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Text of the Intervention Made by the Union Finance Minister Shri Pranab Mukherjee in the First Session of the G-20 Finance Ministers' and Central Bank Governors' Meeting in Washington D.C.

Following is the text of the Intervention made by the Union Finance Minister Shri Pranab Mukherjee in the First Session of the G-20 Finance Ministers' (FMs) and Central Bank Governors'(CBGs) on "Global Economy and Framework" in Washington D.C. yesterday i.e., 19th April, 2012:

"We have witnessed a great amount of economic and political turmoil over the past year. Volatility in commodity prices and disruptions to supply chains and high oil prices have added to global uncertainty and impacted businesses across the globe, slowing the recovery in both advanced and emerging economies. Even as the after effects of the global crisis continue to linger in many advanced economies, steeply rising sovereign debt in the absence of a quick return to trend growth is making markets nervous. Although actions by Euro zone countries and the ECB have stabilized the situation and calmed the market somewhat, the underlying structural problem remains and downside risks remain significant as manifest in recent movements in bond yields. While near term economic data has unexpectedly encouraging, economic conditions overall remain weak, and unemployment at politically unacceptable levels. We need to carefully deliberate our options going forward.

Developing countries and emerging economies are expected to continue as growth drivers for the world economy. The fact, however, is that even here growth has decelerated. The global economy is too interconnected for them to be insulated from the knockdown impact of developments in advanced economies. We are confronted with the unseemly situation of deflationary pressures in one part of the world, and inflationary pressures in a number of developing countries, including India. We need to get to the roots of this anomaly and take corrective actions in a coordinated manner through our Framework for Strong, Sustainable and Balanced Growth. We need to be mindful, however, that the capacity of most countries to deal with any fresh crises stands somewhat diminished, more so on account of the prolonged use of fiscal and monetary tools. As far as India is concerned, despite adverse conditions prevailing in our external environment, we are reasonably confident that the underlying growth fundamentals remain firm. We are intent on

ensuring that the process of fiscal consolidation gains further momentum, with monetary policy remaining vigilant in dealing with inflationary pressures. We expect real GDP growth in 2011-12 to be around 7.0 per cent, and to gain further strength in the ensuing fiscal.

My Canadian colleague will be making / has already made a detailed presentation on the progress made by the Framework Working Group. I will limit my intervention to adding a few thoughts to facilitate our discussion today.

As we push the Framework process forward and work towards an Action Plan for Los Cabos, we need to ensure that the plan adopted by our Leaders is both credible and ambitious enough to put the global economy firmly on the path of recovery over the short run, and promote strong, sustainable and balanced growth and job creation over the medium to long-term. In this regard, I would like to emphasize that the action plan should pay greater attention to three important issues at this juncture.

First, as mandated by our Leaders, we will need to develop a framework to assess the progress made on G20 commitments. Since the time between the Cannes and Los Cabos Summits is quite short, this would be an important component of our Action Plan. It is also critical for our own credibility in the eyes of the world. The Framework Working Group has indicated that assessment in some areas is complicated by the lack of a common framework to assess progress. You would recall the Cannes Action Plan has both short-term and long-term policy commitments. Since assuring the 'recovery' continues to be our topmost priority, the focus of our assessment framework at this stage should be on short term commitments, while keeping in view that these should not be in conflict with our medium to long-term objectives.

Secondly, there is general concern over the global employment scenario, especially the falling labor participation rate and growing youth unemployment. Leaders had consequently tasked us to mainstream jobs and employment issues into the Framework exercise. Persistent high unemployment tends to have significant long-lasting detrimental impacts on the economy, holding back economic recovery further, adding to social tensions and adversely affecting productivity and growth in the medium to long-term. Credible action for both short and medium-term policy to create jobs and employment needs to be a cornerstone of the G20 Framework.

Thirdly, the world has been pre occupied with dealing with the problems in the financial sector, which was need of the hour. However, keeping in view the emergent situation, some members have been stressing the need to step up efforts to support investment in the real sector, and especially in infrastructure, at a global level to help revive global growth and support demand and job creation. This route to reviving global growth has not received the attention that it merits. To the extent that much of this investment, including in infrastructure, will occur in developing countries, it would also

help rebalance global demand, as also, redirect savings. Some developed countries also need to increase investment and upgrade their infrastructure. While construction works would stimulate local growth and job creation, the large demand for capital goods created for modern infrastructure would also stimulate private investment and job creation globally. There are a number of ways in which investment and infrastructure could be dovetailed into the G20 finance work-streams, such as through the Working Groups on the Framework and the International Financial Architecture (IFA), and providing necessary incentives in the architecture of financial regulation. Credible actions to step up efforts in this regard could be a distinctive feature of the Los Cabos Action Plan.”

DSM/SS/GN