**Remarks by Shri Shaktikanta Das, Governor,**

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I am happy to be here today at the Macro Week 2024 organised by the Peterson Institute for International Economics (PIIE). The Institute has established itself as a leading forum, bringing together public policy practitioners, central bankers, industry leaders, research professionals and scholars to brainstorm on emerging macroeconomic issues. Such discussions, especially on the sidelines of the International Monetary Fund and World Bank meetings, provide fertile ground for rigorous and meaningful interactions on matters of contemporary policy relevance.

2. In my remarks today, I propose to share some of my thoughts on the international monetary agenda and its relevance in a world confronted with economic and financial fragmentation. I shall also

touch upon why and how climate change needs to be part of central bank narratives.

## I. International monetary agenda

3. Global economic dynamics is shifting rapidly, driven by forces such as technological transformation, geoeconomic realignments, environmental challenges, and the ongoing global geopolitical disruptions. In this rapidly changing context, it is incumbent upon the G20 and international monetary institutions to adapt swiftly and act decisively to foster global stability and sustainable growth. I would like to highlight six areas of priority in this context, not in any order of importance.

4. The first and foremost priority should be accorded to **reforming the international financial architecture.** This involves prioritising inclusive global governance frameworks that better reflect the realities of today's global economy. The current system, while foundational, needs to reform itself to ensure equitable voice

and representation for the emerging economies. Enhanced access to resources and a stronger role in the governance of institutions such as the International Monetary Fund (IMF) and the World Bank will not only enhance the legitimacy of these institutions but also foster more serious global cooperation in addressing macro-financial challenges.

5. Second, on the agenda should be the **debt restructuring mechanisms**. While the G20's Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments were commendable measures, the scale of the problem is much larger. Debt restructuring processes remain *ad hoc*, slow, and – on several occasions – not sufficiently transparent. This results in protracted crises, causing unnecessary economic suffering for the debtor countries. We need an overhaul of the debt resolution architecture and its refashioning into one that involves both public and private creditors, ensures timely debt restructuring, and links debt relief with sustainable development objectives. Without such reform, the

vulnerable countries will continue to face unsustainable debt burdens which will have repercussions for global financial stability.

6. Third, we must recognise the fragility and fault-lines of the global monetary and financial system, both institutions and markets. Recent years have highlighted the risks posed by financial instability, in both advanced and emerging markets. There indeed is a pressing need to **improve global financial regulation** to manage systemic risks posed by private capital and non-bank financial intermediaries, which now hold significant portions of global assets. The rise of shadow banking and fintech, and the growing footprint of decentralised finance, require more robust regulatory oversight to prevent contagion effects and ensure financial stability as a global public good.

7. The fourth area of concern is the **digital divide**. As the global economy becomes more digitalized, countries that lack the infrastructure, skills, and regulatory frameworks for digital inclusion

risk falling further behind. The G20 and the international monetary and financial institutions should work towards nurturing an ecosystem that promotes investment in digital public infrastructure, and widespread adoption of digital technologies while ensuring cybersecurity and privacy safeguards.

8. Fifth, geopolitical tensions are increasingly affecting economic policies, leading to sanctions, weaponisation of finance, trade restrictions and supply chain disruptions. This is causing **economic fragmentation**, as countries aim for strategic independence in key areas like energy, technology and strategic materials like semiconductors and critical minerals. The G20 must play a key role in preventing further economic fracturing by promoting open and rules-based trade systems. While recognising the need for countries to secure their supply chains in tactically important sectors, the G20 should foster cooperation in areas such as technology transfer, investment in global public goods, and green transition.

9. Sixth, perhaps and above all, **climate finance** must be at the forefront of the G20's priorities and the international monetary and financial agenda. The international financial system must mobilise significantly greater resources to fund the transition to a low-carbon economy. The G20 must also coordinate national efforts to ensure that climate policies do not lead to protectionism, unilateral trade barriers or trade conflicts. The rise of border carbon adjustments (BCAs) and similar measures must be managed through cooperative frameworks to avoid unnecessary economic fragmentation. Additionally, there is an urgent need for innovative financial instruments that can incentivise private capital to flow into climate related efforts. Without a fundamental shift in the way the international monetary and financial systems address climate finance, we risk exacerbating environmental degradation and global inequality.

10. We live in an era of high uncertainty and turmoil, where the job of policy makers is something like steering a vast,

interconnected fleet through turbulent seas, where the old maps no longer suffice. The time for incremental changes has gone. What is needed now is a transformative action agenda which would ensure that the global economic and financial architecture serves all nations and peoples and not just a select few. With collective action and renewed commitment to multilateralism, we can build an international monetary and financial system that is truly fit for the 21st century.

