

Onboard Media Briefing
by Secretary, Department of Economic Affairs
En Route to St. Petersburg for G20 Summit
(September 4, 2013)

Official Spokesperson (Shri Syed Akbaruddin): Good morning friends. We have here with us Secretary, Department of Economic Affairs, Dr. Arvind Mayaram who will speak to you on the G20 Summit.

What we will do is, as is usual I will request him to make a few opening remarks and then he is willing to answer questions on the G20. In case there are any questions on anything else, we will take them in the end. With that I will request Secretary DEA to make his opening remarks.

Secretary, Department of Economic Affairs (Shri Arvind Mayaram): Good morning to all of you.

In the G20 this year we are going to have four major areas over which the discussions will take place: (1) Growth and the Global Economy, (2) Growth and Inclusive Development, (3) Investing in Growth and Job Creation, and (4) Growth and Trade. There will be several subthemes under these four themes on which discussions will take place.

Under the Russian Presidency, the three overarching issues that they have identified are: Growth Through Quality Jobs and Investment, Growth Through Trust and Transparency, and Growth Through Effective Regulation.

On global outlook, it is interesting to note that whereas there has been a concern about the reduction in the estimation of the growth rates in India, in the last one year the global economy has been downgraded by the IMF three times. This is on account of the uncertainties that still remain relating to the recession in Eurozone and also of course the reduction in the emerging markets on consumption demand. The IMF for instance has reduced its forecast from 3.3 per cent in April to 3.1 per cent, and the World Bank similarly has also downgraded the world economic forecast.

We have concerns in terms of the impact of spillovers especially on account of the unconventional monetary policy which has been followed by some of the advanced economies. One of the areas on which India has laid emphasis is that there has to be a predictability regarding the withdrawal of the unconventional monetary policies which are followed as they have a spillover on the other economies, especially the emerging economies. We expect there would be some discussion on this during the Summit.

There is also a concern in regard to the lack of consensus on areas on which we have been laying emphasis such as infrastructure investment for providing impulses for growth in the global economy. There is a general consensus that the growth has to be sustainable, and on this account India is contributing through its own policy papers, etc.

One new area which is now being looked at relates to tax issues. OECD has a project on base erosion and profit shifting. And there is a resonance of India's position that there is a need for having new standards which are developed through consensus to keep pace with the larger economic integration across borders to ensure that the countries do not lose out on the tax that is due to them.

On trade related issues, one of the areas of great concern to India is the effort by some of the emerging countries to roll back the trade related agreements that have been reached especially in terms of the movement of labour. Our position is that there should be no roll back from that position and the earlier regimes that permitted movement of labour for the purposes of providing services should be retained.

On infrastructure development and investment, India has prepared and circulated a paper in which we have laid emphasis not only on the development of capital markets especially the domestic capital markets but also in enhancing the resource base of multilateral development agencies and regional development agencies to provide much-needed capital for the developing countries.

Broadly, these are the areas on which the discussions will take place. I would be happy to take any questions that you would have on this account.

Question: Sir, you spoke about exit from the monetary stimulus by the West, that India is going to raise that issue. But most of our problems are domestic. Like on fiscal front the reforms are not happening. So, how are you going to convince the West about all those issues? It is not just the problem from the western markets. Also, the currency. The Government has said many a times that most of the currencies of the emerging markets have taken a beating. Why is Indian currency the worst hit of all the currencies?

Secretary, Department of Economic Affairs: I would like to answer the question in two parts. First, I do not believe it is a correct position that structural reforms have not taken place in the recent past. There is a large number of reforms that have been undertaken. Some path-breaking decisions have taken place a list of which I can provide to you any time. There is a long list of the reforms that have taken place. These have been seen by the investors. And, therefore, I would only indicate one indicator which perhaps would give you a flavour of why this perception may not be correct.

