

pib.nic.in

"15"

**PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA**

NEED TO EXPLORE INNOVATIVE APPROACHES TO SUSTAIN HIGH GROWTH WITH STABILITY; *CHALLENGE IS TO HARNESS THIS GROWTH TO MAKE THE DEVELOPMENT PROCESS MORE INCLUSIVE, STRENGTHEN FOOD SECURITY, IMPROVE EDUCATION OPPORTUNITIES AND HEALTH FACILITIES BOTH IN RURAL AND URBAN AREAS* ; DISCUSSIONS UNDERWAY TO BUILD CONSENSUS ON FURTHER LIBERALISATION OF THE FDI POLICY IN RETAIL AND DEFENCE SECTOR: FM

New Delhi: Aashadh 07, 1933
June 28, 2011

The Union Finance Minister Shri Pranab Mukherjee said that there is need to explore innovative approaches to sustain high growth with stability. Shri Mukherjee said that the challenge of sustaining high growth has become more complex because of rapid globalisation and the growing influence of global developments, economic as well as non-economic on routine domestic concerns. He said that therefore, the policy makers have to be far

more alert and prompt with their response. The Finance Minister Shri Mukherjee was delivering his keynote address at a Conference on US-India Economic and Financial Partnership in Washington DC yesterday. He was sharing the dais with Mr Timothy Geithner, Secretary, US Department of Treasury. The daylong conference was being organised by Confederation of Indian Industry (CII) in collaboration with Brookings Institute of US.

The Union Finance Minister Shri Pranab Mukherjee said that India's economic reforms have contributed to the Indian growth story. He said that this year, we commemorate two decades of the initiation of reforms. In this period, the Finance Minister said that the economy has rapidly globalised and from around 2003-04, it has moved on to a higher growth path. Shri Mukherjee said that between 2004-05 and 2006-07, the economy grew at 9.5 per cent which helped in raising the trend GDP growth rate to 8.5 to 9 per cent per annum. He said that though the global financial crisis of 2008 lowered the GDP growth rate in India to 6.8 per cent in 2008-09 yet the Indian economy rallied back with an 8 per cent growth in 2009-10.

The Union Finance Minister Shri Pranab Mukherjee said that the experience in the post-2004 period shows that Indian economy has become remarkably resilient to both external and domestic shocks. It managed to moderate the decline in GDP growth during the global economic downturn and recovered rapidly in 2009-10, the Minister added. He said that it also took the monsoon failures in the preceding two years in its stride and is now showing robust growth with agriculture production set to record a new high in 2010-11. The Finance Minister Shri Mukherjee said that overall GDP growth in 2010-11 with a broad based performance

covering all the three sectors of the economy has been estimated at 8.5 per cent. The economy is expected to maintain the momentum at the same level in 2011-12, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that there are several reasons that Indian growth is almost universally predicted to be sustained at a high rate of 8 to 9 per cent per annum over the next few decades by economic analysts. Enumerating the reasons for the same, the Finance Minister Shri Mukherjee said that *First*, the savings and investment ratios in the country have gone up in the last few years and are reminiscent of the high growth in East Asian economies. *Secondly*, India's working age population is young with over half the population is in the twenties. *Thirdly*, growing middle class incomes have led to self sustaining buoyancy in domestic demand, particularly in the rural areas. *Fourthly*, India is making rapid progress in infrastructure, both social and physical and along with better access to cutting edge technology is likely to see improvement in productivity, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said although these are the primary factors for India's dynamic growth yet there are many other drivers of the Indian growth story including the energy and vibrancy of our entrepreneurs, strong services sectors, emerging knowledge spheres and sunrise sectors and growing number of engineers and scientists. The services sector now contributes 58 per cent of GDP, while the share of agriculture has declined to 14 per cent, marking a structural transformation of the economy, the Minister added.

The Union Finance Minister Shri Pranab Mukherjee said that the challenge now is to harness this growth to make the development process more inclusive, strengthen food security, improve education opportunities and health facilities both in rural and urban areas. At the same time, Shri Mukherjee said that we are looking to address the weaknesses in our systems, structures and institutions at different levels of governance, making the public delivery mechanisms more robust and transparent, and sharply focus on the role of Government as an enabler.

