

**Speech of Shri P Chidambaram, Union Finance Minister at the
Delhi Economics Conclave 2012**

**on
14th December, 2012
at Delhi**

Topic: 'Reviving Growth'

Their Excellencies Shri Tharman Shanmugaratnam, Deputy Prime Minister and Finance Minister, Singapore, Shri Pravin J. Gordhan, Finance Minister, South Africa and Dr. Sarath Amunugama, Senior Minister for International Monetary Cooperation & Deputy Minister of Finance and Planning, Sri Lanka, my colleague Shri S.S. Palanimanickam, Dr. C. Rangarajan, Dr. Arvind Mayaram, Dr. Raghuram G. Rajan, Dr. M. Govinda Rao, Excellencies, Ladies and Gentlemen, -

2. I welcome you to the Delhi Economics Conclave organized by the Ministry of Finance in collaboration with National Institute of Public Finance and Policy (NIPFP) and Confederation of Indian Industry (CII). Let me congratulate the team in the Economic Division for organizing this conclave for the third successive year and thank NIPFP and CII for their support and cooperation. I understand that, besides the plenary sessions on the first and second days, there are satellite conferences organized by other organizations as part of this Conclave. Let me offer my thanks to those organizations too.

3. The theme of this conclave is "Reviving Growth". Nothing can be more topical. As far as I know, this is the subject that is engaging the attention of all countries of the world. Be it the G-7 or the G-8 or the G-20 or the G-24 comprising the developing countries, at every forum the prime topic of discussion is how to revive global growth. The world economy is passing through its most difficult phase since 2008. The Euro zone as a whole is, technically, in recession with negative growth in the second Quarter and the third Quarter of 2012. Growth in the US too has slowed as a result of political uncertainty over the "fiscal cliff". Other major economies such as Japan and Brazil have seen their growth stalled.

4. The emerging economies are affected not only because of the fall in international demand for their products, but also because of the severely diminished policy space they have to stimulate their economies after the crisis. Higher inflation and higher fiscal deficits make it hard for the emerging economies, with few exceptions, to resort to standard counter-cyclical measures.

5. The immediate fallout has been a sharp deceleration in global economic growth. As per the IMF's World Economic Outlook, October 2012, growth in world output is expected to decrease to 3.3 per cent in 2012, from 5.1 per cent in 2010 and 3.8 per cent in 2011. Advanced countries, as a group, are expected to grow only by 1.3 per cent, down from 3.0 per cent in 2010 and 1.6 per cent 2011. Emerging market and developing economies are expected to grow by a

modest 5.3 per cent, as against 7.4 per cent in 2010 and 6.2 per cent in 2011. There has been a sharp decline in growth all over the world since 2009.

6. Global trade has also been affected. The volume of world trade (goods and services) is expected to grow by 3.2 per cent in 2012, after growing at 12.6 per cent in 2010 and 5.8 per cent in 2011.

7. India's GDP growth that was 8.4 per cent in 2009-10 and 2010-11, slipped to 6.5 per cent in 2011-12, partly due to the fallout of the euro zone crisis. A closer look reveals that the slide in growth is correlated with the intensification of the euro zone crisis, which began worsening towards the middle of fiscal 2011-12. Since the first Quarter of 2011-12 when the GDP grew at 8.0 per cent, there has been a secular decline in the growth rate in every successive Quarter. The growth rates in Q I and Q 2 of the current fiscal (2012-13) have been 5.5 per cent and 5.3 per cent respectively.

8. The performance of India's external sector has also not been encouraging. The country's trade deficit was 10.3 per cent and the current account deficit 4.2 per cent of GDP in 2011-12. This was because, while export growth slowed considerably, imports continued to remain high due to high international oil prices and gold imports. This is unlike the situation during the 2008-09 global crisis. At that time, oil prices plunged following the collapse of Lehman Brothers in September 2008. Further, the decline in imports was sharper than the decline in exports. In my view, the present challenge is therefore different and calls for bold and innovative measures.

9. External sector vulnerabilities are affecting the Indian economy because of the rapid globalization of the economy. The economy is more open. This can be gauged from the fact that the trade in goods and services, which was 22.9 per cent of GDP in the 1990s (i.e. the average for the decade), increased to 55.7 per cent of GDP in 2011-12. Similarly, payments and receipts on the capital account, which were at 15.1 per cent of GDP in the 1990s, increased to 48.2 per cent of GDP in 2011-12. As a result, global developments have an increasingly larger impact on the Indian economy through the trade and capital account channels. Besides, in the global environment of uncertainty and low investment, the impact is also transmitted to the economy through the confidence channel.