In the first quarter of this year India has received FDI worth nine billion dollars as against five billion dollars in the first quarter of the last year. This clearly shows that the foreign investors, especially the long-term investors, are beginning to find traction in the India's policy reforms that are taking place. So, whereas there is a case for greater reforms, there is a case for deepening the reforms. But I think there is no reason to believe that reforms are not taking place.

Second, as far as the easing of the monetary policy, or the roll back in the monetary policies which are unconventional monetary policies which have been followed, is concerned it is now globally accepted that the liquidity which was there in the markets initially created problems of excess for us. And now it is creating a problem where this capital is being pulled out of the emerging markets.

This problem is arising also from the fact that we are a globalised economy and we are an open economy, and that is why we do not have any controls on capital flows. So, when the emerging markets are pulling back on the liberal policies that they were following, there is an uncertainty in the market and, therefore, the money moves out of India and other emerging markets, and it has an impact on our currency *per se*.

Now to the question that you are asking – why Indian currency is being hit more than other currencies – the answer is quite obvious. India's current account deficit is the highest amongst all the economies if you look at them. In fact I have the numbers here. I can give you the numbers for each country where you would see there is a direct correlation between the level of current account deficit and the percentage of depreciation that has taken place, since May 20. So, the perception that current account deficit in India is very high is certainly contributing to the weakening of the Rupee.

But I must also state here very clearly and strongly that the Finance Minister's statement two weeks ago that we shall contain current account deficit at 3.7 per cent of the GDP this year is the red line that shall not be breached, and we are working towards that. We have a very credible programme which of course the Finance Minister had presented before the nation two weeks ago. We are working towards that and we will ensure that the current account deficit is not just 3.7 per cent but perhaps we might surprise you with a little lesser than 3.7 per cent.

Now the question is of transmission. This belief that it will happen has to be transmitted to the general markets. That transmission takes a little while. Last year when we were looking at fiscal deficit from a level which the Kelkar Committee had predicted of 6.4 per cent, we brought the fiscal deficit down to 4.9 per cent. Nobody ever believed it could happen. It happened. That time too the Finance Minister said there is a red line and we will not breach that red line. So, let me assure you, this year we shall not breach the red line on current account deficit, and it shall not be higher than 3.7 per cent.

Question: When it comes to actual negotiations or discussions with the G20 leaders, particularly the US following QE3, what recourse does India have apart from moral suasion or persuasion in this? Does India reserve the right to insulate itself from the adverse consequences of any withdrawal? Having adopted globalization and if there is no interconnected network for stabilization of growth, does India reserve the option to take any suitable measures to stabilize its own economy? Is there a lever that we have at all in G20?

Secretary, Department of Economic Affairs: Once again, the question has two parts. First is, do we have a lever in the G20? The position that India is taking is also the position that the other emerging markets are taking. For instance, China, Brazil, South Africa, are the countries who are very much on board and it is not simply India which is concerned with this. These are all the other emerging market countries which are also concerned with this.

Therefore, I do not believe that our voices are not heard. And this is a reason why even in the last meeting of the Finance Ministers of the G20 our concern found a mention in the declaration. Obviously, G20 is not a decision-making body. It is certainly a body which creates consensus, which creates a general awareness. And to the extent that our voices are strong and our voices are clear and our thinking is clear, it is heard and heard with respect.

The second part of your question is, do we have the right or do we reserve the right to protect ourselves? Certainly every country reserves the right to protect itself. But the question is, do we need to do something which will be drastic in nature? I do not believe we have that situation where that would be required. I think we are very much in control and I think we will be able to manage the situation without having to resort to any drastic measures.

Question: Sir, two small questions. When you say that developed world is following unconventional monetary policies what do you exactly mean by that? Second, in a recent report the European Commission has accused India along with

China and other emerging economies, of following abusive trade practices and turning their back from free trade. How do you react to that?