## II. Economic and financial fragmentation

11. Global co-operation and the integration of global markets, in particular, were instrumental in driving decades of world growth. For many low-income countries and emerging markets, this integration into the global economy was a crucial contributor to their development. It provided them access to affordable imports, extensive export markets, and foreign technology. Now, however, geo-economic fragmentation is weighing on the outlook for global

growth.[1] The geopolitical risk index[2] has spiked sharply in 2024 amidst increases in trade restrictions and financial sanctions. This has reversed the substantial benefits from global economic integration[3]. There are now fears of de-globalization and increasing regionalization. This could dampen the convergence of emerging and developing economies to better living standards. Geopolitical risks are also imparting heightened volatility to capital flows and asset prices. They are also undermining the efficiency of the global payments systems.

12. Cross-border flows of goods, services, and capital have levelled off since the global financial crisis. Recent geopolitical events have further fuelled protectionism alongside an increase in trade and logistics disruptions[4]. For many low-income countries

[1] A study by IMF staff in August 2023 suggested that greater international trade restrictions could reduce global economic output by as much as 7 percent over the long term, or about USD 7.4 trillion in today's dollars. That is equivalent to the combined size of the French and German economies, and three times sub-Saharan Africa's annual output (The High Cost of Global Economic Fragmentation, IMF Blog, August 2023).

[2] Caldara, Dario. and Iacoviello, Matteo (2022), "Measuring Geopolitical Risk", American Economic Review, Vol. 112, No 4, April, pp. 1194 1225.

[3] Financial Stability Report, RBI; June 2024.

[4] Chapter 1, Geoeconomic Fragmentation: The Economic Risks from a Fractured World Economy. CEPR and IMF, 2023.

and emerging markets, potential losses due to de-globalization could be much greater. Despite these downside risks, it is heartening to see recent projections which suggest global goods trade will post an increase of 2.7 to 3.1 per cent increase this year[5]. Even as this near term resilience gives hope, remaining alert to the changing winds is important while preparing for an increasingly uncertain outlook.

13. Recently, global value chains (GVCs) have also seen significant disruptions due to both geo-political events and overarching issues like the pandemic and climate crisis. This has raised concerns regarding the reliability of the GVCs as engines of growth. Discussions regarding 'friend-shoring' and 'reshoring' are spreading dissonance and fears of discriminatory measures against foreign competitors. In such a trade environment, it is the 'bystanders' that would be disproportionally affected.

[5] Global Trade Outlook and Statistics, WTO, October 2024 & World Economic Outlook, IMF, October 2024.

14. Other forms of fragmentation — like technological decoupling and disrupted capital flows — would also have their adverse effects and raise costs. They can also impact funding costs of banks and domestic financial institutions, reduce their profitability, and prompt them to contract lending, with potentially adverse effects on economic activity. Building up adequate international reserves as well as capital and liquidity buffers within the national financial systems would be vital to reduce the vulnerability of emerging economies to such adverse external shocks.

15. Finally, there is the apprehension that if geo-economic fragmentation continues unabated, countries may seek to become less reliant on the international financial infrastructure and global standards. Fragmentation of the international monetary system could have serious implications for markets. New parallel systems that lack inter-operability may emerge, which means higher transaction costs and other inefficiencies. Strengthening crisis preparedness to deal with the fallout from these tensions, including

unanticipated ones, should be a policy priority for emerging market economies. The global financial safety net must be reinforced through mutual agreements between countries. This may include regional safety nets, currency swaps, fiscal mechanisms, and precautionary credit lines from international financial institutions. If these things do not happen, emerging economies will have to substantially augment their own safety nets and buffers.

## III. Central banking and climate change

16. Traditional views on climate change policy have given way to a more updated multi-regulator approach to tackle the unfolding repercussions of extreme climate events. Manifestation of these risks through demand-supply shocks, productivity losses, asset revaluations and transition to a low-carbon ecosystem at high cost can impair financial, monetary and price stability [6]. To my mind, the

[6] Climate change now holds prominence in the work programmes of the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision. The Network for Greening the Financial System (NGFS), which was set up in 2017 at the initiative of eight central banks, now includes 141 members and 21 observers, comprising central banks or prudential authority.

question, therefore, is not whether central banks should take into account climate change but how should this consideration be integrated to their central mandates. This involves, first, understanding the impact on price stability, given the high costs and other transition risks involved in progressing towards a low-carbon economy[7]. Second, it is important to assess the impact on financial stability in all its ramifications[8]. Third, it is necessary to balance micro prudential responsibilities[9] to help financial institutions to manage material risks associated with climate change. Fourth, robust analysis and research are needed to enable advocacy and thought leadership[10] in this space[11].

