SPEECH

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PM's address at the St. Petersburg G-20 Summit

It is a pleasure to be here in this beautiful and historic city. I join other speakers in thanking President Putin for the excellent arrangements made and the warm welcome we have received.

We have a long agenda but I will restrict myself to commenting only on some major issues.

The world economy is not in good shape. There is some good news of a strengthening of growth in some industrialised countries, but it is not broad based. The prospects for the Eurozone as a whole remain uncertain. Unemployment in all industrialised countries is too high, with no early prospect of relief. Growth in emerging markets, which was strong until recently, and was a major force for global recovery, has slowed down significantly.

The G 20 is the premier international forum for discussing international economic issues. I think we need to reflect on why we are having less success in restoring global growth than we had hoped.

Fiscal consolidation was necessary but the initial targets were perhaps too ambitious. Combined with private sector de-leveraging, this produced a deficiency of demand which led to slow growth and high unemployment. The possibility of these negative effects was known, but they were supposed to be offset by strong structural reforms in industrialised countries that would enhance productivity and therefore private investment. This did not happen, or at least not as widely, or at the pace that was expected.

Faced with persistent demand deficiency, industrialised countries relied heavily on unconventional monetary expansion on an unprecedented scale. This did not emerge from the agreed policy coordination process. It emerged from internal decision making processes in the individual countries, reacting to their respective economic outcomes.

The policy of unconventional monetary expansion in advanced countries had some success but it also had spillover effects. When policy was being loosened, there was a surge in capital flows to emerging markets, which helped some countries finance their current account deficits while generating upward pressure on the currencies of other countries. With markets now anticipating a reversal, we are seeing a large outward flow from emerging markets. Since most emerging markets now operate with flexible exchange rates, they have experienced varying degrees of currency depreciation, posing problems in many cases.

The conventional view that capital volatility should not be a source of concern as long as exchange rates were flexible is now being questioned. Sudden increases in cross border flows not only affect the exchange rate, they also affect credit volumes and asset prices. Such flows led to excess leverage in the industrial countries before the global financial crisis. They are leading to stock market and exchange rate volatility in emerging markets today.

These problems suggest that the G20 policy co-ordination process needs to pay more attention to monetary policy than it has. I recognise this poses special challenges. Central Banks typically guard their independence, and some also have narrow legal mandates focussed on domestic objectives. The impact of monetary policy on capital flows is also difficult to predict since it depends on how markets react, which cannot always be anticipated. However, if we accept the need for coordination of fiscal policy among the systemically important countries, there is an equally compelling case to cover monetary policy in the reserve country currencies. There is certainly room for more extensive consultation and more effective communication on this issue. Our Finance Ministers should find ways of strengthening the Mutual Assessment Process to achieve these objectives.

India has been affected by currency volatility in the past few weeks. One reason for this is that we had a high current account deficit of 4.8 percent of our GDP in 2012-13. This was easily financed when flows were ample. It became a problem when flows suddenly dried up. We have taken steps to reduce our current account deficit to 3.7 percent of GDP in 2013-14, and we intend to reduce it further to about 2.5 percent. Meanwhile, we are taking steps to finance this deficit by establishing a macro economic environment that is seen to be friendly to stable foreign flows.

We will continue to work within the framework of an open economy to restore growth to earlier levels. We have undertaken a number of reforms, and intend to do more in future. The reforms that lie ahead are the more difficult reforms, relating to control of subsidies, reform of the tax system and reform of the financial sector. We are working on all these areas. The new Governor of the Reserve Bank of India has indicated important changes in banking regulations that will accelerate the reform process.

Our efforts at restoring growth will be greatly helped if we have a stable external environment that is supportive of growth. The G 20 has a major role to play in this context. This Summit must send a clear signal of our collective commitment to work together for the revival of growth, which is the only way of ensuring a sustainable growth in quality jobs. We must focus especially on the need to restore robust growth in the emerging market countries, which will also contribute to global recovery.

Fiscal consolidation is important for many countries and must remain a key medium term objective. However, it must be pursued with realistic time paths, keeping in mind the current weaknesses in demand in many countries. On our part, we are determined to ensure that the fiscal deficit will not exceed the target indicated.

A strategy for job creation in developing countries must include stronger efforts to impart employable skills to the labour force. We can learn from international experience in this area, including the experience of industrialised countries. We also need better functioning labour markets in both industrialised and developing countries.

International labour mobility in high end skills has become an important lubricant of global integration across countries. Pending the evolution of an international agreement on these issues, we must do whatever we can to avoid new restrictive measures in this area.

Let me now turn to the issue of reform of the financial system, which has been an important part of our agenda. I congratulate the Financial Stability Board for the very considerable progress that has been made in spelling out the details of improved capital requirements under Basel III, and getting commitments from countries to meet the new capital adequacy standards.