Secretary, Department of Economic Affairs: The first part is, unconventional monetary policies are those which are against the conventional wisdom. The conventional wisdom always has been that if you are going to create too much of liquidity, you continue to create too much of a liquidity, it is going to create inflation or other kind of problems in countries. But where you have open borders, it also has spillover effect on other countries. If you look at Japan for instance, Japan is following a policy where they are not only doing quantitative easing but they are also saying we are going to inflate the economy, create some inflation in the economy.

Well, it is important that every country follows their own method of taking care of their own problems, there is no issue with that. Our point is only this that if you follow an unconventional monetary policy which has spillover effects, then it is important that these are deliberated upon and the measures which are taken are calibrated and are predictable. That is the only point that we make on this part.

As far as the European Union's statement is concerned, I do not believe we are following any trade practices which are against any of our international obligations. Of course there are non-trade barriers which are put up by the advanced economies as and when they need to protect their own trade or industry, and we believe that it is a retrograde step and we should not support any of those measures that they take, especially, as I had mentioned earlier in the case of movement of labour, in the services sector.

Question: *Abhi Finance Minister ne Rajya Sabha mein kaha tha ki joh economy ki state hai is ke liye hum ne 2009 se 2012 ke beech mein kuchh faisle liye the, kadam uthaye the, voh bhi kuchh hud tak zimmedar hain. Is baare mein aap kya kehna chahenge?*

Secretary, Department of Economic Affairs: *Vitta Mantri ji joh Sansad mein kehte hain us ke baare mein main koi comment nahin karna chahta.*

Question: As we head into the G20, a couple of major headwinds in terms of the data. One, the crude is back at 112 dollars to the barrel. This is the Indian basket which is what we buy at. And the second is, S&P comment yesterday which caused a lot of turmoil in the markets saying that India now stands close to a downgrade - not the exact words but effectively saying that - and that therefore, contradicting in some ways what the Indian Government has been doing and saying as far as restoring fiscal discipline is concerned. Your response on both these issues, Sir.

Secretary, Department of Economic Affairs: On the first issue, it is a matter of concern for us because when the oil prices go up, it increases our forex requirement and also it has an impact on the subsidies. So, it is a matter of concern for us. Therefore, you would have seen in the past couple of days there has been a major effort to bring some measures in to restrict the oil imports, and I believe that we will continue to work towards that.

What S&P said has to be carefully seen. They said two things. One, the chances of India getting a downgrade in the next three years has increased by 33 per cent. Now, I would be really interested in knowing why it is 33, not 32 and a half or 34 and one quarter. How 33 per cent, the mathematical model which gives you in next three years to be able to do crystal gazing and say that. So, to my mind it should be taken in the manner in which it has been stated.

I do not think we have any case for downgrade. We have raised this issue in the past. We have taken measures. We are taking measures which are, to the extent possible, stabilizing the economy despite the headwinds which are global in nature. Therefore, I do not believe there is any case for downgrade. Whether 33 per cent or 23 and a half per cent, I do not believe that there is any mathematical model which can tell you that in the next three years India is going to be downgraded.

Question: About ten days ago the Federal Reserve Governors and Economists in the US had a meeting where pressure was brought upon Mexico as well as IMF

asking for not to taper down the quantitative easing programme. And their response which has been reported is that we are here to make policies for ourselves, and the third world emerging countries can take care of themselves, we are not bothered about it. You say that you are going to raise issues about monetary policies. Actually it does not matter to them whether you raise it or not.

On the other hand, by the same logic, we have this issue and your Oil Minister has written both to the Prime Minister and the Finance Minister that we should step up our oil imports from Iran which seems to be very viable and it is backed by sufficient logic to go ahead for it and buy oil from Iran by paying in rupees. Are we seriously pursuing that option?

If their crisis and if their economic situation is in their interest and the policies are tailored to that, why do not we go ahead and do it? Why do we have to really oblige to US in not importing oil from Iran?

