83rd Annual General Meeting of FICCI
1st March, 2011 at New Delhi

Address by Shri Pranab Mukherjee, Hon’ble Finance Minister, Govt. Of India

Ladies and Gentlemen,

It gives me great pleasure to participate this morning in the 83rd Annual General Meeting of FICCI. Your chamber has an enviable pool of talent and experts in diverse areas including corporate affairs, finance, banking, capital markets, infrastructure and energy. I have often benefited from this resource through valuable and well researched inputs that you have provided from time to time and especially during the pre-budget exercises.

It is not my intention this morning to talk about the Union Budget 2011-12 that I presented yesterday in the Parliament. We shall be discussing that later in the day. Instead I would like to share some thoughts on the economy and some concerns that we have to collectively address.

India's economy has rapidly evolved in the past two decades. More recently, in the last seven to eight years it has shifted to a higher growth path. The service sector has become the predominant contributor to the country's Gross Domestic Product (GDP). The country's financial integration with the world has been as rapid as its trade globalisation. Though globalisation has brought new opportunities for Indian enterprise and its people, it has also brought new challenges. Indeed the developments in the Indian economy in the last couple of years demonstrate this aptly.

There were several impulses from the external sector that had to be addressed, and we did that successfully. From an average growth of 9.5 per cent in the three year period from 2005-06 to 2007-08, GDP growth slowed to 6.8 per cent in 2008-09. It then recovered to 8 per cent in 2009-10. Even in these two years our performance was better than what was earlier believed. The fiscal 2010-11 should see us growing at 8.6 per cent. The recovery has been broad based with agriculture, industry and services all contributing to the consolidation of the growth process. More importantly, the economy has become remarkably resilient to both external and domestic shocks.

The kind of growth that we have achieved in these past years has been possible for two reasons. First, the Government is gradually putting in place an environment that encourages broad based economic growth. Secondly, businessmen from across the economy have stepped forward to take advantage of the enabling conditions that the government has created. India's corporate sector has not only shown great global ambition and dynamism; it has also ridden out the global economic turmoil far better than corporations in other countries have managed.

This rapid recovery of the growth momentum is comforting, but we cannot be complacent as there are several challenges that the Indian economy faces from its current external and domestic context. Global recovery remains fragile. Advanced economies are exhibiting large fiscal deficit, high public debt and unemployment levels and indifferent aggregate demand. There is also the danger of sovereign debt crisis in peripheral Euro-zone countries spilling over to financial markets. The creeping increase in international crude oil and other commodity prices is a reality that we are already confronting. The possibility of the global commodity inflation adding to domestic inflationary pressures cannot be ruled out.

There are also domestic supply side pressures on food prices that we have been grappling with for the past several months. Though the total food inflation declined from 20.2 per cent in February 2010 to less than half at 9.3 per cent in January 2011, it still remains a concern. Other countries are also experiencing rising food inflation. The challenge before the Government and the monetary authority has been to support the recovery process without compromising on price stability. The task has not been easy but we are making progress.

We need to maintain our growth momentum as we go forward. As the government spending comes down as a part of the fiscal consolidation process, we need to effect adjustments in the composition of growth on the demand and on the supply side. We have to ensure that the revival in private investment is sustained and goes back close to pre-crisis growth rates. This requires a stronger fiscal consolidation to enlarge the resource space for private enterprise.

At the same time, there is need to improve the supply response of agriculture to the expanding domestic demand. There is need to significantly step up investment in agriculture sector, both by private and public sector to ensure the target growth of around 4 per cent per annum. Determined measures on both these issues will help address the structural concerns on inflation management. It will also ensure a more stable macroeconomic environment for continued high growth in the medium-term.

The recent data made available by the CSO shows an improvement in the savings and investment rates during 2009-10 after a fall in 2008-09. Investment rate has increased to 36.5 per cent of GDP in 2009-10, up from the crisis affected levels of 34.5 per cent in 2008-09. While there has been a pickup in the corporate sector investment, there is still some distance to travel before it matches the pre-crisis levels. The savings rate during 2009-10 at 33.7 per cent of the GDP is up from 32.2 per cent in 2008-09. However, the private sector savings have remained sticky in the range of about 30 to 32 per cent in the last six years. We need to address this.

There is a need to speed up development of infrastructure and remove bottlenecks. The Planning Commission has projected investment requirement in infrastructure of about $1trillion during the 12th Five Year Plan. An improvement in development of rural infrastructure also needs attention. We need to supplement budgetary resources by attracting more and more private investment, both domestic and foreign, into infrastructure development. Financing infrastructure would be a big challenge in the coming years and to meet the challenge some innovative ideas and new models of financing would be required.

For a young and growing work force it is imperative to boost our manufacturing sector productivity. A thriving manufacturing sector is necessary for generating the much needed employment opportunities for the unemployed and the underemployed in the rural sector. The manufacturing sector, despite being the driver of industry, has not been able to improve its share in the GDP. In fact India's manufacturing sector share in the economy compares unfavorably with other emerging economies.

Productivity growth in industry is essential if it has to compete in a globalised world. We need to look at the R&D needs of the sector and the availability of skilled labour force. Education with special thrust on skill formation, health and sanitation are core areas that need urgent attention to bridge the human resource deficit constraining the growth momentum.

I have tried to address some of these concerns in the Budget proposal that I presented yesterday and laid the path for others to be addressed in due course. However, it is not sufficient to have good intentions and good policies. They have to be implemented and acted upon. That requires collective efforts. FICCI as a representative body of Indian Industry and trade has to play a vital role in translating the shared visions into reality. We have together come thus far and there is no reason that why we should not succeed in our future endeavours.

Let me conclude by thank you for inviting me on this occasion. I wish all the very best of times ahead.

Thank you.