

**Finance Minister's Address
"India's Continuing Growth Story"**

India Investment Forum, September 21, 2011

Date: **21.09.2011**

Time: **2.00 P.M.**

Venue: **New York**

Ms Diane Alfano, Chairman, Institutional Investor,

Mr Tony Shale, CEO, Asia, Euromoney-Institutional Investor,

Mr Harsh Mariwala, President, FICCI,

Mr R V Kanoria, Senior Vice President, FICCI,

Mr Nirmal Jain, Chairman, IIFL,

Mr Bharaj Parajia, Managing Director, IIFL,

Dr Rana Kapoor, Founder, Managing Director & CEO Yes Bank,

Ladies and Gentlemen,

I am very happy to be here today and have this opportunity to speak on a theme, which as the Finance Minister of the country, is a matter of professional engagement and even a commitment for me. Growth is necessary for the opportunity that it creates for the teeming millions in India, who need to be lifted out of poverty and deprivation. Growth is equally important for the resources it generates for the Government to bridge the country's social and physical infrastructure deficit. Indeed, it is the means that gives us a realistic chance of putting

the economy on a path of high, self supporting and sustainable long-term growth.

2. The Indian economy has traversed a long way during the course of which it has stepped up its growth trajectory over successive decades, especially since the 1980s. It grew at a rate of around 3.5 per cent between 1950 and 1980, about 5.5 in the 1980s, going up to over 6 per cent in the 1990s and in the early years of this century. Since about 2003-04 it has moved further to a higher trend growth path of 8.5 to 9 per cent per annum. Between 2005 and 2008, India's GDP grew at around 9.5 per cent per year making it one of, the fastest growing democracies in the world.

3. The economic slowdown in the wake of the global financial crisis also impacted India and its growth rate declined to 6.8 per cent in the crisis year of 2008-09. However the recovery was rapid and strong. The economy registered an average growth of over 8 per cent in the two years following the slowdown, demonstrating its resilience and the capacity to overcome adversities in its development path.

4. Though there has been some moderation in growth, with GDP increasing by 7.7 per cent in the first quarter of 2011-12, the fundamentals of the economy are still intact and the growth story of the Indian economy continues unabated. Continue it must in the next two

decades so that we are able to deliver on the promise of meeting the developmental objectives that we have set for ourselves.

5. One of the defining features of the last two decades has been the shift in global economic power from the developed to the developing countries. G-20 and BRICS have emerged as groups that are guiding the world economy. The report on BRIC by Goldman Sachs made the world sit up and take notice of the potential economic clout of Brazil, Russia, India and China. Together these economies accounted for about 47 per cent of the contribution to global growth in 2011. We are glad that South Africa has now joined the BRIC cluster to give it a 'plural dimension' – BRICS. It is important for these partnerships to flourish if the global economy has to recovery quickly from the unprecedented downturn and to create a more stable and prosperous world in the coming years.

6. India has embraced a calibrated approach to globalization. The economy is gradually, but surely getting integrated with the global economy. There has been significant growth in India's trade, investment and capital flows with the rest of the world. Globalization has offered new opportunities, but it has also posed new challenges. Indeed, while it may not have been easy to raise the annual growth rate of the economy to over 8 per cent, it is certainly getting more difficult to sustain high growth

over an extended period of time. The global events and their impact on our economy in the past few years, make this amply evident.

7. The challenge for us is to manage this process in a manner that our developmental goals are not compromised and that we attain them in a reasonable period of time. So far, we may have managed to be on track, despite uncertainties and recurrent economic turbulence, but we may have much more to do, in the coming years.

8. The sustained high growth of recent years reflects a maturing of the economic management in the country. Industry and services have emerged as the prime drivers of growth. The Indian manufacturing sector has come of age and is making its presence felt globally in sectors like the automobile and auto components, pharmaceuticals, textiles and steel. The changing composition of our exports in favour of engineering goods apparent in the recent export data for 2010-11 is an indication of that fact.