Secretary, Department of Economic Affairs: On the first question about the response in the US to the demand that the quantitative easing should not be done in the manner in which it is being done, you would recall that the response that you have just mentioned came from the Chairmen of two State Federal Reserves. They belonged to two States. It was not the Federal Reserve of US which gave a statement of that nature. You would see that the United States is a democratic country like we are. In India also we have several opinions which are voiced, but what is the considered voice of the Government of India in international fora is determined at a different level. So, I believe that the issue that this is a major concern for emerging markets is very much understood and will be discussed in the G20; and I do believe that, as I mentioned earlier, our voice will be heard with respect.

The issue of oil from Iran, we know that there are certain international sanctions under which the global community operates. We intend to remain within those parameters which are laid down by the UN sanctions and within that

whatever we have to do to protect the interest of the country in terms of our oil security, we are already taking those measures.

Question: On the base erosion and profit shifting issue at the G20, there is a view that it is not in the interest of the emerging markets to go after corporations in this manner because as it is there is a lot of global volatility and this is a matter that interests the advanced economies but we have nothing to gain by scaring off corporates at a time like this when we should actually be incentivising them to invest.

Secondly, I just wanted to come back to this S&P issue once again. For more than a year and a half now ever since the time when Pranab Mukherjee was Finance Minister we have had economic administrators in Delhi assuring us that the rating agencies are wrong, or underplaying whatever downgrades or other predictions they have made. But the events of the past few months have actually proved that they have been right all along. Now S&P is saying that our sovereign rating might be reduced to junk status. Now you have again assured us that this is not something to be overly bothered by. But, if this happens, do not you think there will be greater flight of capital, and would it not contribute to a grave situation?

Secretary, Department of Economic Affairs: What are the three big parameters that you would look at if you were going to do a rating of a country? First is growth. You would say our growth is slowing down. In my opening statement I told you that the global economic forecast has been reduced. So, is it only India which is facing this? This is a global phenomenon. So, if you want to downgrade the whole world, I have nothing to say. But obviously this is not something which is only intrinsic to us.

But then there are three factors in India which we have not seen and, therefore, we have become very worried about the first quarter numbers that we have seen. First is, that the first quarter of this financial year has an impact of the spillover of the last financial year's very sharp contraction in the deficit. In over a

period of eight months, we contracted more than 120 basis points. No other country in the world has ever done such a sharp fiscal correction. Obviously, that fiscal correction has an impact and a price the country pays. And that comes right into the first quarter.

But in the first quarter the Government of India's expenditure levels if you see, the monies for the plan expenditure have been released in a very planned manner and very quickly. So, almost 48 per cent of the total expenditure on plan is now booked not because Government of India has spent it, but you would know plan is plan, money is spent by the State Governments. And the money has been released to the State Governments so that this expenditure begins to happen. The impact will be seen in the second quarter and the third quarter because this expenditure would pick up. That is the first factor.

The second factor is, there has been a nine per cent expansion in the sown area in agriculture this year over the last year. Therefore, the agricultural production we expect is going to be bumper. If that happens, that would add, we believe, for the whole year at least close to one per cent to the GDP if the kind of agriculture we are expecting happens.

The third is, if you look at the investments in the projects since January up to June, the Cabinet Committee on Investment has given approvals to projects that total to 30 million dollars. These are very large projects. I have mentioned this in the past. The mobilization time from the time you get approval to actual investment beginning is almost six months. In the third and fourth quarters you will begin to see the investments coming in in these very large projects which have been provided approvals. And then there are large number of very path-breaking decisions which have been taken. Gas pricing is one. Providing coal linkages is another.

What I am explaining here is, you have three very major factors which are going to contribute to picking up of the growth in this year for the country. Growth comes looking at the global forecast if we are able to pick up and go beyond five

per cent or close to 5.5 per cent in this year, then there is no case for us to say that we are going to be fit for downgrade.

The second is fiscal deficit. Again, Finance Minister has drawn a red line at 4.8 per cent this year. We have said that whatever it takes, that 4.8 per cent will be met. You have seen in the last year that we actually did so. We contracted the deficit by 120 points. So, there is no reason why you should not believe we will keep the fiscal deficit this year either. So, there is no case for downgrade on account of fiscal deficit.

