Comments by Dr. Rathin Roy following the speech by Jean-Pierre Landau, Professor of Economics, Dean of the School of Public Affairs, Sciences Po in the session on 'The Great Compression: thinking about sustainability in a world of low interest rates'

"I have one big take away which is that it looks like the emerging economies are the only places in the world where textbooks are working, textbooks don't anymore clearly in Europe and US. The India story is very simple: we are a growing economy; there is lots of appetite for investment. Investment GDP ratios are 30%, savings GDP ratios (discounting physical savings) are about 21%, so we need investment and correspondingly, the exchange rate depreciates fairly regularly. We are now in a regime of about 4% inflation and there is some financial repression because the government has first claim on public savings, so all that gives you real interest rates of 2-3% with 7.5% growth, the nominal growth rate is about 11 and you can put this into a macro-model. I can't put Europe into a macro-model anymore, from what you said (referring to previous speaker), any kind of macro-model.

So the problem clearly is not the emerging economy financial markets, which was the problem that obsessed everybody for the last 30 years are dysfunctional. The problem is that there is something seriously wrong institutionally and in terms of the market clearing dimensions of that is affecting financial markets. Unfortunately for emerging economies that is very bad news for us because this is exactly the time when we need savings that yield relatively low returns to move into economies that offer higher returns Here as I see the problem is that a lot of the theory, Professor, that you were discussing, is applying empirically because so-called global financial markets in Europe and the US are behaving as if they were segmented markets. So any foray, outside the segmented markets, in a global sense…in an overall corporate sense--- is adventure. So China was an adventure, India is an adventure, Kenya is an adventure. So you have a small segment of capital that is adventure capital and then to the extent that you have short term flows of money, they come in and they go out on fairly regular terms to do things like finance current account deficit and they know that beyond a point the relative risk of exchange rate volatilities are not speculative. They will be serviced, because emerging markets have to conform to global economy rule-- emerging economies of the modern sort, not emerging economies like Greece, clearly. So, that's the global picture.

Obviously, I don't know how many times one needs to say this, these institutional barriers are impacting flows of finance, into three things – into infrastructure, into financial products that enable us to deal with long-term risk like insurance. We can open-up an insurance markets --as we have-- to 49% FDI but to get AXA to come and double its business profile in India global barriers need to come down in places like Basel. You can't rely on the textbooks to fix European and US markets anymore, so I look forward to different forms of creative and innovative intervention."