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# UNION FINANCE MINISTER'S ADDRESS AT THE 84TH ANNUAL GENERAL MEETING OF FICCI

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**Following is the text of the address delivered by the Union Minister of Finance Shri Pranab Mukherjee on the occasion of 84th Annual General Meeting of Federation of Indian Chambers of Commerce and Industry (FICCI) here today:**

"I am very happy to be present here today at the inaugural ceremony of the 84th Annual general meeting of the Federation of Indian Chambers of Commerce and Industry. At the outset, I would like to compliment the Chamber for its efforts in promoting the interests of business and providing a forum for exchange of views in matters concerning industry and trade. I also believe that such gatherings of the diverse group of business leaders from industry and trade help to reinforce a shared vision for India's development and in finding ways of translating that vision into reality.

An AGM is a very significant event. It is the time when the persons at the helm take stock of the year gone by. It is a time for introspection, to set out the achievements and the milestones crossed. More importantly, it is time to set the agenda for the future- what is planned and what is to be strived for in order to realize the larger objectives. I must confess, at this point in the year, I find myself in much the same situation. As I set about preparing the Union Budget for the next year, I have to take stock of the developments in the past months and find ways to address the slippages, the gaps and building on outcomes that need to be consolidated in the ensuing year.

The world economy is going through turbulent times. The overall recovery from the impact of the global financial crisis has been fragile. The lingering Euro zone sovereign debt crisis has taken its toll and major economies of the world are fighting to get out of a recessionary phase and persistently high levels of unemployment. The complex mix of financial and real sector problems is thwarting a fuller recovery. The crisis has fueled volatility in capital flows, and slowdown in external demand. In a globalised world, it has been one of the most challenging periods for policy makers.

The current state of heightened global uncertainty has implications for emerging market economies including India. It has impacted the Indian economy through the financial market channel, the equity and foreign exchange markets, due to the risk-averse nature of global capital flows. Thus, we have seen the Rupee depreciating vis-à-vis US dollar in the current fiscal year, most of it has been since August 2011. This has come in the way of the economy benefiting from softening in international commodity prices, including that of fuel oils and hence better management of domestic inflation. Rupee depreciation is largely driven by global factors and the pressure would continue until there is a durable solution to the sovereign debt problem in Europe.

The impact on the real economy has been mainly through slowdown in global demand for Indian exports. Weak global cues have contributed to depressed domestic business sentiments. This is holding back growth in private investments. Our monetary and fiscal policy response has been geared towards taming domestic inflationary pressures, which has impacted consumption and investment growth. 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. Despite all this, we have been able to keep the adverse impact of global slowdown and uncertainty on our economy to the minimum.

At 7.3 per cent growth in GDP in the first half of 2011-12, India is still among the global frontrunners. After slowdown and contraction of nearly 4.7 per cent in the Index of Industrial Production in the month of October 2011, industrial output has seen a rebound in the month of November 2011, with a growth of nearly 6 per cent. The headline inflation has also declined significantly to 7.5 per cent, with food inflation at under one per cent, in the month of December 2011, after being over 9 per cent for most of the past two years. This is encouraging and we hope that these trends further consolidate in the remaining months of this year.

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 shows that we could actually come out stronger from this crisis. We have to be alert to shape the required policy responses, reform systems, improve the regulatory framework of our institutions to make the most of the opportunities coming our way.

We have difficult last quarter ahead of us in this fiscal year. Our growth for 2011-12 may be around 7.5 per cent or less. There are also concerns on the Central Government finances for the current fiscal. Performance during the first half on the fiscal front poses some risks in both receipts as well as expenditure estimates. Adhering to the fiscal deficit target of 4.6 per cent of GDP in 2011-12 is a major challenge. However, there are some clear signs of inflation moderating in the coming months. I expect it to be in the range of 6 to 7 per cent in end March 2012. The industrial production is also showing signs of a pick-up. While services sector has retained its growth momentum, agriculture sector despite a high base year production is likely to provide a buffer for the moderation in growth rate in the current fiscal year.

It is true that sometimes the process of reforms gets overtaken by political events. This is in the very nature of our democracy and its polity. For this process to be speeded-up, the Indian enterprise has to help build the consensus across our diverse social and political space, to benefit from the opportunities before us. It has to demonstrate its willingness to marry its economic interests with some larger social responsibilities.

We have made efforts to address the concerns of the Indian industry within the scope offered by developments and various events over the past months. In August last year, I had a meeting with the captains of Indian Industry and called for specific suggestions. I have tried taking some of those doable suggestions forward. Unfortunately progress of economic reforms on some fronts especially FDI in multi brand retail and some legislative amendments have not seen a smooth passage, but we cannot be accused of not trying.

There have been a host of policy measures including incremental changes in easing 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 QFIs (Qualified Financial Investors) will be allowed to invest directly in Indian Equity Market. The Government has now put in place the New Manufacturing Policy to give a big push to the manufacturing sector. I expect most of the States would set up New Investments and Manufacturing Zones across the country and these zones would address the problems of infrastructure and would create world class urban centres and also absorb surplus labour by providing them gainful employment.

We know that rapid development of infrastructure is the key to sustain high growth and strengthening the domestic growth dynamics of our economy. The Twelfth 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 to sustain current levels of growth and to equalize its benefits. Private sector has key role to play in infrastructure building. The share of Private and PPP investments in total investment during the 12th Plan is targeted to increase to 50 per cent from the estimated 30 per cent in the 11th Plan. In order to ensure improved flow of funds to infrastructure, the Government has already initiated several policy measures including that I mentioned, and more steps would be taken in due course.

In the medium to long term we are committed to prudent management of our fiscal situation, bridging our infrastructure deficit, hastening the reform process and ushering in a more inclusive growth regime. The government is making the best effort to push forward on all these fronts and these, I am sure, will bear fruit.

Coming now to the theme of your AGM which is “Empowering India”. I congratulate you for setting this as your agenda for the future. Our strength in the next few decades lies in the availability of a vast youthful workforce, but we cannot simply rest with this advantage of demography. The youth have to be suitably skilled to help realize the demographic dividend. The Government has set up the National Skill Development Corporation NSDC. We appreciate the leadership FICCI is providing to NSDC. I would like to re-emphasize that, there is a need to greatly enhance the role of industry in the area of skill development in particular in setting up large scale sustainable skill development initiatives. While some FICCI members have set up such organizations, we need many more. For you all it is an entrepreneurial opportunity. NSDC has the challenging task of getting over 60 proposals over the next 15 months and I hope that when I next review the NSDC work, we will have proposals from many of you in this room. The industry also has to take a lead in the setting up of Sector Skill Councils. Equipping the youth of the country with adequate skills is the biggest empowerment which can be brought about and I wish all success in these efforts to FICCI.

As stakeholders in the development of our economy, we have to work together in strengthening the drivers and the demographic dynamics of our economy. We need to delink our business sentiments from global cues. We need to lift ourselves from despondence and cynicism and focus on the positives.

Let me conclude by saying that despite the challenges before us, I am confident that we will improve our short-term growth prospects in the coming months. 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.”

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