

Statement by Mr. K. Rahman Khan, Deputy Chairman of Rajya Sabha on agenda item 17 : Macroeconomic policy questions: b) International financial system and development , and c) External debt sustainability and development, in the Second Committee of the 66th United National General Assembly, on October 10 2011.

Mr. Chairman,

Allow me to begin by expressing my appreciation for the detailed reports brought out by the Secretary General on important macroeconomic policy questions, some of which are being considered on the agenda today.



We associate ourselves with the statement delivered by Argentina on behalf of G-77.

The world economy is in trouble. The shoots of recovery which were visible after the economic and financial crisis of 2008 have yet to blossom.

In many respects the crisis has deepened even further. The traditional engines of the global economy such as the United States, Europe and Japan, which are also the sources of global economic and financial stability, are faced with continued economic slowdown. Recessionary trends in these countries are affecting confidence in world financial and capital markets.

These developments are bound to have a negative impact on developing countries which also have to bear the additional burden of inflationary pressures. Declining global demand and availability of capital, increasing barriers to free trade and mounting debt pose a threat to the international monetary and financial system. Questions are being asked about the efficacy of the Bretton Woods institutions.

Mr. Chairman,

The hardest-hit by the crisis are people living in the developing world, especially in the Least Developed Countries. Developing countries have seen more than 100 million people slipping back into poverty last year, and their socio-economic situation continues to worsen.

It is ironical that those least responsible for the crisis must become the biggest victims of it. Quite clearly then, Mr. Chairman, the international financial and economic system is in need of urgent reform. Inequity in the system must make way for democracy, transparency, and accountability.

Mr. Chairman,

Our foremost priority, however, must be to pursue sustained economic growth to bring the global economy firmly back on track.

The development agenda must be brought firmly back to the centre stage of the United Nations' priorities. We need a much more determined effort to ensure balanced, inclusive and sustainable development for the benefit of vast sections of humanity.

Many developing countries are not in a position to implement counter-cyclical measures. There is an urgent need for international assistance - be it ODA, concessional finance, debt relief and moratorium or FDI- to help such economies gather momentum.

Mr. Chairman,

A critical lesson from the crisis is that the unregulated capital flows are highly destabilizing in nature. The withdrawal of huge amounts of money has left developing countries without adequate coping mechanisms and in fact even more financially unstable than before.

On the other hand, the spurt in short-term capital flows to some developing countries has led to significant inflationary pressures on the host economies. While excessive capital flows in itself poses a risk, their volatility adds further complications. We call upon the Financial Stability board, the IMF and the Bank of International Settlements to further work on developing effective tools to mitigate the impact of excessive capital flows.

Mr. Chairman,

We should not allow the global economic slowdown to become a trigger for building walls around ourselves through protectionism or erecting barriers to movement of people, services and capital.

Effective ways and means must be deployed to promote coordination of macro-economic policies of major economies. The reform of governance systems of

international financial institutions ought to be pursued with speed and efficiency. Regulatory, surveillance and monitoring frameworks must be tailored to meet the highest standards of accountability and financial controls.

India supports the Basel-III framework for bank capital and liquidity regulation and calls for its early implementation. We also are fully supportive of the move to ensure that systemically important financial institutions have loss absorbing capacity beyond the general standards set by Basel-III rules.

Mr. Chairman,

India fully recognizes that the global economic and financial architecture, so overwhelmingly loaded against the developing world needs urgent reform.

We call for early implementation of the two phase package of reforms of the World Bank to enhance voice and participation of developing countries. The decision to shift 6% quota shares in the IMF to developing countries must also be attended to in the right earnest.

Mr. Chairman,

The financial crisis has led to acute debt problems in the developing world.

The LDCs are the worst affected. Despite significant debt relief under the Heavily Indebted Poor Countries programme and the Multilateral Debt Relief Initiative, the total debt service burden of LDCs in the year 2008 reached US\$ 7.5 billion. Many of the countries which are part of the Heavily Indebted Poor Countries Initiative have been classified as being prone to debt distress once again.

The sovereign debt crisis in Europe and its possible contagion effect is a matter of deep concern. We ought to put in place mechanisms to deal with such crisis and its overall consequences.

The external debt burden constrains the national policy space and policy independence of developing countries and their ability to play the role of a developmental State.

Debt sustainability analysis frameworks remain limited and subjective. We must work towards a debt structure which is linked to a country's ability to pay.

Mr. Chairman,

The international community must remain vigilant in monitoring the debt situation of the affected countries. We should work to design policies that promote safer debt instruments, reduce destabilizing capital flows and limit solvency crisis by promoting responsible sovereign borrowing.

The roadmap of our global economic and financial reform agenda is clear and unambiguous. Let us pursue it.

Thank you.

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