Press Information Bureau

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SPEECH OF THE UNION FINANCE MINISTER SHRI P.CHIDAMBARAM AT INDIA DAY: "INDIA - NEXT WAVE OF INCLUSIVE GROWTH

New Delhi, 3rd May, 2013

Following is the Speech of the Union Finance Minister Shri P.Chidambaram at India Day: "India - Next Wave of Inclusive Growth today at ADB Meeting at IEML, Greater Noida today:

President, ADB, President, FICCI, delegates to the ADB Annual meeting and friends,

1. I am happy to be here today, when there is renewed optimism in India's growth story. Seven years ago, when I addressed the opening session of the India Day at the ADB's Annual Meeting at Hyderabad, I had exhorted you to participate in our efforts. Today, my confidence stems from the fact that while India may not be insulated from the difficulties plaguing the world, India's economic fundamentals are strong. With the economic and fiscal reforms already put in place including those on the anvil, I expect India's growth to be robust and sustainable. I am confident that it will gather further momentum in the coming years. India has become an attractive destination for foreign investors. We have opened up the economy further to foreign direct investments.

2. The Indian growth story is fascinating. Let's look at it in the global context:
   - The global economy is yet to recover from the economic meltdown of 2008 which has impacted on both growth and employment opportunities across countries. Compounding the problems further is the European debt crisis.

- Recent signs of economic recovery have been weak and is uncertain. Global economic growth has slowed down from 3.9 percent in 2011 to 3.2 percent in 2012. According to IMF projects, it is expected to recover only to 3.5% in 2013. The growth rate in the advanced economies, which are our major markets, declined from 1.6 per cent in 2011 to 1.3 per cent in 2012. The US fiscal difficulties continue, with sequestration and the prospect of yet another fight over debt still holding back growth. The crisis in the Euro-zone also continues to pose serious risks for the global economy, notwithstanding the OMT announced by the ECB. Actions in even a tiny economy like Cyprus, have ripple effects across the world.

3. While, the Indian economy grew at 6.7%, 8.6%, 9.3% and 6.2% in the four years from 2008-09 to 2011-12, respectively, GDP growth is expected to decline to 5.0 to 5.5 per cent in fiscal 2012-13. Clearly, the persistence of the global slowdown has finally impacted us significantly. I must, however, candidly admit that some of the reasons for our slowdown are home-grown. The boost to demand given by the monetary and fiscal stimulus following the global crisis of 2008 was significant. This helped in strong recovery with final consumption growing at an average of over 8 per cent annually between 2009-10 and 2011-12. An unfortunate consequence of this, however, was somewhat high and stubborn inflation. It is this that led to a strong contractionary monetary response that slowed consumption demand. Starting 2011-12, corporate investments have been adversely affected. As the growth slowed down and Government revenues failed to keep pace with welfare spending, the fiscal deficit emerged as a matter of concern. With Government savings falling and private savings also shrinking, the current account deficit (CAD) widened to 4.6 per cent in H1 of 2012-13 from 4.0 per cent in H1 of the previous year.

4. We are addressing this problem proactively. However, we must remember that even in face of worst possible confluence of adverse global and domestic factors, we remained, even in 2012-13, one of the fastest growing large economies in the world. Nevertheless, I am not satisfied with the 5%+ growth rate. India's potential growth rate is 8%+ and we cannot afford to become complacent and sit back. We are a mature and vibrant democracy. We have taken effective steps to rein in economic slowdown and fiscal stress in the past few months. These measures have begun taking effect.

5. India’s Inherent Strengths: At the forefront of all this is the focus on inclusive growth. What is “inclusive” growth? It is growth that is broad-based, shared and one that focuses on the poor. A recent estimate was that for every one percent of GDP invested in infrastructure, India creates almost three and a half million direct and indirect jobs. With our focus on investments in the infrastructure sector, I want you to consider the reasons why I think India’s growth is likely to be high and sustained for decades:

- First, India’s population is young. According to a recent IMF study, India’s demographic dividend could add about 2% to per capita GDP growth over the next two decades.

- Second, India is focusing on building world class infrastructure. This policy thrust has spin-offs in terms of job creation and enhanced investments in the manufacturing. For instance, the Delhi Mumbai Industrial Corridor, entailing over $ 90 billion in investment, will link Delhi to Mumbai’s ports, covering an overall length of 1483 km passing through six States. This project will have nine mega industrial zones of about 200-250 sq. km. each, high speed freight lines, three ports, six airports, a six-lane intersection-free expressway connecting the country’s political and financial capitals, and a 4000 MW power plant, and provide a plug and play environment for manufacturing investment.

