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TEXT OF THE SPEECH OF UNION FINANCE MINISTER, SHRI PRANAB MUKHERJEE AT CONFERENCE ON "GLOBAL ECONOMIC SITUATION: NEW ORDER EMERGING?" IN DELHI ECONOMICS CONCLAVE

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Following is the text of the speech delivered by Union Finance Minister, Shri Pranab Mukherjee at a conference on "Global Economic Situation: New Order Emerging?" in Delhi Economic Conclave, here today.

"I am very happy to be here today at the inauguration of this CII event. I understand this conference, which is being organised as a part of the Delhi Economics Conclave, to dwell on contemporary economic issues and challenges before us, would be an annual feature from this year. I welcome this initiative.

The world economy is facing renewed challenges on several fronts in the aftermath of the global financial turmoil of 2008. The persisting Euro zone sovereign debt crisis has continued to fuel uncertainty in the financial markets, undermining business sentiments globally. Post-financial crisis, the world saw a two-paced recovery with advanced economies growing more slowly than before, while emerging economies like China and India leading the way.

After the initial phase of harmonising the use of macro-economic policy and keeping markets open, countries in the developed and the developing world adopted revival strategies, in keeping with the needs of their respective contexts, though with varying degree of success. Thus, in recent months, while recovery in the advanced economies is showing signs of stalling, there is slowdown in the emerging economies. This does not augur well for the global economy. Indeed, it is becoming one of the most challenging periods for policy makers the world over.

It is in time like these that the need for putting our heads together to come up with practical policy options in addressing the challenges before us becomes vital. Emerging economies including India have a prominent and ever increasing role in the global economic and financial system. Consequently, their intellectual engagement in the field of economic policy analysis also needs to increase. A realignment of how the world integrates various human dimensions, across social, political, and economic spheres, for an interdisciplinary approach to problem solving needs to emerge. Fortunately, we now have the tools of technology and communication to assist in this process. I would like to believe that the idea of having a Delhi Economics Conclave is a step in that direction. India has to make progress as a centre for intellectual discourse and knowledge creation in the fields of economic, financial and social policy-making, to complement its growing economy and role in global policy matters.

As you dwell on some of the policy challenges before us, particularly in the emerging market economies, 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. Post-financial crisis, as the global recovery was taking root our attention was on rebalancing of the global economy, to make the recovery stronger and sustainable in the medium to long-term. 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 present indicators show that both private consumption and investment sentiments have weakened. It is this weakening of sentiments that makes it necessary to shift some of our focus back to near term issues even as we recognize that some structural imbalances remain to be addressed.

The economic restructuring process of troubled nations is going to be protracted and would throw up many more challenges over the medium term for the rest of the world. Likewise, the world's largest economy the US is also struggling with high debt levels and continued balance sheet troubles for firms and households. In fact, the OECD has recently cut its growth forecast for advanced economies over the coming two years. The conditions in the advanced economies have inevitably transmitted to developing economies through various channels including loss of demand volumes, volatile fund flows, fluctuating commodity prices, and others. All nations have become vulnerable to lesser or larger extent. India is no exception although the impact has been relatively muted and macroeconomic fundamental remain strong.

It is necessary in this context for policy makers 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 and more recently in the foreign exchange markets that have strengthened inflation in some emerging markets.

The real danger to the global economy lies in the rapid contagion possible through today's globally integrated financial markets. Imbalances even in relatively small economies can be magnified by integrated financial markets, especially through mechanisms such as the currency unions. We cannot afford to have a piecemeal stop-go approach. A concerted and coordinated response is the need of the hour for the collective global well-being.

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. It is important not to weaken the growth impulse in the new nodes of demand, but should indeed strengthen it.

One way of doing that is to leverage global imbalances 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.

Let me turn to the Indian economy. The challenges facing the country are daunting. The primary challenge is of human development, where India still ranks low in global terms, particularly in critical areas such as infant and maternal mortality, nutrition, and literacy. India cannot afford to relax on its efforts to promote growth and to leverage the fruits of that growth for fostering more equitable and inclusive development. Domestically, the struggle against inflation and tightening interest rate regime has contributed to lowering of growth in demand and investment. The slowdown in industrial growth is of particular concern as it impacts employment.

Despite declining trend, inflation is at unacceptable levels. There are also immediate concerns related to fiscal deficit and current account deficit. Over the medium term, employment creation is a key challenge as some 250-300 million new entrants to the workforce are expected over the next decade or so. Skill development and training efforts will need to be stepped up. Financial inclusion and reforms are high priority and so is infrastructure across all sectors. Challenges of land availability and environmental sustainability have to be also addressed effectively over a longer time horizon.

Innovative remedies would be required to address these challenges simultaneously. The options for fiscal steps as well as monetary measures are increasingly limited. However, there is potential for policymaking in other areas. In recent months, the government has sought to unlock economic bottlenecks through initiatives such as the National Manufacturing Policy, permitting greater FDI in retail sector, Direct Taxes Code, Goods and Services Tax, and various legislations including in the financial sector. We hope that greater consensus on these initiatives will help speed up their implementation.

In today's context, macroeconomic management can no longer be confined only to economic issues. Economists must also be adept at addressing political and social outcomes of policy decisions. In a complex and interconnected world, it is no longer enough to merely state the desirable steps – we need to go beyond the 'what' to also lay out the 'how'. The success of our navigation through a complex multi-layered environment is what will determine future economic growth and development.

No nation can afford to be insular in its decision-making process. Democratisation demands globally acceptable solutions within the interest matrix of each nation. We need to work together for building consensus within domestic and international communities. For this, a new form of communication and dialogue is needed, between nations, between communities, between political entities, between social classes and economic stakeholders.

Let me conclude by thanking you for giving me this opportunity to share some thoughts. I greatly look forward to the discussions at the Delhi Economics Conclave and await its outcomes with anticipation."

DSM/SS/GN