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GOVERNMENT OF INDIA**

**FINANCE MINISTER IS OPTIMISTIC ABOUT SUSTAINING GROWTH
MOMENTUM IN 2011-12 AND COMING YEARS AS ECONOMY'S
FUNDAMENTALS ARE STRONG; SAYS MAJOR CHALLENGE IN
SHORT TERM IS INFLATION AND GOVERNMENT TAKES VARIOUS
STEPS TO CONTAIN IT; SAYS PRIVATE SECTOR TO PLAY AN
IMPORTANT ROLE TO ADDRESS STRUCTURAL CONCERNS**

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The Union Finance Minister Shri Pranab Mukherjee said that during the global financial crisis of 2008, our GDP growth rate lowered to 6.8 per cent in 2008-09 but the economy rallied back with an 8 per cent growth in 2009-10. Shri Mukherjee said that the overall GDP growth in 2010-11 was estimated at 8.5 per cent and there is no reason why this momentum cannot be maintained in fiscal 2011-12 and improved further in the coming years.

The Union Finance Minister Shri Pranab Mukherjee was speaking at **Business Today CFO Award Function 2011** organised by a leading business magazine here yesterday. Shri Mukherjee said Chief Financial Officers (CFOs) create value for their companies and through their companies for the shareholders and the economy at large. He said such business award function which focuses on assessing their performance is thus an important event in recognition of the progress of India's business, professional managerial and entrepreneurial talent in recent times.

The Union Finance Minister Shri Pranab Mukherjee said that it was in 2007 that our country reached the milestone of being clubbed with the other trillion US dollar GDP countries. He said that the OECD Economic Survey of India released recently indicates that the current growth potential of India is close to 9 per cent and India is capable of sustaining high growth of 10 per cent or more annually. Finance Minister Shri Mukherjee said that there are several forecasts which predict that India's growth will start to outpace China's within three to five years and continue at a faster rate than any other large country over the next 20 to 25 years.

The Union Finance Minister Shri Pranab Mukherjee said that our recent growth performance has been led by a significant improvement in our domestic investment and savings rates. Finance Minister Shri Mukherjee said that there has also been considerable increase in the inflow of foreign capital, which is important not so much for bridging the domestic savings-investment gap, but for facilitating the financial intermediation of resources to meet the growing needs for long term and risk capital, as well as technology for the Indian industry. He said that there was a spurt in the investment growth rate, in particular in private fixed investment and a supportive growth in private consumption. The Finance Minister said that these growth drivers remain intact and post-2008 are gradually regaining their momentum. To some extent, this recovery is being held back by domestic inflation, which seems to have gained a foothold in the past two years, the Minister added

The Union Finance Minister Shri Pranab Mukherjee said that over the past two decades, some deep changes have taken place in India, which suggest that the economy's fundamentals are strong and medium-term growth prospects are good. The Finance Minister Shri Mukherjee said that

First, the savings and investment rates have reached levels historically comparable with the world's fastest-growing economies. *Second*, capital is no longer a constraint in the era of liberalization and globalization. Shri Mukherjee said that sustained high growth along with policy reforms would be able to generate the required returns to attract the needed capital flows into our economies. *Third*, with services sector contributing close to 60 per cent of our GDP, and experiencing rapid growth, the economy has acquired a growth engine that also imparts stability and resilience in the face of external and domestic turbulences, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that the Census 2011 shows that 56.9 per cent of India's total population belongs to the age group 15-59 years and only 7.5 per cent of the population belongs to the age category '60' years and above. Finance Minister said that the country will see a sharp decline in the dependency ratio over the next thirty years, which will be a major demographic dividend for India. He said that as this demographic dividend begins to pay off in India, with the working age-group population rising disproportionately over the next two decades, the savings rate is likely to rise further, provided we are able to create productive employment opportunities. Finally, the arrival of India's corporations in the global market place and the sophisticated corporate culture that many of these companies exhibit, lends to an optimistic prognosis for the economy in the medium to long run, the Finance Minister added.

Mentioning about the macroeconomic challenges faced by the Indian economy, the Finance Minister Shri Mukherjee said that our major challenge in the short-term is inflation, which has implications for sustaining high growth momentum in the Indian economy. Shri Mukherjee said that inflationary pressures persist both from higher global commodity prices and

domestic structural demand-supply imbalances in several commodities. The management of inflationary pressures in the medium term is critically dependent on an improvement in the supply response of agriculture to the expanding domestic demand and in the short-term by take steps to moderate aggregate demand, the Finance Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that in the past few months, the central government has taken several measures to address these concerns. The Finance Minister said that the monetary policy has been gradually tightened while at the same time, new initiatives were announced in the Union Budget 2011-12 to address some of the bottlenecks in the food supply chain that were behind the inflationary spikes in 2010-11.