- Third, India has a large portion of its population engaged in agriculture. We intend drawing this large workforce into the high value addition jobs created by investments in manufacturing. An ambitious skill development programme is underway to equip our populace with requisite skills and integrate into the emerging job market.

- Fourth, India’s household final consumption is a healthy 57 percent of GDP. As incomes grow, a significant portion of it will be spent. In recent years, growing rural demand has added to healthy urban middle class consumption demand growth, buffering India somewhat, though not entirely, from paucity of aggregate demand that plagues the world.

6. These factors underlying India’s growth prospects are supported by many other drivers like the energy and vibrancy of our entrepreneurs, a strong services sector, emerging

knowledge spheres and sunrise sectors, and a large and growing number of engineers and scientists.

- Our fiscal deficit in 2012-13 is estimated at 5.2%. We may better this target. The Budget 2013-14 estimates a fiscal deficit of 4.8% at the end of the financial year. I am confident that this will steadily reduce to 3% or even less by 2016-17.

- For fiscal consolidation, we have focused on controlling outgo on subsidies through better targeting. These include rationalisation of fertilizer subsidies, capping of the number of subsidized LPG cylinders, decontrol of petrol prices, gradual rationalisation of diesel prices and introduction of direct benefit transfer system to substantially eliminate leakages and to help better targeting of subsidies in various programs. Measures to pass through fuel prices will also help reduce demand for oil imports, and thus the CAD. However, let me stress that our fiscal consolidation has a human face and the Government will continue to provide support for the poor and the needy.

- We have set up a Cabinet Committee on Investment to address and resolve bottlenecks impacting implementation of large projects. It has already cleared investments to the tune of USD 27 billion.

- FDI regime in areas like multi / single brand retail, airlines etc. have been further liberalized and I am confident there will be forward movement in areas like insurance and pensions.

- A 15% investment allowance for capital investment exceeding Rs. 100 Crore or about USD 20 million within a specified timeframe has been announced. This is in addition to the normal depreciation available for new plant and machinery.

- Tax incentives for first-time home buyers have been provided. This is expected to give impetus to construction industry.

- Public Sector Units have been advised to accelerate their capex investments.

- Concerted steps have been taken to provide impetus to P&NG exploration and coal production *(with likely medium term benefits for the CAD)*.

- An independent regulatory authority will be announced shortly for the road sector and coal sector, and for tariff setting in the Railways.

- Alleviation of coal shortages affecting power generation is being addressed by importing coal and assuring supply of definite quantities of domestic coal.

- The Bengaluru-Chennai Industrial Corridor and Begaluru-Mumbai Industrial corridor have been conceived to provide robust infrastructure support for industrial growth in these high potential areas.

- MSME sector is being given special attention.

- Two new major ports have been identified for development.

- Fillip is being given to green, sustainable energy projects.

- Steps have been taken to address CAD by moderating gold demand through higher import duties and efforts to monetize idle gold stocks lying with citizens and Gold ETF AMCs.

- Steps are also being taken to address food price inflation through efforts targeting higher production of protein foods, and improved supply chain logistics to enable comprehensive procurement, processing and distribution of agri produce that would potentially reduce wastage and control food price inflation.

7. Simultaneously, steps are being taken to cover the most remote, least developed areas and populations in the widening infrastructure and financial scope. Integrated action is being taken in primary health, education, low-cost housing and food distribution. Pilot schemes are being launched through innovative public private partnership models.

8. For financial inclusion, the central bank, the RBI, has asked rural banks to set up 25% branches in un-banked regions. As on March 31, 2012, regional rural banks had a network of 16,914 branches in the country. Roll-out plans have been drawn up for opening upwards of 1700 more per year. Private banks have also started rural branches. A private bank opened 101 rural branches in December last, across six states as part of its financial inclusion plan to provide banking services in unbanked villages.

9. The government is, separately, aiming at skilling 500 million youth by 2022 through the ambitious Skill Development Program. About USD 2.5 billion is spent on training rural below-the-poverty-line youth.

10. I am sure that today's discussions will lay out the contours of the half a trillion dollar opportunity available to the private sector to invest in our infrastructure during the next four years as well as demonstrate how this is going to be a transformational change that will benefit the lowest rungs of society.