10. In such a situation of uncertainty and low investment, Government has been making every effort to turn the economy around and create a more investor-friendly climate. We have taken a number of steps to encourage foreign direct investment, including allowing, recently, FDI in multi-brand retail, civil aviation and some broadcasting services. Against considerable opposition, we also raised the prices of certain petroleum products in order to contain the subsidy bill and to discourage over-consumption. We have initiated measures to move all cash benefits to a technology-enabled platform so that the benefits are transferred directly to the bank accounts of the beneficiaries; we expect that the Direct Benefit Transfer Scheme will be a game-changer and will eliminate nearly all leakages, duplication and falsification and bring a greater degree of transparency and efficiency. We are also addressing some tax issues that have

created uncertainty in the minds of the investors and we have made it clear that our objective is to have clarity in tax laws, a stable tax regime, a non-adversarial tax administration, a fair mechanism for dispute resolution, and an independent judiciary. Yesterday, the Cabinet took some important decisions. Among them was a decision to set up the Cabinet Committee on Investment to quicken the pace of decision making in critical infrastructure projects. The Cabinet also approved a landmark draft Bill on Land Acquisition and a new investment policy for urea plants.

11. It is too early to say whether the measures have begun to bear fruit, although it is our expectation that they will do so. Manufacturing PMI has risen to a 5-month high. Foreign portfolio capital inflows have been robust in the last few months, amounting to USD 21 billion up to November 30 this calendar year. The stock market's leading indices have risen by about 11.5 per cent between August 1 and December 13, 2012, pointing to growing investor confidence and the return of the small investor. While headline inflation has moderated to 7.5 per cent, inflation measured by the consumer price index remains sticky at 9.9 per cent. There is no reason at all to become complacent.

12. What scope is there for international co-operation in reviving growth, the theme of this conference? In their declaration at Los Cabos earlier in the year, G-20 leaders declared that

"all G20 members will take the necessary actions to strengthen global growth and restore confidence."

Dr. Manmohan Singh, Prime Minister of India, said at Los Cabos,

"Infrastructure investment in developing countries assumes special importance in this context. It lays the foundation for rapid growth in the longer term, while providing an immediate stimulus for their economies and also for the global economy, by providing a robust source of demand."

He added,

"An expansion of investment in infrastructure in developing countries is only possible if they can get access to long term capital to finance such investment. This is difficult at a time when capital flows are disrupted. The Multilateral Development Banks can play a major role in this context."

13. I would like to remind this Conference that the G-20 Leaders asked their Finance Ministers and Central Bank Governors to consider ways in which the G20 can foster investment in infrastructure and ensure the availability of sufficient funding for infrastructure projects, including financing and technical support by the Multilateral Development Banks (MDBs).

14. However the fiscal challenges faced by the advanced economies give them little appetite to shore up the resources of the MDBs. On the other hand, gross savings as a share of GDP have increased significantly in a number of the Asian

countries who are members of G20. Keeping in mind these realities, I propose that the Asian G-20 countries, including China, Japan, South Korea, India, Indonesia, Australia and possibly Russia, should take the initiative to enhance the resources of the leading MDB in the region , the Asian Development Bank (ADB). The ADB plays a crucial role in regional investment and development. If we do that, the ADB will be in a position to play a greater and more defining role in regional infrastructure financing, which in turn will allow countries like India to contribute to a greater degree to domestic and world growth. I appeal to the Asian G-20 members to come together in an effort to increase the resource base of the ADB so that we can co-operatively carry forward the G-20 agenda.

15. India weathered the crisis very well in 2008 and I am confident that the steps we have taken – and some more steps that we will take in the next few weeks - will help turn the Indian economy around. However, every country has to introspect on whether the domestic and external issues have been diagnosed correctly and whether the policy options have been exercised adequately and effectively. What are we missing and what else do we need to do to ensure sustainable growth in the coming years? I am sure with the distinguished group of invited speakers with diverse backgrounds, the questions discussed in this Conclave and the answers that will be thrown up will serve as useful policy inputs for us in the Government, especially the Ministry of Finance.

16. Let me once again congratulate the organizers in bringing together a galaxy of experts from different areas and from different parts of the world to discuss the crucially important issue of how to revive growth.

17. Thank you

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