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Prime Minister's Remarks at the G20 summit at Cannes

The Prime Minister, Dr. Manmohan Singh, addressed the G20 summit at Cannes today. Following is the text of the Prime Minister’s address:

“Mr. President, let me thank you for the excellent arrangements made for the Summit, and for your hospitality.

We meet at a time when the global economy faces exceptional uncertainty. Our Summit will be judged by our ability to deal with financial instability emanating from the Euro zone periphery. We had hoped that the agreement arrived at by Euro zone Leaders for reducing the Greek Debt, combined with a new EU-IMF programme providing additional resources, could be put in place quickly. The announcement of a referendum by the Government of Greece has upset these calculations. I hope ways can be found to manage the situation so that a package can be put in place as quickly as possible.

We welcome the initiatives taken in the Euro zone to evolve innovative mechanisms to raise resources for the European Financial Stability Facility and to strengthen fiscal discipline through intensive surveillance. This goes some way towards addressing one of the known deficiencies in having a monetary union without fiscal union. However, the effectiveness of these arrangements to cope with the crisis is yet to be tested.

Although the Eurozone countries have the principal responsibility for dealing with these problems, the dangers from spillovers from the Eurozone to the rest of the world are a matter of concern for all of us. In an increasingly integrated world, all of us have a stake in the orderly functioning and prosperity of Europe, including the Eurozone countries. Prolonged uncertainty and instability in the Eurozone countries can hurt us all. The IMF must keep the situation under close watch as part of regional surveillance. It should also be willing to help in an appropriate manner if asked to do so.

We strongly support the IMF playing its part in restoring stability in Europe. At the same time, the IMF must also keep in mind the liquidity requirements of developing countries who are not at the centre of the crisis, but may nevertheless be adversely affected as innocent bystanders.

As we deal with the short term problem of instability we must also face the challenge of orchestrating a broad based recovery and sustainable growth in industrialized countries and in developing countries. This is what the Mutual Assessment Process exercise is meant to do. We face the difficult task of balancing the requirement for giving a push to growth in the short term and the task of restoring fiscal sustainability over the medium term. These call for very different policy prescriptions.

The Mutual Assessment Process needs to focus on structural reforms in all G-20 countries to increase efficiency and competitiveness over the medium term. This would help revive the animal spirit of investors which is necessary to allow us to shift the burden of sustaining demand from the public to private sector. Such rebalancing is necessary to make the recovery sustainable. We in India are taking steps to ensure a return to high growth. Our economy has slowed down in the current year and GDP growth is likely to be between 7.6 and 8 percent. Like many other emerging market countries, we too are experiencing high levels of inflation. We hope to go back to higher growth in 2012-13, together with a moderation in inflation. Our medium term strategy focuses on a revival of investment especially in infrastructure, and continuing efforts to reduce our fiscal deficit through improved revenue collection which is expected to come from tax reforms.

Mr. President, as the G-20 battles with short term problems of crisis management it must not lose sight of the developmental needs of developing economies. After a long period, these economies experienced broad based acceleration of growth, making them potentially significant contributors to global growth. This is now threatened by slowing trend growth in developed countries and uncertainties in financial markets. We need to find credible ways of strengthening these growth impulses. At Seoul, I had called for measures to redirect global savings so that they could be leveraged to increase investments in developing countries. This would help offset the moderation in private demand in industrialized countries.

Multilateral Development Banks play a key role in mobilizing and deploying global savings. The G-20 should therefore raise its level of ambition for these institutions so that they can play the kind of transformational role they played in the post war period.

The G-20 has made considerable progress towards strengthening global financial regulation and this needs to be carried forward through follow-up measures. It is important that in an integrated world there should be common standards that are implemented simultaneously in all jurisdictions, to avoid a race to the bottom. Otherwise financial activity will migrate from the tightly regulated sectors to less regulated jurisdictions. It is however important that the developmental needs of developing countries are kept in mind in these regulatory reforms.

In many developing countries, including India, financial markets have been tightly regulated. This tight regulation helped us avoid financial crises resulting from excessive leverage but it came with a cost, as it increased the cost of intermediation. Emerging markets therefore were engaged in progressive reduction in tight regulations with a view to modernising their financial markets and expanding intermediation.

The priorities in emerging markets, like India, before the crisis, were not regulatory but developmental, with the aim of deepening and developing new markets to sustain high rates of growth in the real economy. Financial inclusion, provision of long-term funding instruments for infrastructure, the development of liquid bond markets to improve monetary policy transmission, among others, were financial sector priorities in India before the crisis. Nothing has happened in Indian financial markets or globally that warrants changing these priorities. We need to be sure that the regulatory reforms being introduced globally will not hamper this process.

There are areas where our concerns are different. For example, while banking capital needs to be strengthened in India, this is not on account of higher risks but because credit is projected to expand at a very fast pace to feed the high real growth that we expect. To take another example, while the principle that the cost of a bailout falls on equity holders rather than on taxpayers is robust, in India large segments of the financial sector, especially banking and insurance, is mostly state owned, and equity holders and taxpayers are mostly one and the same. In this environment it is difficult to see why a financial sector tax, which would only raise the cost of capital even further, would be appropriate.

Mr. President, tax evasion and illicit flows have seen the migration of tax bases in developing countries abroad and are serious problems. The G-20 should send a strong message to curb such activity. G-20 countries should take the lead in agreeing to automatic exchange of tax related information with each other, irrespective of artificial distinctions such as past or present, for tax evasion or tax fraud, in the spirit of our London Summit that “the era of bank secrecy is over”.

Thank you Mr President.”

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