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**UNION FINANCE MINISTER, SHRI PRANAB MUKHERJEE'S SPEECH AT  
ANNUAL GENERAL MEETING AND NATIONAL CONFERENCE OF CII**

**New Delhi: Chaitra 28, 1934  
April 17, 2012**

**Following is the text of the Speech delivered by the Union Finance Minister, Shri Pranab Mukherjee at the Annual General Meeting and National Conference of CII here today:**

“I am delighted to be here at this Annual General Meeting and National Conference of CII. At the very outset, I would like to compliment CII for its continuous efforts at promoting the interests of business and providing a forum for exchange of views in matters concerning industry and trade with other stakeholders in the economy, especially the government.

As you are aware, the global economic recovery has been slow and somewhat uncertain, despite there being some expectations of a ‘U’ shaped recovery. Post meltdown in 2008, recovery is turning to be harder than anticipated and it may take longer time to gain traction. Globally, for policy makers this is one of the most challenging phases. Major investors the world over are concerned despite the fact that several steps have been taken by many debt ridden countries with the help of other economic partners to salvage themselves from the crisis. Apart from soaring debt to GDP ratios, unemployment and high commodity prices are issues that continue to engage the policy attention. I am looking forward to the revised global growth projections of the IMF in its latest World Economic Outlook (WEO), which is due anytime and I am hoping that there would be something cheerful for the global recovery.

We are not completely insulated from the evolving global economic scenario. There has been a moderation in the level of Foreign Institutional Investment (FII) flows and this has resulted in a decline in the equity indices and a sharper depreciation of the rupee in the forex markets. A part of this depreciation also reflects the higher inflation in India vis-à-vis industrialized nations over the past two years. The volatility in the FII flows reflects global uncertainty prompted by the slow unfolding of the euro zone crisis, prospects of sovereign defaults and cascading problems in other sectors. Not surprisingly, the movements of FII flows to India are broadly in line with indicators in other emerging and developing economies.

Slowdown in external demand has led to deceleration in the growth of exports in recent months with the current account deficit widening to over 3 per cent of GDP. During the past three financial years, we navigated the crisis in an exemplary manner and I am confident that we should be able to confront the changed circumstances. However

complacency can turn out to be our worst enemy. We need to be ever ready to confront external shocks and respond on a real time basis.

Domestically, given the overall fundamentals, the estimated growth rate of GDP at 6.9 per cent in 2011-12 appears disappointing as against 8.4 per cent in 2009-10 and 2010-11. The slowdown in the growth of the economy in 2011-12 is mainly on account of the slowdown in the industrial sector that registered a growth rate of 3.9 per cent in 2011-12 as against 7.2 per cent in 2010-11 and a moderate growth of 2.5 per cent in agriculture sector following a high growth rate of 7 per cent in 2010-11. Services sector registered relatively robust growth of 9.4 per cent in 2011-12.

Sustained high level of inflation that has been a major policy concern for us over the last two years has now moderated to under 7 per cent as of March 2012. Though WPI food inflation declined significantly from 20.2 per cent in February 2010 to 5.9 per cent in February, 2012, it has risen again in March 2012 to nearly 9 per cent. We have to be careful and bridge the structural supply gaps to improve availability of high demand food items including animal proteins, edible oils and fruits & vegetable. Government has been making all efforts to address the demand and supply-side related problems and I am confident that during the current financial year the rate of inflation would see some moderation and remain within the 6 to 7 per cent range.

I am concerned with the current phase of slowdown in industrial production. As per the latest IIP based industrial production data for April-February 2011-12, industry output has grown by a mere 3.5 per cent as compared to 8.1 per cent during the corresponding in the previous year. Capital goods segment though looks to be reviving. The slowdown can be attributed both to domestic and global factors. Domestic factors, namely the tightening of monetary policy, in order to control inflation resulted in slowing down of investment and growth, in the industrial sector.

