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TEXT OF THE INAUGURAL ADDRESS BY THE UNION FINANCE MINISTER SHRI P CHIDAMBARAM AT THE ECONOMIC EDITORS' CONFERENCE 2012 TODAY

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Following is the complete text of the Inaugural Address by the Union Finance Minister Shri P Chidambaram at the Economic Editors' Conference 2012 here today:

"On behalf of Government of India, I welcome you to the Economic Editors' Conference. Economic journalists, especially those who are based in places other than the capital, look forward to this annual interaction. So do we, because economic journalists play a vital role in market based economic systems. They build public opinion, communicate information, and transmit economic realities, which in turn influences political decision making.

The Global Setting

These are challenging times for the global economy. Against the backdrop of a slow recovery from the global economic crisis of 2008, economic problems in Europe have emerged as another threat to the global financial system. This uncertainty is affecting market sentiments everywhere and dampening the prospects of an upturn in the global economy. The world economy achieved a GDP growth of 5.3 per cent in 2010. The rate of growth declined to 3.9 per cent in 2011 and is expected to decline further to 3.5 per cent in 2012. The rate of growth of Advanced Economies halved from 3.2 per cent in 2010 to 1.6 per cent in 2011 and is expected to decline further to 1.4 per cent in 2012.

Our Economic Challenges

As can be expected, the Indian Economy has not been immune to these developments. It registered a growth of 6.5 per cent during 2011-12 in terms of gross domestic product at factor cost at constant 2004-05 prices and in Q1 of 2012-13 the provisional estimate of growth is 5.5 per cent. However, we would do well to remember that, out of 8 years, it is only in two years, 2008-09 and 2011-12 that the GDP grew at below 7 per cent. It is indeed a matter of concern that the growth rate dipped in two years but there is no cause for gloom or despondency. I may point out that, even at a low growth rate of 6.5 per cent, India was among a handful of countries that recorded significant growth in that year.

The slowdown in growth is attributable mainly to the global economic situation, high commodity prices, inflation and a decline in investment. Government responded to the declining trend in the growth rate by increasing public expenditure. However, in the absence of matching revenues, a rise in expenditure led to a rise in the fiscal deficit. Inflation also rose. The burden of containing inflation fell, largely, on the Central Bank. The Reserve Bank of India was obliged to follow a tight monetary policy. Overall inflation declined from 9.8 per cent in August, 2011 to about 7.55 per cent in August, 2012, but still remains unacceptably high. A tight money policy has dampened investment as well as growth, particularly in the industrial sector. I think all of us would do well to note the limitations of monetary policy action. It is Government's firm belief that fiscal policy and monetary policy should work in tandem so that the common objectives of containing inflation and stimulating growth are achieved.

Let me say a few words on inflation. It has been an issue of persistent concern over the past few years. We have seen some moderation in recent months. Inflation measured in terms of WPI has been in the range of 7-7.6 per cent in the recent months as a result of the measures taken by the Government and the Reserve Bank of India. WPI inflation in August 2012 stood at 7.55 per cent. However, with food inflation continuing to be high, we must take more steps in order to contain inflation.

Restoring Growth: The Current Reforms

Growth comes from higher investment. We achieved a high investment rate of 38 per cent in 2007-08 and in that year the GDP grew at 9.3 per cent. Hence, the foremost task before us is to promote savings, channelize the savings into investments, and achieve a rate of investment of 37-38 per cent of GDP. At that level, given India's incremental capital-output ratio, I am certain that growth will recover to 8 per cent or more and perhaps touch 9 per cent. While it would be premature and ambitious to talk of 9 per cent growth, we should keep that rate of growth as our objective and progress towards achieving that objective. It is in this context that the 12th Plan has projected an average growth rate of 8.2 per cent with growth in the terminal year projected at 9 percent.

Long-standing structural reforms required to achieve high investment and high growth rates have been held back because of many reasons. Among them are the concern to protect the flagship programmes that have been designed to benefit the poor; the need to forge a consensus on reforms; the practical necessity to garner support across the political spectrum to pass legislation; and the assertion of States' rights that sometimes turns into opposition to structural reforms. Nevertheless, we are now addressing the difficult areas of reforms.

