pib.nic.in

PRESS INFORMATION BUREAU

TEXT OF THE SPEECH OF THE FINANCE MINISTER SHRI PRANAB MUKHERJEE DELIVERED AT THE CHICAGO COUNCIL OF GLOBAL AFFAIRS

28th January,2012

Following is the text of the Speech of the Union Finance Minister Shri Pranab Mukherjee at Chicago Council on Global on 28th January,2012:

It gives me great pleasure to be here in Chicago and have this opportunity to be in this distinguished gathering with leading business leaders from the corporate world. I thank you for your warm welcome.

2. We meet today at a time when the world economy is passing through turbulent times. The lingering after effects of the global financial crisis have of late become more pronounced. Over the past months, deep and widespread economic concerns with a complex mix of real and financial problems have surfaced in Europe. It is a setback to the global recovery. Even the tepid economic recovery that we have seen so far in some of the advanced economies is stalling. Unemployment in these economies never quite recovered from their crisis highs. The relatively robust revival in emerging market economies is also beginning to falter. The financial markets, which had never fully recovered from the earlier crisis, are under renewed stress.

3. The current build-up of concerns has happened despite the aggressive use of both fiscal and monetary policy tools and our collective resolve to keep markets open. This poses some serious problems for the

policy makers. Going forward it limits our options in dealing with the emerging situation. While markets are wary of mounting public debt in the absence of strong growth, significant injection of liquidity by Central Banks seems to have done little to stimulate lending or borrowing. Instead we are witnessing damaging spill over consequences, especially on asset and commodity prices and more recently in the foreign exchange markets that have strengthened inflation in some emerging markets.

4. We have seen that the real danger to the global economy lies in the rapid contagion through today's globally integrated financial markets. Imbalances even in relatively small economies can be magnified by integrated financial markets. We cannot afford to have a piecemeal stop-go approach to address the issues confronting us. At the same time, we need to find a right balance in the policy corrections to address both the short-term and the medium to long-term objectives for putting the global economy back on track. In this context, the opportunity provided by events such as this one, helps to reassure each other and evolve a coordinated response to further global economic stability and well-being.

5. Let me turn to the Indian economy and share with you some of our thinking as we move forward in the current global milieu. We succeeded in engineering a rapid recovery from the global economic slowdown by registering more than 8 per cent per annum growth in GDP in the two years following the crisis impacted year 2008-09. However, for the better part of the past two years, we have been grappling with near double digit inflation. Food inflation has been an especially daunting challenge. The supply response to rising incomes and demand for some food items has been slow, despite record harvests last year and a promise of another one in the current agricultural year. We have taken several measures to address this concern, which should yield desired results in the coming year or two.

6. For most of this period, our monetary and fiscal policy response has been geared towards taming domestic inflationary pressures. A tight monetary policy has impacted investment and consumption growth through higher cost of credit. The fiscal policy has had to absorb expended outlays

on subsidies and some duty reduction to moderate the pass-through of higher prices of some items including fuel oils to the consumers. As a result, in the first half of the fiscal year, growth in private consumption and gross fixed capital formation has been moderate, resulting in some deceleration in the aggregate demand. The GDP growth in the first half of 2011-12 is estimated at 7.3 per cent as against 8.5 per cent in 2010-11.

7. Nevertheless, we have been able to keep the adverse impact of global slowdown and uncertainty on our economy to the minimum. The key objective in the current year is to regain the growth momentum, strengthen the moderation in headline inflation that has dropped to 7.5 per cent in December 2011, rejuvenate the markets and improve the business sentiments which have been at low levels for most of the last year. The task is not easy in the present state of the world economy, especially in the Euro zone, given the downgrades in sovereign ratings and the pressure on the Indian currency, all of which have a bearing on the capital flows and trade. There are however a lot of positives which draw on the fundamentals and resilience of the Indian economy. Policy measures have been taken to mitigate the consequences of adverse global developments and ensure sustained growth, led by domestic drivers.

