DELHI ECONOMICS CONCLAVE 2013
MINISTRY OF FINANCE

ON
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THE AGENDA FOR THE NEXT FIVE YEARS

P CHIDAMBARAM,
Finance Minister

Good Morning, Ladies and Gentlemen,

I welcome you on behalf of the Economics Division of the Ministry of Finance, Government of India, to the Delhi Economics Conclave 2013. I am very happy to see amongst this distinguished gathering and on the list of speakers Prof. Nathan Nunn, Prof. Romain Wacziarg, Prof. Shang-Jin Wei, Prof. Renato Baumann, Prof. Ruth Kattumuri and Prof. Gita Gopinath. I welcome all of them.

I may begin by congratulating the officers of the Economics Division, led by Shri HAC Prasad, Senior Economic Adviser, for their untiring efforts to put together this conference. I compliment them for the choice of subjects and the choice of speakers.

The conclave is about looking to the future. I recall the saying that all predictions are suspect, especially about the future. In this case, we have been asked to look ahead for the next five years.

I can speak only in a guarded manner on the world economy or what it will be like in the next five years. There are incipient signs of recovery. They are too tentative, too few and too scattered. The three engines of growth are the US, the Eurozone and China. I hope we can add India to this list, given India's size, population and potential. Of these, China is the obvious champion, but for reasons that are domestic and political, it is possible that China may wish to moderate its growth rate. If the US economy achieves a growth rate of 3 percent or more, that could trigger a worldwide recovery. The Eurozone faces many challenges. Germany's Finance Minister summed it up when he said that Europe, given its ageing and stable or declining population, cannot aspire to growth rates of more than 1 to 2 percent. That leaves India and I shall speak about India presently.

We may therefore conclude that global growth over the next five years is likely to be moderate.

As far as India is concerned, I may recapitulate, briefly, the events of the last five years.

We may start with September 2008. The Great Recession impacted India like it did every other country. India's response was traditional and strictly according to the text books. What stand out are the three sets of stimulus measures. After declining to 6.7 percent in 2008-09, GDP growth revived in 2009-10 and 2010-11, but as Governor Rajan pointed out a few days ago "While the stimulus did help growth initially, it eventually led to an overheated economy, high inflation and wage growth, and consequently deficits widening to uncomfortable highs – CAD rising from 2.8 percent in 2010-11 to 4.8 percent in 2012-13 and the centre's fiscal deficit rising from 2.5 percent in 2007-08 to 5.7 percent in 2011-12."

The task before India is to reverse these unintended consequences and lay the ground for faster, more inclusive and sustained growth over the next five years.

The agenda, therefore, will be obvious.

At the top of the list is **fiscal consolidation**. There can be no compromise – and I speak for the Government when I say there will be no compromise – on the decision to walk on the path of fiscal prudence and contain the fiscal deficit, step by step, year by year, until we reach the goal of 3 percent of GDP in 2016-17.

As we progress towards greater fiscal consolidation, we must pay attention to the revenue deficit as well. Borrowing should largely finance investment and not consumption.

Along the way, the current account deficit would also need close attention. India cannot finance a current account deficit of the order of USD 88 billion as we did in 2012-13. Nor can India afford to pay for import of gold in the order of

USD 50 billion or more. Nor should India import coal when it has coal in abundance. Nor should India tie itself in policy knots and be forced to import goods and commodities that it has the capacity to manufacture or produce.

Next on the list is tackling **inflation.** It is common knowledge that the Government of the day will pay a price for high inflation, especially if inflation persists over a long period of time. The current high inflation – measured by the CPI or the WPI – is driven by high food prices, especially prices of fruit, vegetables, meat, fish, eggs and milk. Sometimes, pulses and edible oils also witness sharp spikes in prices.

Here, I would like to say a few words on farm gate prices and rural wages. The UPA Governments have given higher prices for wheat, paddy, other cereals, cotton etc – more than any previous Government. I believe that was the right policy. I believe that farmers who grow these commodities are entitled to fair and remunerative prices so that they do not abandon farming and they continue to produce the foodgrains that are required by 1.3 billion people. Likewise, the UPA Governments have, through MNREGA, influenced rural wages. I believe that that was also the right policy. The landless labourer and rural workers are entitled to a fair wage.

The argument that inflation must be contained by suppressing farm gate prices or rural wages is a specious argument that ignores the needs of the poor and deserves to be rejected.

It is widely accepted that while monetary policy is an instrument to contain inflation, it is a rather blunt instrument, although the only one available to the monetary authority. It is also widely accepted that monetary policy has little impact on food prices.

The answer to inflation, therefore, especially inflation in food articles, is to increase supplies and to radically transform the manner in which commodities and food articles are stored, transported, distributed and sold in the various markets, especially urban markets.

There is also a need to deal wisely with harvesting and marketing and deal strictly with hoarding and profiteering. Laws in this behalf are entirely in the domain of the State Government. Two laws stand out: one is the

Agricultural Produce Markets Act and the other the Essential Commodities Act. The powers of notification and enforcement under these Acts are with the State Governments, yet State Governments are loathe to take action under these Acts. I think it is necessary to highlight the inaction of the State Governments in this behalf, even while accepting that the Central Government must do all it can, within its powers, to moderate inflation.

The next item on the list – and this will be the last on which I shall speak today – is **financial sector reforms**.

Financial sector reforms have been undertaken regularly over a long period. In recent months, we have crossed several important milestones. These are:

1. The submission of the FSLRC report
2. Enactment of the new Companies Act, to replace a law of 1956 vintage
3. Passage of the PFRDA Bill and making the Pension Regulator a statutory authority
4. Placing commodity futures market regulation under the Ministry of Finance

When fully rolled out and operationalized, these will have profound implications for the Indian financial sector. The impact of the new Companies Act will be beyond the financial sector. The other developments are directly related to financial sector regulatory and instutional changes. Measures of legislative and institutional reforms have been undertaken in the financial sector more regularly than in many other areas. Steps have been initiated to improve the regulatory governance process. Discussions are also underway on the non-legislative steps recommended by the FSLRC. The legislative parts need to be pursued after due consultations and taking everyone on board and charting and sequencing the actions required in implementing big institutional changes.

Financial sector reforms can be game changers. We know what they are. They include GST, the Direct Taxes Code, the Insurance Laws Amendment Bill and the Uniform Financial Code. Each one of them requires the building of a broad consensus. My experience has been that consensus is built after several months of hard work and then the consensus crumbles when it is hit by a seizure of political opportunism.

To conclude, we must remember that our ultimate goal is faster, more inclusive and sustained growth. We must refocus energy on human development issues. Let me recall that the number of poor declined from 407 million in 2004-05 to 270 million in 2011-12. Between 2004-05 and 2011-12, the average decline of the poverty ratio was 2.2 percentage points per year, which is about three times higher than the rate of decline in the poverty ratio during the period 1993-94 to 2004-05. A 'faster, more inclusive and sustained growth strategy' will continue to be on the agenda over the next five years.

Let me once again congratulate the organisers for bringing together a galaxy of academics and experts from different areas and different parts of the world at this conclave. I wish them a very pleasant stay in Delhi. I have great pleasure in formally inaugurating the Delhi Economics Conclave 2013.

Thank you.