The Union Finance Minister Shri Pranab Mukherjee said that we are now in the process of deepening policy reforms in the financial sector and addressing gaps in the overall economic regulatory architecture. The Finance Minister said that in the Budget proposals for 2011-12, he had outlined a significant legislative agenda for the financial sector. He said that we have setup an apex-level Financial Stability and Development Council (FSDC) to strengthen financial stability, macro prudential supervision and inter-regulatory coordination in the country. Shri Mukherjee said that a Financial Sector Legislative Reforms Commission (FSLRC) has already been set up to re-write the financial sector laws and bring them in harmony with the new liberalized environment in the country and in keeping with global best practices. The Finance Minister Shri Mukherjee said that the Reserve Bank of India (RBI) is in the process of issuing additional banking licences private sector players.

The Union Finance Minister Shri Pranab Mukherjee said that to make the Foreign Direct Investment (FDI) policy more user-friendly, all prior regulations guidelines have been consolidated into one

comprehensive document which is reviewed every six months. The Finance Minister said that this has been done with the specific intent of enhancing clarity and predictability of our FDI policy to foreign investors. He said that ownership and control are now central to the FDI policy, and the methodology in this regard has been clearly defined. The Union Finance Minister Shri Pranab Mukherjee said that discussions are underway to build consensus on further liberalisation of the FDI policy in retail and defence sector. Shri Mukherjee said that another major initiative has been the complete liberalisation of pricing and payment of technology transfer fee, trademark, and brand name and royalty payments.

The Union Finance Minister Shri Pranab Mukherjee said that we have decided to allow Indian Mutual funds to directly attract investments from foreign investors who meet with the Know Your Customer (KYC) guidelines with a view to facilitate investment opportunities in India. The Minister said that earlier this window was available only to the Foreign Institutional Investors (FIIs) and their sub accounts. Along with this, in two stages, the ceiling for investment by FIIs into corporate bonds has been enhanced considerably from the existing US\$ 15 billion to US\$ 40 billion, the additional limit being available for the bond offerings of more than five years residual maturity of infrastructure companies whether listed or unlisted, the Minister added. He said though this enhancement also carries a lock-in period of three years, it is permitted to be traded and as such should be of interest to the FIIs in increasing their India commitment.

The Union Finance Minister Shri Pranab Mukherjee said that major steps are being taken to simplify and place the administrative procedures

concerning taxation, trade and traffic and social transfers on electronic interface, free of discretion and bureaucratic delays. He said that this will set the tone for a newer, vibrant and more efficient economy.

The Union Finance Minister Shri Pranab Mukherjee said that an important part of the investment environment is the taxation policy. He said that the new Direct Tax Code (DTC) slated for April 1, 2012, and Goods and Services Tax (GST) are important measures in the future which will create for India a modern and more efficient tax system. Shri Mukherjee said that India is now the 34th Country Member of Financial Action Task Force (FATF). He said that the FATF process will also help us in co-ordination of anti money laundering/countering financing of terror (AML/CFT) efforts at the international level.

The Union Finance Minister Shri Pranab Mukherjee said that we intend to double the exports from India in the next three years with a focused approach to reach a level of US\$ 500 Billion. He said that we are in the process of finalising a National Manufacturing Policy with the objective of increasing the share of manufacturing in our GDP from the current level of 16 per cent to a level of 25 per cent of GDP in the next decade.

Beside above, the Union Finance Minister Shri Pranab Mukherjee said that we have already begun the process of fiscal consolidation under the Fiscal Responsibility and Budget Management Act. The Finance Minister said that the fiscal deficit has been reduced to 4.7 percent in 2010-11 as against the budget estimate of 5.5 percent. He said

that during 2011-12, it is estimated to improve further to 4.6 percent of GDP. He said that fiscal targets for 2012-13 have been projected at 4.1 percent of GDP and 3.5 percent in 2013-14. The Finance Minister assured that the reform process would continue unabated.

The Union Finance Minister Shri Pranab Mukherjee said that the fast growth of the economy in recent years has placed increasing stress on physical infrastructure, such as electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation, all of which suffer from a substantial capacity deficit. The Finance Minister said that our Twelfth Five Year Plan period (2012-2017) is an ambitious one for infrastructure development, with the projected spending likely to be doubled to around US\$ 1 trillion. He said that in order to sustain the high growth in infrastructure spending, it is essential to source more funds from the private sector.

The Union Finance Minister Shri Pranab Mukherjee said that the Indian Government has laid emphasis on Public Private Partnerships (PPPs) which combine the efficiency and technological prowess of the private sector, with the public welfare orientation of Government. The Finance Minister Shri Mukherjee said that we have established unique and innovative financing support such as the scheme to support Viability Gap Funding (VGF) for PPP projects. He said that we are engaged in establishing special purpose vehicles to be called Infrastructure Debt Funds (IDFs) to harness offshore pension and insurance funds for giving long tenor loans to PPP projects. Shri Mukherjee said that withholding tax on the interest payments on the borrowings of these funds

has been brought down from 20 per cent to 5 per cent. He said that income of these IDFs has also been exempted from income tax. The Finance Minister said that the issues like land acquisition, environment clearance and resettlement and rehabilitation are under continuous policy churn, with a view to de-risking both greenfield and brownfield project development.

