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PM addresses the Plenary Session of G-20 Summit

The Prime Minister, Dr. Manmohan Singh addressed the Plenary Session of G-20 Summit in Los Cabos, Maxico today. Following is the text of the Prime Ministerôs address on the occasion:

ñLet me begin by thanking you for the warmth of your hospitality and the excellent arrangements made for this Summit.

The global economic situation is deeply worrying. The economic recovery is faltering and even the fast growing emerging markets are slowing down. This calls for policy action on several fronts. Of greatest concern at present is the uncertainty affecting the Eurozone. The sovereign debt crisis and the banking crisis now on the horizon have grave implications for the health of the entire global economy.

A new government in Greece is about to take office. We wish them well and are encouraged by the early statements of intent.

However, the risks of contagion in Europe remain because they reflect weaknesses in the banking sector arising from excessive sovereign debt and low growth prospects. A crisis in the European banking system can choke trade finance quite quickly, and end up choking economic growth not just in the Eurozone but in the world in general.

This Summit needs to send a strong signal to the markets that the Eurozone countries will make every effort to protect the banking systems and the global community will back a credible Eurozone effort and response.

However, there are some problems I would like to mention.

There is concern that the firewall available may not be adequate to deal with contagion. The resources currently expected to be mobilized by Europe and the IMF are less than was estimated a year ago, and the crisis is actually more serious.

Part of the solution lies in providing liquidity to cope with loss of market confidence. But liquidity does not help when solvency is in question. To address this problem, liquidity must be provided in parallel with effective adjustment programmes that ensure an early return to debt sustainability. The adjustment programme adopted should lead to an acceleration of growth, so that countries can grow out of the debt trap.

This brings me to the contentious issue of the relationship between austerity and growth. It can be argued that austerity now will lay the basis for sustained growth later. But there is also an alternative view that with growth impulses as seriously weakened as they are today, synchronized austerity across many countries may not be the right medicine.

Financial markets normally favour austerity, but even they are beginning to recognize that austerity with no growth will not produce a return to a sustainable debt position.

I am not suggesting that fiscal prudence is not important. I am only saying that given the large adjustment needs, not all of it can be front-loaded everywhere. This is especially relevant within a currency area. Austerity in the debt-ridden members of the Eurozone can work only if surplus members are willing to expand to offset contraction elsewhere in the currency area.

The International Monetary Fund has a critical supportive role to play in stabilizing the Eurozone. All members must help the Fund to play this role. I am happy to announce that India has decided to contribute $ 10 billion to the IMF's additional firewall of $ 430 billion.

While many rich countries face difficulties, the less developed and developing countries are also facing serious problems because of the negative impact of the global crisis. 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.

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.

We have expanded the resources of the IMF enormously, largely to support programmes in rich countries. We now need to take steps to substantially expand the resource base of Multilateral Development Banks so that they have the firepower to help developing countries pursue their development goals. The G-20 Framework Working Group and the Financial Stability Board could examine how to enhance investment in infrastructure through country commitments and incentives in the regulatory framework.

Mr. President, let me say that I believe that the G-20 agenda is getting over burdened. We need to refocus on a few goals rather than dissipating energies on too many fronts.

Like other emerging economies, India too has slowed down. The global downturn and especially the impact on capital flows have played their part. Internal constraints have also affected performance and we are working to correct them.

Our growth rate in 2011-12 declined to 6.5% from the level of 8.4% in the previous year. This may look like a reasonable figure, given growth rates being experienced in the rest of the world, but our public is impatient for a return to high growth and faster jobs creation. The fundamentals of the Indian economy remain strong and we are confident of bringing back the rhythm of high growth of 8-9% per annum.

Investment has been affected by the adverse global climate which impacts both foreign and domestic investors. We are taking steps to revive investor sentiment. We are determined to create an environment that would boost investor sentiment and promote an atmosphere conducive to enterprise and creativity. Our policies will be transparent, stable and designed to provide a level playing field to both domestic and foreign investors.

We are focussing heavily on infrastructure investment and in this context we have set ambitious targets to keep infrastructure investment on track and also put in place a problem resolution mechanism to overcome implementation bottlenecks.

Like other countries, we too allowed the fiscal deficit to expand after 2008 to impart a stimulus. We are now focussing on reversing the expansion. This will require tough decisions, including on controlling subsidies, which we are determined to take.

In this context, I would like to mention a landmark effort underway in India to provide unique identity numbers for all residents with capture of biometric data. This massive database covering over a billion people will facilitate delivery of a whole range of financial and other services, through effective targeting and reduced leakages in subsidy schemes.ò

Thank you.

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