

**Union Finance Minister Shri Pranab Mukherjee's Speech as one of the
Lead Speakers during G 20 Session on Global Economy and Framework
On 14th October, 2011
Time: 1900-2100 Hrs**

Distinguished Chairperson and Colleagues,

My Canadian colleague has **made** a detailed presentation on the Framework. We have also heard from the IMF on the state of the global economy and financial markets. The draft Cannes Action Plan has to be viewed against the backdrop of these presentations. In this context, I will limit my intervention to three important issues that I feel could help focus our discussions.

2. First, it is important for us to strike a fine balance between the short run and the long run policy issues and options to help restore market confidence. In our recent meeting at Washington DC, there was a growing sense that the global economy had slipped into a precarious phase, reminiscent of the period in the run-up to the collapse of Lehman Brothers. There is apprehension that even the tepid economic recovery that we have seen so far in the advanced economies is stalling. Unemployment in these economies never quite recovered from their crisis highs. The relatively robust recovery in Emerging Market Economies is also beginning to falter. The financial markets, which had never fully recovered from the earlier crisis, are under renewed stress. Indeed, the current crisis has been incremental in nature with a series of local intermitted shocks getting transferred to the global economy. All this has happened despite the aggressive use of both fiscal and monetary policy tools and our collective resolve to keep markets open.

This is a source of great concern. Going forward it limits our options in dealing with the emerging situation.

3. The Framework was conceived at a time when the global recovery was taking root, and our attention was on rebalancing of the global economy, to make the recovery stronger and sustainable in the medium to long-term. The recovery was based on a strong dose of stimulus, both fiscal and monetary, which has been difficult to withdraw. Although concerns were expressed regarding fiscal imbalances at Toronto, the focus at Seoul was on external imbalances. In retrospect, perhaps we did not pay adequate attention to internal imbalances i.e. shifting demand back from the public sector to the private. The current indicators show that both private consumption and investment sentiments have further weakened.

4. It is this weakening of sentiments that is compelling us to shift some of our focus back to near term issues in the Action Plan, even as we recognize that structural imbalances remain to be addressed.

We need to send clear signals, mindful of the fact that our options today are much more limited. On the one hand, markets are wary of mounting public debt in the absence of strong growth, which is a long-term issue. On the other hand, strong injections of liquidity by Central Banks seem to have done little to stimulate lending and borrowing, so far. Instead we are witnessing damaging spillover consequences, especially on asset and commodity prices that have strengthened inflation in emerging markets.

5. Second, since recent global crises emanated from large economies, the focus of the Framework has so far been on systemically important economies. However, we need to recognize in our MAP process that imbalances even in relatively small economies can be magnified by integrated financial markets, especially through mechanisms such as the currency unions. The real danger to the global economy lies in the rapid contagion possible through today's globally integrated financial markets. Thus, it would appear strange if the focus of the G 20 were to remain on large economies even as the periphery of the Euro Zone is proving to be systemically more important. The Framework process will need to come to grips with the reality of large imbalances, in a small economy, in a large currency union having the potential to destabilize the global economy in today's context. Our Action Plan must find a way of addressing this issue.

6. Third, it is worth considering whether we need to lay greater emphasis on the growth element of our Framework at this stage. The World Bank's report on 'Rebalancing, growth, and development: an interconnected agenda' has suggested that the recent weakening of growth in the global economy calls for a renewed G20 focus on growth. I agree with the Bank's views and I am convinced that the desired rebalancing may be difficult to achieve and sustain in the face of faltering growth.

7. In this regard the global economy is perhaps better positioned today than what it was in the 1930's. At the time of the Great Depression, global growth was entirely dependent on industrialized countries fed by raw material producing colonies. The latter were entirely

dependent on demand in the former. Both advanced economies and their colonies therefore went down together. The situation today is different. Former colonies are now emerging markets undergoing their own industrial revolutions and with their own endogenous sources of rising demand. Although emerging markets cannot be entirely decoupled in an integrated world, nevertheless this is the main reason why the world continued to grow even as advanced countries went into recession. Therefore, as we put together an Action Plan for Leaders to consider at Cannes, our recommendations on rebalancing global demand should not weaken the growth impulse in the new nodes of demand, but should indeed strengthen it.

8. In this context, I would like to reiterate the suggestion made by my Prime Minister at the Seoul Summit that global imbalances should be leveraged to address developmental imbalances. If we need to add demand to the global economy, to offset the moderation of demand in industrialized countries, a good way of doing that is to expand infrastructure investment in developing economies. This suggestion may well be extended to increasing investment in infrastructure generally, and a more liberal flow of technology to developing countries, which in turn could spur output and productivity growth in both advanced and developing countries.

9. Let me also add here that tax evasion and illicit flows have posed serious challenges to the world economy and the efforts of the countries to raise revenue for development. A strong and sustainable growth requires effective tax administration nationally and cooperation between countries. We need to start exchanging

information automatically for improving tax compliance with partner countries on a voluntary basis and then urging other countries also to do so. We also need to give a call on exchange of past banking information and assistance in collection of taxes. We shall be discussing these and other related matters in the session tomorrow, but I have flagged it here since I believe it should be one of the Cannes deliverables.

Thank you.