G20 Finance Ministers and Central Bank Governors meeting

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Session I: Global Economy and Growth Strategies

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Dear Colleagues,

1. The year 2014 is crucial to all of us. Consistently decelerating global growth from 5.1 % (2010) to 3 % (2013), is not only expected to be arrested in 2014 but also projected to accelerate at 3.7 % and further at 3.9 % in 2015. Though these trends signal a shift in global economy growth trajectory, there are at the same time, significant downside risks, both old and new, which pose considerable challenges to these projections.

2. Further analysis of these aggregate global growth figures reveals the expected relative contribution by various economies. The IMF pointed out that this uptick in global growth is expected to come mainly from advanced countries which are expected to grow at 2.2 % (2014) and 2.3 % (2015) compared to 1.3 % in 2013. Emerging Market and Developing economies are expected to grow at 5.1 % (2014) and 5.4 % (2015) compared to 5.1 % in previous year. Though fresh in our memories, it is worth reminding that during the crucial five years of transition since the great recession it was the emerging and developing economies that maintained the momentum despite the vulnerabilities and structural gaps that they faced. This would continue in the coming years. India's efforts and contribution towards strong, sustainable and balanced growth are evident from its consistent policy initiatives to address the cyclical and structural gaps. On fiscal front, resisting populist pressures in an election year, India has committed itself to the path of fiscal consolidation which is indicated by the Interim Budget where the Revised Estimates for 2013-14 for fiscal deficit are placed at 4.6 per cent of GDP for the year 2013-14 as against 4.8 per cent budgeted earlier and further aims to reduce it to a level of 4.1 per cent of GDP for the year 2014-15.It has also steered itself out of external imbalances manifesting in high current account deficit. A contraction in the trade deficit coupled with a rise in net invisibles receipts resulted in a reduction of the current account deficit (CAD).The CAD declined to US$ 31.1 billion (2.3 per cent of GDP) in April-December 2013 from US$ 69.8 billion (5.2 per cent of GDP) in April-December of 2012.

3. However, global growth remains weak and risks remain elevated. The gap analysis carried out by IO's has shown that we all have to catch up a lot to come at the pre-crisis trend line and this has to come via increased investment, jobs, trade and competition. While the gap analysis gives a comprehensive analysis of constraints and challenges facing our economies today, new unprecedented risks have been adding further weight to

the existing down side risks. Recent episodes of geopolitical crisis, deflation tendencies in euro zone, manufacturing slowdown in China and US, currency devaluation by some countries and premature UMP tapering are some of the developments which can result in the opportunity loss that the year 2014 holds for us. Credible international policy coordination among G20 countries holds the key to sustainable recovery of the global economy.

4. Already recognizing that projected growth trajectory would be insufficient to meet the growing demands for jobs and employment, in February, we have vowed to increase the growth level by 0.5 % per year to add around USD 2 trillion to global GDP by 2018. However, this not only calls for dealing with old and new downside risks but also ambitious, proactive policies having both cyclical and structural components.

5. While an optimum mix of fiscal and monetary policy are required to meet the cyclical gaps in the short run, sustainable growth in medium and long run calls for structural policy measures. As for fiscal policy coordination, countries going for fiscal consolidation should be mindful of the pace and the impact these policies can have on global growth, demand and balances.

6. We believe that monetary policy cooperation is extremely crucial in the current juncture. This calls for calibrated monetary policies by advanced economies which are communicated clearly among our central bankers and between central bankers and the market plus a willingness to listen to others. . Recent risks of very low inflation in euro area might also demand use of appropriate tools in coming time to thwart deflation tendencies. However, as with UMP, in such case calibrated and clearly communicated policies will greatly act as trust builders and improve the business sentiments across the globe by leaving little room for speculations. In terms of exchange rate policy, while flexible exchange rates are desirable, a cautious approach should be followed before going for currency revaluations which can result in trust deficit and currency wars.

7. Structural policy gaps regarding investment, product and labour markets further needs to be filled to put the global economy on sustainable higher growth trajectory in the medium to long run. The upcoming elections in several countries around the table, may affect the full impact of structural reforms this year. However as agreed, investment in infrastructure should be a priority area for filling output and growth gaps. But, financing of the same is a challenge that the G20 is yet to fully cater to. Financial innovation and investment by institutional investors of surplus countries is an area where cooperation can produce tangible results. My Leader, in particular, hopes to see actions by Brisbane, that enhance the catalytic role of MDBs for infrastructure investment financing by exploring new options to optimize balance sheets..

8. As for employment gaps, while financing investment in infrastructure is expected to relieve a lot of burden, specific policies for increasing female and older age group participation in advanced countries and skill development for young in developing countries are required to be pursued. The G20's collective action should also be evident in our Action Plan by coming out with policy options to effectively deal with the global labour demand-supply mismatch, as this is another area of international cooperation for ensuring sustainable growth through better labour and skills mobility.

9. The Presidency has laid special emphasis on making our business environment competitive and raising productivity in our economies. We believe that G20 is as ideal a platform as can be, for filling the interlinked gaps by not only sharing best practices and lessons learnt but also by coordinating policies to improve business environment and confidence. In addition, geopolitical crises having global repercussions should be dealt in a sustainable and peaceful way by engaging all relevant stake holders expected to be considerably affected by the crisis. Additional risks like recent declining manufacturing growth in US and China and its impact on domestic demand in these economies and impact on global imbalances also needs to be watched carefully. With increasing global growth rate, imbalances are already expected to increase to pre-crisis level as the recent reduction in imbalances was more due to recession and subdued demand rather than a structural shift in economies of surplus and deficit countries.

10. Given these developments today, coordination and cooperation seem less a matter of choice but more of need. Though in the short run it might appear tempting to pursue self-interest oriented individual domestic policies, this can hamper medium and long-run prospects. If there is one thing that repeated financial crises have taught or revealed, it is that there are externalities in what we do, and that we all are part of an integrated global economy now where well being of an individual country depends on the well being of its neighbor also. Though we differ in our challenges and capacities at this point of time, each player has a crucial role in filling the gaps towards our common goal for strong, sustainable and balanced growth and the G20 can lubricate the whole process by boosting market confidence by agreeing on credible Comprehensive Growth Strategies.

Thank you