There are other areas that are more complex and on which work is ongoing. This includes development of guidelines for leverage ratios to supplement capital adequacy, regulation of the shadow banking system, and regulation of over the counter derivatives. We also need to develop a framework which can overcome the "too big to fail" problem. This involves identification and regulation of systemically important financial institutions, designing better systems of supervision of such institutions that operate across borders, and developing a cross border resolution mechanism. Good work has been done in all these areas, but it remains a work in progress. We must persevere towards its successful conclusion.

There is a note of caution I would like to insert from the perspective of developing countries. Regulations aimed at increasing the stability of the financial system should not operate to the disadvantage of developing countries. If we cannot moderate the volatility of total capital flows, let us at least avoid amplifying this volatility through the banking system.

As we work towards a better regulated financial system, we must also ensure financial inclusion. We in India, are currently engaged in a massive exercise to enable the large population in rural areas to have access to banks. This is being achieved through the use of a bio-metric unique identification system which establishes identity and enables the individual to access her bank account through a network of banking correspondents using information technology and mobile connectivity. Thanks to modern technology and institutional innovation, we expect to add hundreds of millions of individuals as customers of banks in the short space of a few years.

The flow of credit to small and medium enterprises is an important aspect of financial inclusion. I note that several industrialised countries are taking government initiatives to encourage such credit flows. Many developing countries used to be criticised for such directed credit policies in the past on the grounds that they amounted to an interference in prudent banking. Now that there is greater appreciation of the need for such intervention, we need to share experience in this area. We have a common aim of ensuring financial inclusion consistent with prudential banking.

The reform of the international financial institutions has been a key part of our agenda. The Fourteenth Quota Review produced an agreement which would improve the voting share of the developing countries and achieve a better representation on the IMF Board. We had hoped to be able to welcome ratification of the quota increase in the St. Petersburg Summit, but that has not been possible. We must call for the earliest possible completion of the ratification process, so that the Fifteenth Quota Review can be completed in January 2014 as originally envisaged.

Let me now turn to the subject of development, which was added to our agenda in the Seoul Summit. Much useful work has been done under the various pillars, but most of it involves actions that countries have to take themselves. However, the G-20 can add the most value by pushing in areas where active international cooperation is needed.

The most important initiative in this context is the promotion of investment in infrastructure in developing countries. Larger investments in infrastructure in emerging markets will increase the potential of these countries to grow more rapidly in the medium run and will also contribute to much needed global demand in the short run.

At the Los Cabos summit we directed our Finance Ministers to explore how the G 20 can help, including through more active involvement of the multilateral development banks. We have not yet seen the results of their efforts, but there are several things we can do. The industrialised countries have shown that unconventional monetary policy can be used to great effect. We need to bring the same innovativeness in devising "unconventional development financing" also.

The World Bank and ADB could create a special window for ensuring finance in support of infrastructure development, including provision of finance for ongoing projects which face a sudden scarcity of funds owing to volatile capital flows. Access to this window should be beyond the normal country limits, which otherwise introduce inflexibility. The aim should be to create mechanisms which can increase the flow of infrastructure financing at times when other investments are slowing down.

The active involvement of international financial institutions in critical areas in developing countries can often leverage greater private investment flows to these areas. The IFC has done sterling work in many sectors, and a greater involvement of the IFC in infrastructure financing would help catalyse private sector flows into this sector.

Any significant involvement by the multilateral development banks, notably the World Bank, IFC and the ADB, to promote investment in infrastructure in emerging markets will involve additional capital. I hope the G 20 can give a signal that we are willing to provide the capital.

Another area where international action is vitally needed is in reinvigorating the Doha round. This was the first Round of Trade Negotiations that was explicitly called a Development Round. It has become a victim of the slowdown following the international financial crisis, and the preoccupation of industrialised countries with short term economic revival and reduction in unemployment. We need to get back to the negotiating table with the will to reach a conclusion.

India firmly believes that strengthening the WTO is critical for anchoring expectations about the continued commitment to an open world economy. We are willing to extend the standstill on protectionist measures, but I would urge that this must be part of a commitment to take credible steps to show progress on the Doha Round. We look forward to a positive outcome in the Ministerial Meeting in Bali in the hope that it will encourage all countries to move ahead quickly on the main agenda.

Mr. Chairman,

I have not commented on many items in the agenda because of lack of time and because I feel that the text of the draft declaration that has emerged from our Sherpas' discussions adequately reflects our point of view. I conclude by congratulating you and the Russian Presidency for the work that has been done to ensure that the St Petersburg Summit makes a substantive contribution to evolving a consensus on many difficult issues facing the world economy.