continuation of the cost-reflective pricing mechanism for fuel and electricity to curtail the fiscal risks arising due to SOE losses.

(f) Formulating a sustainable debt management strategy to reduce and maintain the debt to GDP ratio at a prudent level while establishing a Public Debt Management Agency (PDMA) to improve debt management and transparency.

Macroeconomic Path:

(a) Enable economic recovery by 2023 and achieve economic growth over 3.5 percent by 2024 while enhancing the growth over 5.0 - 6.0 percent over the period ahead with required structural adjustments.

(b) Introducing growth enhancing structural reforms to remove bottlenecks to high, sustainable and equitable growth.

(c) Maintaining unemployment below 5.0 percent through appropriate reforms to enhance labour market conditions.

(d) Reverting to single digit inflation to restore price stability and ensuring a moderate real interest rate in the medium term.

(e) Maintaining a stable exchange value of the rupee within a market-based framework and rebuilding international reserves.
Ensuring a healthy capitalized banking system in the medium term while strengthening financial sector supervision Improving governance and implementing anti-corruption reforms.

‘Evolution of the World Bank Group’

60. Turning to the agenda for today’s discussion, we feel that the exercise on ‘Evolution of the World Bank Group’ provides a key opportunity to strengthen the WBG’s role and capacity to respond effectively to the increased scale of development challenges. As a client country and shareholder, we firmly believe that as multiple crises threaten to reverse progress towards achievement of the Sustainable Development Goals (SDGs), the WBG 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. While we are happy to note the progress on the ‘Evolution of the World Bank Group’, it is important to recognize that evolution in the real sense of the word cannot be achieved by reallocation of existing resources from current priorities to new goals. As such, the evolution exercise and dialogue must be guided by a higher ambition that avoids potential trade-offs and is backed by additional resources.

Shaping the Future of the World Bank Group: Vision and Mission:

61. We agree that the WBG should continue to focus on its vision of ‘A World Free of Poverty’ as well as on the Twin Goals of ‘Ending Extreme Poverty’ and ‘Promoting Shared Prosperity’. This said, we underscore the need to ensure that the twin goals are achieved in a manner that is inclusive so as to reach all persons, resilient so as to safeguard them against developmental shocks and sustainable from the social, economic and environmental angles so as to ensure the wellbeing of future generations.

62. While we concur that climate change, pandemics and fragility are global challenges, it is also important to focus on other global development challenges like food insecurity, water and energy access and affordability, digitalization and debt sustainability. Given the limited scale of available resources, it is therefore crucial to reach a consensus on the definition of global development challenges and develop selectivity criteria that is consistent with the WBG’s mandate and its comparative advantage.

63. ‘What gets measured, gets done’. In this sense, it is of utmost importance that the WBG develops and proposes appropriate indicators to enable monitoring of progress towards its Mission. To our mind, the quality of the indicators will determine the extent of connect between the Mission of the WBG and its Operations. Development of relevant indicators is especially crucial in measuring progress on priorities such as shared prosperity, sustainability, gender equality, mitigation and adaptation to climate change etc.

Enhancing the WBG Operating Model:

64. The Evolution process presents a unique opportunity to deepen the WBG’s country engagement model (CEM) to better support national development priorities and also address global development challenges as a complement. However, while engaging at the global and regional levels, it is important to ensure that the principle of country ownership is not weakened and that the lending envelope available to address national development priorities is preserved. Thus, it goes without saying that increased involvement in and delivery on global development challenges will necessitate access to new and additional sources of finance as well as positive financial incentives to encourage countries to invest in global efforts.

65. This said, we welcome the proposals to address regional developmental challenges by creating incentives for IBRD countries along the lines of the Regional Window for IDA and strengthening
partnerships with other development partners to support countries to achieve SDGs. We also look forward to maximization of the ‘One-WBG’ approach and deepening of the knowledge curation and sharing agenda.

66. While encouraging the WBG to increase its efforts on private capital facilitation (PCF), we must be realistic in estimating the potential of domestic resource mobilization (DRM) to address global challenges, given its role in addressing national development priorities.

**Meeting the Financing Needs for an Enhanced WBG Mission:**

67. We believe that adapting the financial model of the WBG and increasing its financing capacity is fundamental to having impact at scale. During our G-20 Presidency, we have been actively pursuing early consideration of the recommendations of the Expert Panel on the Capital Adequacy Frameworks (CAF) of MDBs. As such, we are supportive of the proposals to enhance the lending capacity of the WBG by realizing the potential of Balance Sheet Optimization (BSO) measures to the fullest while preserving its triple-A rating, Preferred Creditor Status/ Treatment and long-term financial sustainability. We welcome the consensus around the reduction of the equity-to-loan (E/L) ratio from 20 to 19 percent and the removal of the Statutory Lending Limit (SLL) from the Articles of Agreement. While we support initiation of the proposed Hybrid Capital pilot, we would like the guidance of the Board to be taken at key milestones and before closure of the transaction, especially on issues like impact on loan pricing for client countries and recovery of costs on account of issuance.

68. Given the potential of MICs to address development challenges at scale, we support the proposal to mobilize grant resources to provide additional concessionality through IBRD price buy down or longer repayment periods and utilization of the full potential of Trust Funds and FIF resources. We also support the exploration of measures to enhance IDA’s long-term financial capacity.

69. Finally, given the scale of the challenges and the quantum of resources required, we should not rule out going beyond BSO measures, albeit, in a waterfall approach, to consider a capital increase, which remains the most powerful mechanism for increasing lending capacity.

70. In terms of next steps, we look forward to an inclusive and consensus-based dialogue by the Management and Executive Directors on the Evolution exercise with the hope that the process leads to outcomes that ensure that the World Bank Group is ‘fit for purpose’ to deal with national and global development challenges of today and tomorrow.

71. It may be necessary for all of us to paint on a broader and newer canvas with bold strokes and with greater imagination, conscious of our responsibilities to the present and future generations. It is time and necessary to shed incrementalism and ‘business as usual’ approaches.