17. The Reserve Bank of India does not have an explicit remit for dealing with climate related risks. It is an inferred responsibility

[7] Monetary Policy and climate change- Key takeaways from the membership survey and areas for further analysis, July 2023 – NGFS.
[8] The Implications of Climate Change for Financial Stability, Financial Stability Board, 2020.
[9] Principles for the effective management and supervision of climate-related financial risks, Basel Committee on Banking Supervision (BCBS), 2022.
[10] Central Banks of Australia, Brazil, France, Germany. Japan, Malaysia and the European Central Banks have dedicated central bank units working on climate-related tasks.
[11] In May 2021, Reserve Bank set up a Sustainable Finance Group (SFG) within the Bank to effectively counter climate change-related financial risks, and for leading regulatory initiatives in areas of sustainable finance and climate risk.

derived from its macroeconomic and financial stability mandates. This has encouraged the quest for suitable instruments and actionable frameworks. The Reserve Bank of India has set up a sustainable finance group (SFG) within the Bank and has also joined the Network for Greening the Financial System (NGFS) in 2021. Some of the steps already taken by the Reserve Bank include promoting green finance initiatives such as inclusion of finance to renewable energy projects in directed lending (Priority Sector Lending) by banks; issuance of sovereign green bonds (SGrBs); establishing a framework for acceptance of 'Green Deposits'; and developing a Disclosure Framework on climate-related financial risks and Guidance on climate scenario analysis and stress testing.

18. At the cross-country level, I believe it is important to give due acknowledgement to the sharp trade-offs central banks face when dealing with climate-related risks. On the one hand, central banks have to operate within the confines of their specific legal

frameworks and, as publicly accountable institutions, they have to provide rigorous evidence in support of all their actions. On the other hand, central bank balance sheets might already be exposed to climate-related risks and they may be forced to respond to them from behind the curve.

19. While recognising that the government is the most appropriate and effective authority to spearhead climate action, each country – based on its domestic conditions – has to decide between having explicit climate mandate for the central bank or subsuming it into its price and financial stability mandate.

## IV. Conclusion

20. As I conclude, let me briefly speak on the Indian macroeconomic experience. The Indian economy rebounded from the severe contraction imposed by the COVID-19 pandemic and averaged a real GDP growth of above 8 per cent during the last three financial years. For the current year (2024-25), the Reserve

Bank of India has projected real GDP growth of 7.2 per cent, with risks evenly balanced around this forecast. Improving domestic demand, lower input costs and a supportive policy environment[12], are spurring manufacturing activity. The services sector has been displaying strong growth. The growth outlook reflects the underlying strength of India's macro-fundamentals, with domestic drivers – private consumption and investment – playing a major role. The government's thrust on capex and healthy balance sheets of banks and corporates are expected to support private investment. Private consumption, the mainstay of aggregate demand, appears to be on track for a strong improvement due to the favourable agricultural outlook and the pickup in rural demand. Sustained buoyancy in services would also support urban demand.

21. Resilient growth has given us the space to focus on inflation so as to ensure its durable descent to the 4 per cent target. The

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[12] Government schemes such as Production Linked Incentive (PLI) scheme, Pradhan Mantri Awas Yojana (PMAY) [expanded to construct 3 crore additional houses], Pradhan Mantri Gram Sadak Yojana (PMGSY) [launching of phase IV], National Infrastructure Pipeline (NIP) and viability gap funding would provide impetus to capital formation.

headline inflation trajectory is projected to sequentially moderate from the last quarter of this financial year. Unexpected weather events and worsening of geopolitical conflicts constitute major upside risks to the inflation outlook.

22. A continuing priority for the Reserve Bank has been to strengthen the financial sector. The health parameters of banks and non-bank financial companies (NBFCs) are now very robust. This has resulted in sustained credit flows, especially to the remote and underserved segments, bolstering financial inclusion.

23. As I said in my last monetary policy statement, today, the Indian economy presents a picture of stability and strength. The balance between inflation and growth is well-poised. The external sector demonstrates the strength of the economy. Forex reserves are scaling new peaks. Fiscal consolidation is underway. The financial sector remains sound and resilient. Global investor optimism in India's prospects is perhaps at its highest ever. We are,

however, not complacent, especially amidst the rapidly evolving global conditions.

Thank you.