8. The Indian economy is, in some ways, better placed than many other nations to withstand a fresh round of global economic turmoil. India's resilience results from the fact that the bulk of India's GDP is domestic demand driven. A calibrated approach to capital account convertibility has, to a significant extent, prevented rapid surges and reversals of debt creating capital flows. India's external commercial borrowings policy that places end-use, all-in-cost and maturity restrictions, has been successful in maintaining external debt at sustainable levels. India's banking sector is robust and export basket is increasingly diversified with developing countries being our largest export market. We can also boast of optimal regulatory mechanisms in place that check unsustainable financial practices, thus ensuring the robustness of the financial sector.

9. Policy measures have been taken in recent months to further ease capital controls, making available a framework for pooling of debt finances for infrastructure and various other measures which lend credence to our commitment to economic reforms. A Direct Investment Scheme was announced on January 1, 2012 under which Qualified Financial Investors (QFIs) will be allowed to invest directly in Indian equity market. This is the first time that we have taken steps to open up direct access to our capital markets for the individual foreign investors other than the institutional investors and foreign venture capital firms.

10. A number of steps have also been taken to simplify the FDI regime to make it easily comprehensible to foreign investors. Ownership and control are now central to the FDI policy, and the methodology in this regard has been clearly defined. There has been complete liberalization of pricing and payment of technology transfer fee, trademark, and brand name and royalty payments. To make the FDI policy more user-friendly, all prior regulations and guidelines have been consolidated into a comprehensive document, which is reviewed every six months. We have further liberalised FDI in single brand retail, but our efforts to open up the FDI in multi brand retail trading has not been operationalised yet. We are in the process of building up consensus among the various stakeholders to take the next steps in that regard. Foreign Direct Investment (FDI) flows which had considerably slowdown in 2010-11 have bounced back.

11. The Government has now put in place the New Manufacturing Policy to give a big push to the manufacturing sector with the objective of increasing its share in the GDP to 25 per cent and create 100 million jobs in the next ten years. The Policy encourages the setting-up of New Investments and Manufacturing Zones across the country. These zones would address the problems of infrastructure, would create world class urban centres and also absorb surplus labour by providing them gainful employment. We want to concentrate on building a manufacturing base with the objective of making Indian industry globally competitive. We are putting in place an enabling framework for ease of doing business, compliance based on self-regulation, ensuring availability of skills, technology and finance within a supportive environment.

12. India is a young nation, and it has the advantage of demographic dividend over the next two decades. Empowering the youth of India with adequate skills is the key pillar in this policy and we have separately earmarked resources for this purpose by way of creating a National Skill Development Fund. We intend to impart skill and train 150 million persons over the next 10 years in partnership with Indian industry.

13. Rapid development of infrastructure is the key to sustain high growth and strengthening the domestic growth dynamics of our economy. The Twelfth Five Plan is therefore, seeking to continue the thrust on accelerating the pace of the investment in infrastructure. India needs to invest an additional 3-4 per cent of GDP on infrastructure or about USD 1 trillion to sustain current levels of growth and to equalize its benefits over the Plan period. Private sector has a key role to play in infrastructure building. Our experiment with the Public-Private-Partnership (PPP) modality for infrastructure development has shown good results. The share of Private and PPP investments in total investment during the 12^{th} Plan (2012-17) is targeted to increase to 50 per cent from the estimated 30 per cent in the 11^{th} Plan (2007-12). The debt requirements for the Infrastructure sector are very large. We have recently enabled a mechanism of infrastructure debt funds, as regulated entities, to channelize funds of long horizon investing entities like pension and insurance funds into the infrastructure sector.

14. PPP route for investment in Indian infrastructure represents a commercially attractive opportunity for foreign investors. First, nearly all the infrastructure sectors allow Foreign Direct Investment to come in through the automatic route, to the extent of 100 per cent of the investment. Secondly, India has evolved a stable and transparent regulatory regime in sectors such as power, telecommunications, ports, airports, petroleum and natural gas, with a regulator for the coal sector on the anvil. Standardised and sophisticated contract documentation is in place and finally, we have established unique and innovative financing instruments such as a scheme

to support Viability Gap Funding (VGF) for PPP projects and special purpose vehicles (SPVs) for giving long tenor loans to PPP projects.