Going forward, Union Finance Minister Shri Pranab Mukherjee said that there are several factors that will play a role in the inflation outlook. *First*, there is a significant suppressed component of inflation as the increase in international crude oil prices has not been passed on completely despite increase in domestic administered oil prices effected in June 2010 and June 2011. The Finance Minister Shri Mukherjee said that incomplete pass-through of higher crude prices will have an impact on aggregate demand through higher subsidy expenditure, which is expansionary and can add to inflationary pressure. *Second*, the Minister said that the outlook for crude oil prices in the near future is uncertain, given the geo-political situation in the Middle East and North Africa (MENA) region. He said that in any case, the likelihood of oil prices moderating significantly is low. *Third*, he added that administered electricity prices have not gone up even as input prices, particularly those of coal, have increased significantly. *Fourth*, Shri Mukherjee said that there have been sharp increases in the prices of several important industrial raw materials, such as minerals, fibres, especially cotton, rubber,

besides coal and crude oil. In addition, there is also upward pressure on wages. The extent to which the increase in input prices translates into output prices will influence the inflation dynamics. Finance Minister Shri Mukherjee said that lastly, though the South-West monsoon 2011 is expected to be normal, with a moderating impact on food inflation, there is a certain urgency in addressing the strong structural component in food inflation including 'protein inflation'. There are also some concerns due to elevated global food prices, he added.

The Union Finance Minister Shri Pranab Mukherjee said that the challenge is to steer the economy through these concerns. He said that if we increase administered prices of petroleum products and reduce fertilizer subsidy, we allow room for some inflation. If we do not then the consequent increase in the fiscal deficit will counter the moderating trend in aggregate demand and push inflation high anyhow, Shri Mukherjee added. He said that it would also compromise the revival in private investment to sustain high growth in the medium term. The Finance Minister said that we are therefore continuously trying to find a fine balance on adjustment of administered retail prices of petroleum products and on the level of fertiliser subsidy. He said that we believe that in the long run, high inflation is inimical to sustained growth as it harms investment by creating uncertainty.

Focussing on the role of private sector in solving structural problems of the economy, the Union Finance Minister Shri Pranab Mukherjee said that private sector has been in the forefront in contributing to the spurt in the recent growth momentum. He said that growth in private investment along with consumption has provided a sustained momentum in domestic aggregate demand. Private investment being more productive than public investment, has also contributed significantly to raising factor productivity and capacity augmentation, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that sustainability of the growth momentum in the medium term depends critically on the quality and pace of infrastructure development. He said that our intention has been to attract and leverage private investment in infrastructure to meet the growing requirement of the economy. Finance Minister Shri Mukherjee said that one trillion dollars of investment is required in infrastructure during the Twelfth Plan period (2012-17), of which more than half has to come from the private sector. The policy and regulatory kinks are being smoothed out. He said that our policy thrust in this regard is on creating efficient regulatory structures and enhancing investment. In particular, we are emphasizing on effective public-private partnerships, given the difficulties involved in direct government provision of many infrastructure services, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that to address the structural concerns in our inflation management strategy, the private sector has an important role to play. Shri Mukherjee said that agriculture is the biggest private sector in the country and its development to improve the sectors supply response has been given primary emphasis in his most recent budgets. He said that there have been initiatives for attracting private investments in agriculture and agro– processing activities. He said that this process requires further deepening. The Union Finance Minister Shri Pranab Mukherjee said that the government has also delineated four–pronged strategy covering agricultural production, reduction in wastage of produce, credit support to farmers and thrust to food processing sector. Strengthening of NABARD’s capital base and to enable it to refinance short-term crop loans also has been given priority, the Finance Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that through the PPP model, the private sector has considerable scope to contribute in skill-up gradation of our labour force and to meet the gaps in our social sectors including education and health, thereby contributing to a deepening of the inclusive development in our country. He said that the National Capacity Building Programme to enhance capacities has been designed to further develop public-private partnerships which can help in removing structural bottle-necks.

Focussing on his expectations of private sector's governance practices in the wake of ongoing debate to introduce new legislation to curb public sector corruption, Union Finance Minister Shri Pranab Mukherjee said that corruption is not confined only to public sector. He said that undue pecuniary advantages is the mainframe of corruption that is tearing the moral fibre of our nation. Shri Mukherjee said that greed has to be tamed and social values that accept corruption as a way of life need to change.

The Union Finance Minister Shri Pranab Mukherjee said that there are two facets of dealing with the issue of corruption of the public sector variety. Finance Minister Shri Mukherjee said that the first is administrative, legal and judicial process of detecting the cases, proving in a court of law and meting out punishment due which is an ongoing process and must and will go on with a vigilant civil society and the independent judicial system that we have. Shri Mukherjee told that a Group of Ministers (GOM) has been constituted to consider measures for tackling corruption, which has been tasked with addressing issues relating to State funding of elections, speedier processing of corruption cases of public servants, transparency in public procurement and contracts, discretionary powers of Central ministers and

competitive system for exploiting natural resources. This Group is looking into the various issues and will make its recommendations in a time bound manner, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that the second aspect is to address the root causes of corruption, particularly in public service delivery and thereby reforming the system itself. Shri Mukherjee said that in his Budget speech for 2011-12, he had devoted a whole section on improving governance, which seeks to go into the root causes of the problems in the extant system of public service delivery, accountability and transparency. The Union Finance Minister Shri Pranab Mukherjee said that systemic reforms are the lasting solutions to the malaise of corruption. He said that the government has already introduced a number of steps in improving governance, for example the UID mission and generation of Aadhaar numbers, IT initiatives for efficient tax administration and Mission Mode Projects for computerization of Commercial taxes, simplified “Sugam” return for taxpayers etc. The Finance Minister said that these initiatives are expected to bring greater transparency in governance. Concluding his keynote address, the Finance Minister said that he believes that there is perceptible change in the private sector practices and this would continue.

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