The Union Finance Minister Shri Pranab Mukherjee said that it is our endeavour to soon come up with a comprehensive PPP policy that can be used by the Centre and the State Governments in India for the development of public private partnerships.

Concluding his address, the Union Finance Minister Shri Pranab Mukherjee beaming with full confidence said that he is 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. He said that he has full faith in the Indian entrepreneurial spirits and we have the political will to do the needful to sustain this momentum. The Finance Minister said that the US side has strength and leadership position in several respects that includes resources, technology and skills with a pre-eminent position in the world order. He said that we have common goals and share a vision of peace and prosperity for the humanity at large. The Finance Minister Shri Mukherjee said that India-US strategic partnership presents a wonderful opportunity for each of us to grow and contribute to global well being.

The text of the Keynote Address delivered by the Union Finance Minister Shri Pranab Mukherjee at the Conference is given below:

Finance Minister's Address
at
CII-Brookings Conference
on
US-India Economic & Financial Partnership
Washington DC on June 27, 2011

Secretary Timothy Geithner,
Distinguished Delegates,
Ladies and Gentlemen

I am delighted to address this august gathering of distinguished economists, academicians and business leaders at the CII-Brookings Institute Conference. It is a pleasure to share this forum with Secretary Geithner. There is always much to learn from his very astute macroeconomic management skills at an extremely challenging time for the global economy. More importantly, Secretary Geithner is a close friend of India.

2. I compliment the organisers for putting together an agenda that examines the major issues that India faces today. The challenge of sustaining high growth has become more complex because of rapid globalisation and the growing influence of global developments, economic as well as non-economic on routine domestic concerns. As a result, the

policy makers have to be far more alert and prompt with their response and, at the same time, need to explore innovative approaches to sustain growth with stability.

3. India's economic reforms have contributed to the Indian growth story. In fact, this year, we commemorate two decades of the initiation of reforms in the country. In this period, the Indian economy has rapidly globalised and from around 2003-04, it has moved on to a higher growth path. Between 2004-05 and 2006-07, the economy grew at 9.5 per cent. This helped in raising the trend GDP growth rate to 8.5 to 9 per cent per annum. Though the global financial crisis of 2008 lowered the GDP growth rate to 6.8 per cent in 2008-09, the Indian economy rallied back with an 8 per cent growth in 2009-10.

4. The experience in the post-2004 period shows that economy has become remarkably resilient to both external and domestic shocks. It managed to moderate the decline in GDP growth during the global economic downturn and recovered rapidly in 2009-10. It also took the monsoon failures in the preceding two years in its stride and is now showing robust growth with agriculture production set to record a new high in 2010-11. Overall GDP growth in 2010-11 with a broad based performance covering all the three sectors of the economy has been estimated at 8.5 per cent. The economy is expected to maintain the momentum at the same level in 2011-12.

5. There are several reasons that growth is almost universally predicted to be sustained at a high rate of 8 to 9 per cent per annum over the next

few decades by economic analysts. *First*, the savings and investment ratios have gone up in the last few years and are reminiscent of the high growth in East Asian economies. *Secondly*, India's working age population is young with over half the population is in the twenties. *Thirdly*, growing middle class incomes have led to self sustaining buoyancy in domestic demand, particularly in the rural areas. *Fourthly*, India is making rapid progress in infrastructure, both social and physical and along with better access to cutting edge technology is likely to see improvement in productivity.

Ladies and Gentlemen,

6. Although these are the primary factors for India's dynamic growth, there are many other drivers of the Indian growth story including the energy and vibrancy of our entrepreneurs, strong services sectors, emerging knowledge spheres and sunrise sectors and growing number of engineers and scientists. The services sector now contributes 58 per cent of GDP, while the share of agriculture has declined to 14 per cent, marking a structural transformation of the economy.

7. The challenge now is to harness this growth to make the development process more inclusive, strengthen food security, improve education opportunities and health facilities both in rural and urban areas. At the same time we are looking to address the weaknesses in our systems, structures and institutions at different levels of governance, making the public delivery mechanisms more robust and transparent, and sharply focus on the role of Government as an enabler.

