

**Embargoed till 3pm IST**  
**Session 2**  
**Union Finance Minister's G20 Intervention**  
**on**  
**Reform of the International Monetary System**  
**Time: 1000-1150 Hrs**  
**15<sup>th</sup> October, 2011**

**Distinguished Chairperson,**

The recent global financial crisis has triggered the most intense debate on the international monetary system since Bretton Woods. Policy-makers from developed and developing countries, intergovernmental organizations and academics have proposed a number of reforms. As a premier forum for international economic cooperation, there are high expectation from the G20 to deliver on the much needed reform of the international monetary system, with a view to encourage economic growth with price and financial stability.

2. Weaknesses in the international monetary system to address global imbalances have long been known. Till such time that these weaknesses are rectified, our Framework exercise will have to play a stabilizing role by keeping global imbalances within manageable limits. We appreciate

France's attempt to address the roots of this problem, by drawing attention to the reform of the international monetary system itself.

The issue is no doubt complex, with several interrelated problems, and I will mention four.

**First**, the IMS forces only deficit countries to adjust, and not surplus countries. **Second**, there is little pressure on both deficit and surplus currencies within currency unions to adjust. **Third**, reserve currency issuing countries also have little pressure to adjust. They can continue financing large internal and external deficits with seeming impunity, particularly when most required during crises, as there is a flight to safe reserve currencies. Indeed, it was noted quite some time ago that reserve issuing currencies may need to run larger and larger deficits to meet the needs of global liquidity. This problem has however been made more complex by the growing importance of the liquidity multiplier through a sophisticated financial system.

**Fourth**, the G 20 and other multilateral fora such as the IMF have limited leverage in addressing the reserve currency issue as policy based solutions need to find market acceptance.

Reform of the IMS will therefore not be easy, and to be credible we need to candidly acknowledge that the G 20 cannot be expected to address all these problems in a short time frame.

3. We now need to focus on what we can deliver at Cannes. I am happy to note that a consensus has been reached on three major issues. **Firstly**, how to handle large volatile capital flows linked to excessive global imbalances and liquidity; **secondly**, enhancing the capacity of developing countries to absorb capital inflows; and **thirdly**, how to cope with sudden stops of capital in developing countries. I recognize that there is much more work to be done, especially relating to the metrics of global liquidity, accumulation of reserves, and the reserve currency question itself, which I expect would be carried over to the Mexican Presidency and subsequent summits.

4. On the first issue, we have arrived at non-binding coherent conclusions on managing volatile capital flows. Such flows however cannot be treated as an exclusive problem of emerging markets as the sources of global liquidity also need to be considered. It is therefore important to also arrive at a consensus on the metrics and management of global liquidity.

As far as the second issue is concerned, India welcomes the G 20 initiative on development of Local Currency Bond Markets, especially since we have

long been trying to develop our own bond markets. At the same time, the capacity of financial markets needs to be tailored to the requirements of the real economy, and, in tandem, develop its absorptive capacity to avoid disruptive asset bubbles.

On the third issue of financial safety nets, India is of the view that these should comprise 3 pillars, namely domestic reserves, regional financial safety nets and multilateral resources. A diversified financial safety net would also be more robust as it would provide a safety valve at each stage. In this regard, it is important to make a distinction between holding of reserves by countries running current account deficits and reserves accumulated by countries with a current account surplus.

5. In view of renewed strains in the international financial system a question has arisen whether the resources of international financial institutions are adequate to deal with any new crisis. I would like to point out that we have trebled the resources of the IMF over the last few years. Our focus should now be on ensuring that these resources are quickly mobilized, and IMF's lending instruments are adequately flexible. IMF resources should provide liquidity support after solvency issues have been addressed. Also rollback of NABs into Quotas should proceed unhindered.

6. The other major IFI is the World Bank that recycles global savings for investment in the real sectors in developing countries. In 2011, when the world is faced with a crisis as serious as that of 2008, if not more, with very little policy headroom, it is ironic that despite the recent modest capital increase, the World Bank's annual lending is projected to come down from the 2010 level of US \$ 44 billion to US \$ 15 billion by 2013. In real terms, this will be less than the annual lending by the Bank in the past decade. The adequacy of World Bank resources should therefore be considered alongside those of the IMF.

Thank you

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