The focus now has to be on removing these domestic constraints. The supply side and infrastructure constraints need to be taken care of on a priority basis. The rate of growth of gross and fixed capital formation during 2011-12 is estimated to be only 5.8 per cent. This rate, on an average, is half the growth rate we have managed to achieve in the recent past except 2008-09, which you all know was an exceptionally abnormal year. The flow of banking sector credit to industry in particular has been lower. On year-on-year basis non-food credit has increased by 15.4 per cent in February 2012 compared with 22.8 per cent in the previous year. Similarly credit to industry increased by 19.1 per cent as compared to 26.5 per cent. It is, therefore, clear that we need to boost investment and spend more on creating productive assets. Government alone cannot meet this daunting task.

Your focus on the theme 'Industry's Role in Nation building: Government – Industry Partnership' for this Conference is quite apt in that context. Industry and private sector as a whole has to come forward and step up investment. The economy would need \$500 billion contribution from the private sector to address the infrastructure bottlenecks and in the process realise the \$1 trillion investment in infrastructure envisaged during the 12<sup>th</sup> Plan.

The government is committed to create conducive a policy environment to attract both domestic and foreign private sector investment. To facilitate private sector investment, the government initiated several policy measures during the last financial year. The notification of guidelines for setting up the Infrastructure Debt Fund was issued and the external commercial borrowings (ECB) policy was liberalized further. The Government also

put in place the New Manufacturing Policy. To keep up the tempo, I have announced several other initiatives in my current Budget speech. For instance, the scope of viability gap funding would be extended to some more sub- sectors and a harmonized list of infrastructure has been notified to remove ambiguity.

On the fiscal front, the revised estimates for 2011-12 placed the fiscal deficit at 5.9 per cent of GDP. The Budget for 2012-13 estimates the fiscal deficit to come down to 5.1 per cent of GDP. The Medium Term Fiscal Policy Statement 2012-13 places the fiscal deficit at 4.5 per cent and 3.9 per cent respectively in the next two years. Thus the medium term fiscal stance is firmly on the fiscal consolidation path with the revenue deficit sought to be eliminated in 2014-15. Gross outstanding liabilities of the Centre are estimated to decline from 45.7 per cent in 2011-12 (RE) to 41.9 per cent in 2014-15.

I know that there are some concerns about the fiscal deficit target for the current financial year. Let me assure you that the budgetary exercise has been done with due diligence and I would do my best to restrict the government expenditure to the budgeted figures. Yet let me repeat again that the Government will not compromise on funds towards the schemes targeted to achieve the UPA Government's agenda of inclusive growth. The Government is committed to the agenda of inclusive growth and accordingly I have duly provided for all flagship schemes targeting the poorest of the poor. The Government is coordinating the Socio-Economic Caste Census (SECC), which is the administrative identification for the process of delivery under various developmental schemes. After this is available, the eligibility and entitlements of the rural households for the central schemes will be determined.

I am confident that we would progress in recovering some of our pre-crisis growth momentum in 2012-13. We have projected GDP growth to be around 7.6 per cent with a range of +/- 0.25 per cent for the current year. With moderation in inflation there should be reversal in the policy rates by the RBI, which could encourage investment activity. Indeed, the Monetary policy review is slated for later today. As fiscal consolidation gets back on track, savings and investment should also increase. These factors, along with the fact that despite a slowdown, India's investment rate has been 35.1 per cent in 2010-11, should help in the consolidation of growth. There are some downside risks, in particular the implications of the continued stickiness in global oil prices. We will have to take the necessary steps to minimise their impact in the coming months.

I have always viewed these interactions as a wonderful opportunity to learn from others. I also believe that such gatherings of diverse business leaders from industry and trade help to reinforce a shared objective of developing India into a prosperous nation and in finding ways of translating this objective into reality. I thank the CII for giving me this opportunity. I wish you all the very best in your endeavors."

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