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FINANCE MINISTER'S INAUGURAL ADDRESS AT THE INTERNATIONAL CONFERENCE ON "ECONOMIC POLICIES FOR EMERGING ECONOMIES"

New Delhi, Agrahayana 23, 1933
December 14, 2011

Following is the text of the inaugural address of Union Finance Minister, Shri Pranab Mukherjee at the International Conference on "Economic Policies for Emerging Economies" delivered here today:

"It gives me great pleasure to deliver the inaugural address at the International Conference on "Economic Policies for Emerging Economies" organized jointly by the Ministry of Finance, Government of India and the National Institute of Public Finance and Policy. The initiative by Prof Kausik Basu last year of bringing together economists, policy makers, industry captains and other stakeholders to deliberate on topical economic issues has now grown into a week-long "Delhi Economics Conclave". I understand that this is the plenary day of the Conclave, which is a collaborative effort with seminars being hosted by the Delhi School of Economics, Confederation of Indian Industry and Indian Statistical Institute.

I welcome and support this initiative. There are eminent scholars from India and abroad, including Nobel Laureate Professor Amartya Sen, Prof. Richard Freeman of Harvard University, well-known policy makers, leading bankers, representatives from Trade and Industry, social activists and journalists participating in this Conference. While extending a warm welcome to all of you I would like to compliment Prof. Kaushik Basu, and his able team of officers in organizing this conference. I am sure this conference would contribute to the economic policy discourse of emerging nations including India.

The subject of today's conference "Economic Policies for Emerging Economies" is very topical. The world economy is passing through turbulent times. Recovery from the global economic crisis has been staggered because of a complex mix of real and financial challenges facing many industrialized economies. Moreover, the recovery has been two- paced, with emerging market economies like China and India leading the way followed by Latin America and Africa. Advanced economies have grown more slowly than before. Over the past months, deep and widespread economic problems have surfaced in Europe which is a further setback to the global economy.

Indeed, there is indication 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.

The current build-up of concerns has been incremental in nature with a series of local intermittent 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 poses some serious problems for the policy makers. Going forward it limits our options in dealing with the emerging situation.

The heart of the problem lies in sovereign debt. John Maynard Keynes had famously observed that when you borrow 1000 pounds, you are under the thumb of your banker. But when you borrow 1 million pounds, your banker is under your thumb.

During economic slowdown in the wake of the global financial crisis, virtually all governments increased their spending as part of fiscal stimulus packages. In particular, several European governments built up large public debt. As a consequence, those who lent money to these sovereigns are in trouble. I should add that reality is a little more complex than what Keynes had said. The large debt is causing a problem for both the lenders and the borrowers.

It is possible to argue that current developments in the global economy reflect a major shift in the international economic order, where emerging economies will come to play a major role in the post-crisis world. While new opportunities await us in the near future, we must recognize that sound economic policy-making is a must for realizing them. Our intellectual engagements in the field of economic policy analysis also need to increase. It is therefore imperative to deliberate on innovative ideas to address challenges faced by emerging economies, involving all stakeholders. In this context, the present conference assumes even greater significance.

Though emerging economies recovered quickly from 2008-09 global crises, factors including capacity constraints, rising commodity prices, uncertainties in capital flows and slowdown in external demand have impacted their growth to varying degrees. Some of them have also been experiencing inflationary pressures. Excessive liquidity from aggressive policy actions, by central banks from around the world trying to counter recessionary tendencies, spilled over onto emerging economies, resulting in excessive volatility in capital flows and inflationary pressures.

It is reassuring to note that in such a globalized environment the pause in India's growth story was brief. The Indian economy recovered with growth averaging over 8 per cent in the two years following the outbreak of the crisis in 2008.

We are presently faced with a rapidly evolving economic scenario. While the Indian economy faced excessive capital inflows in the aftermath of the global crisis leading to appreciation of the domestic currency, with the unfolding of the euro zone crisis, the matter of concern at present is reversal in such flows leading to increased currency volatility. We have witnessed sharp depreciation of the Rupee vis-à-vis the US Dollar in the last few months. Slowdown in external demand has led to deceleration in the growth of exports in recent months with the current account deficit widening to around 3 per cent of GDP.

Sustained high level of inflation that has been a major policy concern for us over the past two years is now beginning to moderate. Food inflation has seen a decline to 6.6 per cent for the week ending November 26, 2011. Growth however has slowed in 2011-12. The second quarter of the current fiscal has registered a GDP growth of 6.9 per cent following a growth of 7.7 per cent in the first quarter. Our monthly industrial growth has slowed down sharply for the month of October 2011. This is partly a reflection of global trends, but our own fight against inflation has also taken a toll on investments by our corporations. We must turn our attention now to reviving growth as quickly as possible.

We also have our fiscal challenges but our problems, whether they are measured in terms of aggregate public debt or the size of the fiscal deficit, are nowhere nearly as large as the ones faced by many European nations. I say this not to encourage complacency in India but to place the issue in perspective. I am expecting that the present downturn will be temporary and our economy will soon revert back to high growth.

The Indian economy is, in some ways, better placed than many other nations to withstand a fresh round of global economic turmoil. India's resilience results from the fact that the bulk of India's GDP is domestic demand driven. A calibrated approach to capital account convertibility has, to a significant extent, prevented rapid surges and reversals of debt creating capital flows. India's external commercial borrowings policy that places end-use, all-in-cost and maturity restrictions, has been successful in maintaining external debt at sustainable levels. India's banking sector is robust and export basket is increasingly diversified with developing countries being our largest export market. We can also boast of optimal regulatory mechanisms in place that check unsustainable financial practices, thus ensuring the robustness of the financial sector.

I understand that a plenary panel in this conference will dwell on issues concerning social justice and inclusive development. I am happy that Professor Amartya Sen, who is a world authority in these matters, is with us today.

In a globalised world, macroeconomic disturbances will come up from time to time to challenge policy makers in economies like ours. However, problems of poverty and inequality pose continuing challenges for us. Our growth story is now an accepted fact, but many people in this country are yet to receive the full benefits of our rapid economic expansion. Our commitment to 'inclusive growth' is an endeavour to include those at the margins into the mainstream of India's growth story through micro and macro level initiatives. We are seeking to strengthen institutions and delivery mechanisms that take the benefits of high growth to the poor. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is one such example. Our emphasis on inclusive development in the 12^{th} Five Year Plan that focuses on agriculture and crucial social sectors including education and health is in keeping with this objective. While I am not personally familiar with the work of Professor Richard Freeman, I know that he has written extensively on labour rights and the welfare of workers. I am sure he will have useful advice to give us.

Let me conclude by saying that we need to further our understanding of issues where greater and coordinated policy actions are needed to sustain growth and create inclusive outcomes for the people. I am confident that this conference would contribute to that end. Let me once again compliment the organizers of the Conference for this great effort. I look forward to benefiting from the outcomes of your deliberations."

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