15. One of the major fallouts of the global crisis has been the conscious attempts by governments to take a critical look at the architecture of their financial systems with an eye on improving financial stability. There is no one-size-fits-all approach in this and while the broad principles can be agreed upon, the exact nature of reforms have to be very specific. We have setup an apex-level Financial Stability and Development Council (FSDC), with a view to strengthen and institutionalise the mechanism for maintaining financial stability, macro prudential supervision and inter-regulatory coordination, without prejudice to the autonomy of regulators. As a step towards structural reforms in the financial sector, we are in the process of rewriting and cleaning up the financial sector laws and bringing them in line with the present day requirements. A Financial Sector Legislative Reforms Commission (FSLRC) has also been set up which is expected to produce its report by this year end.

16. India, has become the 34th Country Member of Financial Action Task force (FATF). This membership is very important for India in its quest to become a significant player in the international financial system. 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 and is again something which increases the attractiveness of India as an investment destination.

17. I should mention here that we intend to bolster our efforts to make our growth more inclusive and more sustainable. Climate change and managing rising energy needs are special concerns in India and globally. As the recently concluded Durban meetings, India played a very constructive role, along with our partners including the United States to ensure that the world continues to make progress. I am aware that the Council has been a prominent voice on a sustainable future, especially in the context of the role that the Mid-West region plays. Just as you have suggested that regional and local action is needed, and that we must strive

for greater energy efficiency and new technologies, so too in India, we are taking these challenges and responsibilities very seriously. India has one of the lowest per capita carbon emissions in the world. We are convinced that inclusive development is actually the most important way to achieve a sustainable future, even as we seek to reduce the emissions intensity of our growth path.

18. The global financial crisis and its after effects have forced many of us to take a re-look at some of the basic principles of economics and finance. It has generated a fundamental change in the national mindset and we are all witness to a new world order, which is more integrated and has a higher degree of interdependence amongst nations. While we take steps to address the resurgent immediate concerns for the stability and recovery of the world economy, we need to also move on correcting the underlying global imbalances. One way of doing that is to leverage global imbalances to address developmental imbalances. If we need to add demand to the global economy, to offset the moderation of demand in industrialized countries, a good way of doing that is to expand infrastructure investment in developing economies. This suggestion may well be extended to increasing investment in infrastructure generally, and a more liberal flow of technology to developing countries, which in turn could spur output and productivity growth in both advanced and developing countries.

19. Looking forward, I would say that India's growth fundamentals are strong and they look more attractive in a world challenged by problems of confidence and lack of growth. India's robust performance in difficult times makes it a safe haven that global capital is looking for. Even as we grow and acquire economic strength we are a willing hand in the global recovery and improved financial stability. India presents opportunity at this moment that cannot be ignored. I urge you to seize this moment and contribute to our collective prosperity in the times to come.

The round table meeting was also attended by the Ambassdor of India in US Ms Nirupma Rao, Shri Bimal Julka, Additional Secretary, Department of Econmic Affairs,Ministry of Finance and Consule General of India in

Chicago from Indian side. Among the business leaders from US who attended the meeting included Mr Marshall Bouton, President ,Chicago Council on Global Affirs, Mr Stephen Chipman, CEO, Grant Thornton LLP, Charles Evans, President and CEO, Federal Reserve Bank of Chicago,Mr Rajeev Gautam, President and CEO, UOP LLC, a Honeywell Company, Mr James A Gordon, President and Founder, the Edgewater Funds, Mr Douglas Gray, President and CEO, Everett Smith Group lTD,Mr Marks S Hopalamazian,President and CEO, Hyatt Hotels Corporation,Mr Goprdon Hunter, Chairman and President and CEO, Littelfuse,Inc. and Brian Kenney,Chairman and CEO,GATX,Mr R Paul Kinscherff, Chief Financial Officer,the Boeing Company, Mr Jennifer Scanlon, President USG Corporation among others.

****

DSM