I consider that it is my duty to place before the people the truth. India's economy is challenged. The state of the economy is reflected by universally accepted indicators such as the fiscal deficit, the revenue deficit and the current account deficit. Let me tell you the plain truth. Without reforms, we risk a sharp and continuing slowdown of the economy which we cannot afford given the imperative need to generate jobs and incomes for a large population, most of whom are young. For example, take FDI in retail. What is the controversy about? The first comprehensive Cabinet paper on FDI in retail was prepared by the NDA Government in 2002. It was considered by a Group of Ministers. That paper acknowledged that FDI in retail was essential to improve the supply chain in agriculture which alone will bring benefits to both producers and consumers. That paper also endorsed the argument that FDI in retail will generate millions of jobs. The idea was never rejected. So, why should there be a controversy when the Government announced its intention to lay down guidelines in order to enable FDI in retail? Government has also made it clear that the ultimate decision whether FDI in retail will be allowed in any State will rest with the State Government concerned. No State can say that other States should also allow FDI in retail; similarly no State can say that other States should not allow FDI in retail. The controversy over FDI in retail is, in my view, unnecessary and unjustified.

There should also be no controversy over reforms in the coal, mining, power, petroleum & natural gas, and infrastructure sectors including roads, railway and shipping. It is these sectors that are the drivers of growth. It is these sectors that will create millions of jobs. It is these sectors that will produce the goods and services that will benefit the people of India. Every Government is entitled to lay down policies. Opposition to policies is legitimate, obstructionism is not. The Government of the day must be allowed to lay down policies, pass legislation wherever necessary, and get on with the job of implementing those policies. Whether the policies are right or wrong and whether the policies have brought benefit to the people are matters on which the people alone can pass a judgment. Under our system there is a judgment day for every Government at the end of five years.

<u>Recent measures</u>

Many steps have been taken in the last few weeks to get rid of the sense of stagnation and to get on with the task of restoring high growth. I have spoken on a few occasion on the measures taken by the Government and hence I shall not repeat the arguments today. However, if you have any questions or doubts on the steps taken by the Government in recent weeks, I shall be happy to answer them.

Let me list a few issues and explain them briefly so that our interaction today will be meaningful.

Firstly, the imperative need of fiscal consolidation. No one will have confidence in the Indian economy if there is uncertainty about the fiscal stability of the country. The recommendations of the Kelkar Committee must be understood in that context. The Kelkar Committee, I believe, has presented the worst-case scenario. It is our duty to avoid the worst-case and do everything possible to contain the deficits. After carefully examining the feedback on the Kelkar Committee's report, it is our intention to announce a credible and feasible path of fiscal correction beginning this year and ending with the 5th year of the 12th Plan.

Secondly, the need to contain inflation. A depreciating rupee will worsen inflation. We have no option but to import a number of goods and, in some cases, services. These include crude oil and petroleum products, fertilizers, coal, organic chemicals, transport equipment, machinery, iron & steel, edible oils and project goods. In 2011-12, the value of the top 20 essential and unavoidable imports was USD 438 billion. The value of the rupee is an important factor that affects the value of imports. A depreciating rupee will also impact trade and investments. Hence, the need to stabilise the exchange rate. I believe that we have met with moderate success. The rupee had touched a low of Rs.57.22 to one USD on June 27, 2012. On July 31, 2012, the exchange rate was Rs.55.80. A short while ago the exchange rate was Rs.52.13.

Thirdly, given our deficits and the depreciation of the rupee, the crucial role of foreign investment is self-evident. Hence the measures to promote capital inflows. In the hierarchy of inflows, remittances by Indians overseas and foreign direct investment (FDI) are preferable to debt creating inflows. Just as we encourage Indian investors to invest abroad, acquire businesses and assets in other countries, and explore new opportunities and markets, we must not fear foreign investments in India. We have the sovereign right to decide where and how foreign investments would be allowed into India. Each decision to allow foreign investment should therefore be tested not on the basis of some undefined ideology or theory, but on a clear-headed assessment of the advantages that will accrue to India. I have no doubt in my mind that recent decisions to allow FDI in retail, aviation and FM radio broadcasting are decisions that will benefit the economy and the country.

Fourthly, the decision, in principle, to transfer subsidies directly to the beneficiaries in cash is a bold decision that has manifold advantages. For example, if wages under MGNREGA and scholarships to students are transferred to the bank accounts of the beneficiaries using the Aadhar, there will be no case of duplication or falsification. Nor will there be any leakage to, or rent-seeking by, intermediaries. It is our intention to take measured steps in this direction so that subsidies are transferred to the beneficiaries directly, quickly and efficiently. I also visualise huge savings in the subsidies bill.

I could explain the Government's point of view on some other issues and some other decisions that were taken recently, but I shall leave those for the interactive session.

Let me conclude by asking for your understanding and support. I had underlined your vital role in communicating to the people. I believe that the India growth story is sound and the reform momentum will remain strong and unabated. We should shed self-doubt. We should banish irrational fears. We should embrace the future with confidence. We should believe that we have the capacity to overcome any crisis, as we did in 1991, 1997, and 2008. We have a good story to tell the people of India and the rest of the world and I ask your support in communicating that story."

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