8. We are now in the process of deepening policy reforms in the financial sector and addressing gaps in the overall economic regulatory architecture. In the Budget proposals for 2011-12 I have outlined a significant legislative agenda for the financial sector. We have setup an apex-level Financial Stability and Development Council to strengthen financial stability, macro prudential supervision and inter-regulatory coordination in the country. A Financial Sector Legislative Reforms Commission has been set up to re-write the financial sector laws and bring them in harmony with the new liberalized environment in the country and in keeping with global best practices. The Reserve Bank of India is in the process of issuing additional banking licences to private sector players.

9. To make the FDI policy more user-friendly, all prior regulations 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. Ownership and control are now central to the FDI policy, and the methodology in this regard has been clearly defined. Discussions are underway to build consensus on further liberalisation of the FDI policy in retail and defence sector. Another major initiative has been the complete liberalisation of pricing and payment of technology transfer fee, trademark, and brand name and royalty payments.

10. We have decided to allow Indian Mutual funds to directly attract investments from foreign investors who meet with the KYC guidelines with a view to facilitate investment opportunities in India. Earlier this window was available only to the Foreign Institutional Investors (FIIs) and their sub

accounts. Along with this, in two stages, the ceiling for investment by FIIs into corporate bonds has been enhanced considerably from the existing US\$ 15 billion to US\$ 40 billion, the additional limit being available for the bond offerings of more than five years residual maturity of infrastructure companies whether listed or unlisted. Though this enhancement also carries a lock-in period of three years, it is permitted to be traded and as such should be of interest to the FIIs in increasing their India commitment.

Ladies and Gentlemen,

11. Major steps are being taken to simplify and place the administrative procedures concerning taxation, trade and traffic and social transfers on electronic interface, free of discretion and bureaucratic delays. This will set the tone for a newer, vibrant and more efficient economy.

12. An important part of the investment environment is the taxation policy. The new Direct Tax Code (DTC) slated for April 1, 2012, and Goods and Services Tax (GST) are important measure in the future which will create for India a modern and more efficient tax system. India is now the 34th Country Member of Financial Action Task Force(FATF). The FATF process will also help us in co-ordination of anti money laundering/countering financing of terror (AML/CFT) efforts at the international level.

13. We intend to double the exports from India in the next three years with a focused approach to reach a level of US\$ 500 Billion. We are in the process of finalising a National Manufacturing Policy with the objective of

increasing the share of manufacturing in our GDP from the current level of 16 per cent to a level of 25 per cent of GDP in the next decade.

14. We have already begun the process of fiscal consolidation under the Fiscal Responsibility and Budget Management Act. The fiscal deficit has been reduced to 4.7 percent in 2010-11 as against the budget estimate of 5.5 percent. Further, during 2011-12, it is estimated to improve to 4.6 percent of GDP. Fiscal targets for 2012-13 have been projected at 4.1 percent of GDP and 3.5 percent in 2013-14. Let me assure you that the reform process continues unabated.

15. The fast growth of the economy in recent years has placed increasing stress on physical infrastructure, such as electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation, all of which suffer from a substantial capacity deficit. Our Twelfth Five Year Plan period (2012-2017) is an ambitious one for infrastructure development, with the projected spending likely to be doubled to around US\$ 1 trillion. In order to sustain the high growth in infrastructure spending, it is essential to source more funds from the private sector.

16. The Indian Government has laid emphasis on Public Private Partnerships (PPPs) which combine the efficiency and technological prowess of the private sector, with the public welfare orientation of Government. We have established unique and innovative financing support such as the scheme to support Viability Gap Funding (VGF) for PPP projects. We are engaged in establishing special purpose vehicles to be called Infrastructure Debt Funds (IDFs) to harness offshore pension and

insurance funds for giving long tenor loans to PPP projects. Withholding tax on the interest payments on the borrowings of these funds has been brought down from 20 per cent to 5 per cent. Income of these IDFs has also been exempted from income tax. The issues like land acquisition, environment clearance and resettlement and rehabilitation are under continuous policy churn, with a view to de-risking both greenfield and brownfield project development.

17. It is our endeavour to soon come up with a comprehensive PPP policy that can be used by the Centre and the State Governments in India for the development of public private partnerships.

Ladies and Gentlemen,

18. Today, as I stand before you along with Secretary Geithner on this US-India Economic and Financial partnership forum, 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 full faith in the Indian entrepreneurial spirits and we have the political will to do the needful to sustain this momentum.

19. The US side has strength and leadership position in several respects that includes resources, technology and skills with a pre-eminent position in the world order. We have common goals and share a vision of peace and prosperity for the humanity at large. Our strategic partnership presents a

wonderful opportunity for each of us to grow and contribute to global well being.

Thank you.

DSM/SS