9. The services sector, contributing about 58 per cent of GDP, has become an important driver and a stabilizing factor for our economy in the face of growing exposure to global business cycles. The large service sector is also helping us absorb domestic shocks and uncertainties associated with a monsoon-dependent agrarian economy. The agriculture diversification has added to its resilience in the face of uneven and delayed monsoons in the recent past.

10. The medium term growth prospects of the economy remain buoyant. The savings and investment rates have reached levels that are reminiscent of the East-Asian high growth economies. As the demographic dividend begins to pay off in India, the savings rate is likely to rise further, provided we are able to create productive employment opportunities. Private enterprise, has flourished in the past decade and its growing competitiveness is opening new doors to Indian companies in the global market place. Indeed, I am confident that we are in a position to sustain high economic growth in the coming years and create a more inclusive outcome for our society.

11. More specifically, as we put ourselves to the task of preparing the Twelfth Five Year Plan we are aiming at a GDP growth of 9 per cent, possibly more, for the Plan period 2012-17. It would imply raising the average growth rate by about one percentage point from 8.2 per cent, likely to be realised in the Eleventh Plan. However, we have to work towards ensuring that the incremental improvement in the growth rate comes essentially from States that so far have been lagging behind the national average. Since there are quite a few major States that need to catch- up with the rest and are at a relatively lower base level, that is, in itself, a source for sustaining high growth in the coming decades.

12. Sustainability of the growth momentum in the medium term depends critically on the quality and pace of infrastructure development.

Our intention has been to attract and leverage private investment in infrastructure to meet the growing requirement of the economy. One trillion dollars of investment is required in the infrastructure space during the Twelfth Plan period. The policy and regulatory kinks are being smoothed out. 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.

13. Deepening of reforms in the financial sector and strengthening of overall regulatory architecture is being pursued. A Financial Sector Legislative Reforms Commission (FSLRC) has been set up to re-write the financial sector laws and bring them in harmony with the new liberalized environment and global best practices. The RBI has embarked on the process of giving some additional banking licences to private sector players. The agenda on financial inclusion has been clearly carved out and is being implemented successfully by the different stakeholders. To make the FDI policy more user-friendly, all prior regulations and guidelines have been consolidated into one comprehensive document, which is reviewed every six months. This has been done with the specific intent of enhancing clarity and predictability of our FDI policy to foreign investors. A consensus on allowing FDI in multi-brand retail is being evolved and will be operationalised in the near

future. The Competition Commission of India (CCI) is now functional and is gradually developing traction on the ground to guard against anti-competitive practices and oversee mergers and acquisitions.

14. Focus is also being put on issues of governance and institutional reforms and strengthening. The Government aims to empower the people; especially the poor with universal access to education and health and facilitate their participation in the development process through gainful employment. This has been reflected as the Central theme of faster, sustainable and more inclusive growth in the Approach Paper to the Twelfth Plan.

15. The direct cash transfers for subsidies announced in the Budget 2011-12 will help the targeted beneficiaries of the government programme. UIDAI will be issuing 1 million aadhaar numbers per day. It will give identity to the poor and open their access to many facilities and public programmes. This is one of the most far reaching initiatives of the present government.

16. In India, different coalition governments at the Centre have guided policy making over the last twenty years, yet all have broadly agreed on the basic thrust and direction of reforms. Contrary to popular perceptions, India's multi-party federal democracy has actually played a key role in implementation of reforms. Intensive deliberations on reforms has imparted to the economic policy-making a much-desired calibration

that helps in safe guarding the interests of vulnerable sections of the society. Irrespective of political differences, the Central and State governments have worked together for furthering reforms. The biggest example of this is the gradually evolving consensus on the Goods and Services Tax. Besides, introduction of fiscal responsibility legislations in most Indian States and the Centre bears testimony to India's success in pursuing reforms through a broad political consensus. Reforms are slow but sure with a broad based democratic sanction.

17. Let me conclude by saying that despite the challenges before us, I am confident that we are in a position to sustain high economic growth in the coming decades and create a more inclusive outcome for our society. I have faith in the Indian entrepreneurial spirits and the other stakeholders, and we have the political will to do the needful to meet the aspirations of our people.

Thank You.