On current account deficit, I have said there is a red line of 3.7 per cent, I am willing to say to you a whole list of things that we are doing and which is going to keep it at 3.7 per cent. There is no case for downgrade there. Now, tell me what is the case for downgrade after this? So, I do not believe that there is a case for downgrade and I have credible numbers to prove it.

Question: Base erosion question.

Secretary, Department of Economic Affairs: On the base erosion question, nobody goes after anybody. All we are saying is, pay your taxes. Why is it that Indian companies should pay taxes, MNCs should not pay taxes? We give national treatment to foreign investors: we do not give special treatment to foreign investors. We treat them as we treat our own companies. So, if Indian companies pay taxes, they should pay taxes. Where is the question of going after anybody? I do not see that that should be a cause of concern for anybody.

Question: In your preliminary remarks you made a mention that there is a lack of consensus in the area of infrastructure investment which could give impetus to growth. Do you expect any progress in the current summit?

Secretary, Department of Economic Affairs: I could not understand the question.

Question: This is regarding your remark on a lack of consensus in the area of infrastructure investments. Do you expect any progress in this area at the current summit?

Secretary, Department of Economic Affairs: We do expect some progress because the World Bank has been now mandated to prepare a paper. They are working on what they call a global infrastructure facility. The final contours are not known to us. But we believe that some draft may be presented during this G20, and we would like to see what they have to say on this.

Question: You have said in your opening remarks that you will be looking at, though the G20 is not a decision-making body, some kind of minimum kind of statement from the G20 especially on the spillover. You have listed your case for not to be downgraded, and no influx of funds going out from here. What will be the minimum statement that you feel will be acceptable for India at the G20 on this?

Secretary, Department of Economic Affairs: I think there should be a very strong statement on the G20 having a consensus on the concern about the spillover effects and also its determinations to work towards minimizing those spillover effects. I think if a strong statement is made on these two points, it will have a major calming impact on the markets in the emerging economies.

Question: *Hum Bali mein WTO karne ja rahein hain aur tamaam tarah ke tariff barriers aur non-tariff barriers ki baat ho rahi hai. Yeh saval main ne Montek Singh Ahluwaliaji se bhi puchha tha. Joh Immigration Bill hai US mein, yah visa fees ki baat aap karte hain UK mein, yeh saare non-tariff barriers ke barabar hai. Kya yeh G20 ke platform par isko seriously discuss karne ki zarurat hai ya nahin hai? Aur agar hai toh kitna serious honge hum is baar? Aur, jaise NCDEX ki baat karte hain ya MSCL ka joh mamla aaya, kya is tarah ke markets joh apne yahan hain, unko naye sire se Bharat Sarkar se dekhe jaane ki zarurat hai kya? NCDEX mein 400 karod ke paper mein default ki baat hai. Kya is par koi naya view Sarkar legi?*

Secretary, Department of Economic Affairs: *In ke baare mein G20 mein koi discussion nahin hoga, I can assure you that. Par joh aapne abhi non-trade barriers, jaise visa issues vagairah, ke baare mein baat kahin hai, koi country-*

specific discussion toh G20 mein hote nahin hain. Lekin joh broad principle hai voh maine pehle bhi jaise aapko bataya ki broad principle ke upar charcha hum karenge. Aur us mein already ek track hai jisko labour track bolte hain. Toh us mein bhi is baat ke upar charcha hogi. Us ko charcha karenge, us ko purzor tariqe se kahenge is baat ko ki yeh nahin honi chahiye, is tarah ke barriers create nahin kiye jaane chahiye. Jahan tak MSCL ka saval hai, us ke upar abhi enquiry chal rahi hai. Enquiry complete hogi, us ke baad aage baat karenge.

Official Spokesperson: Thank you very much.

(Concluded)