

Union Finance Minister's Speech
Economic Editors' Conference
19 October 2011

Ladies and Gentlemen,

I consider it an honour to address this august gathering of Economic Editors from the length and breadth of this country. I am keenly aware of the vast knowledge and experience embedded in the audience and am looking forward to a productive exchange of ideas.

2. Feedback from the ground and from experienced analysts goes a long way in enhancing the efficacy of economic policies. It is important for you to realize that as editors you are not just people who report and comment on economic policy but you also, in an important sense, contribute to the formulation of policy. Through your writings you shape people's opinion and, in a democratic system like ours, the opinion that people hold has a large influence on the policies that get adopted. Hence, you have a large indirect impact on policymaking in India.

3. This conference has assumed an important role in the economic calendar of the nation. To have economics editors from different parts of the country assemble at one place and interact with policy makers and administrators in a free and frank atmosphere is a reflection of the strength of our vibrant democracy. I propose to present a bird's eye view of the economic situation in the country and then sit back and listen to your views and answer any questions that you may have.

Growth

4. In 2007-08 India's GDP grew by 9.3%. Due to the global financial crisis our growth rate in 2008-09 had slowed down to **6.8** per cent. However, India was among the earliest nations to recover from the crisis. Our growth rate rose to **8.0%** in 2009-10 and to **8.5** per cent in 2010-11. Unfortunately, dark clouds have gathered in the global skies once again, and these are casting a shadow on us. The Indian economy grew by **7.7** per cent during April-June 2011. Agriculture, industry and services registered growth rates of **3.9**, **5.1** and **10** per cent, respectively, in the first quarter.

5. Let me not hide the fact that I have been disappointed by our growth performance over the last few months. It is evident that India's growth rate in 2011-12 will be less than what we were expecting in February when I presented the Budget. In the last few months, a number of factors, both international and domestic, have impacted our economy. The international crude oil prices have continued to remain at or above **US \$105** per barrel. When we were working on the Budget earlier in the year, the price of crude was roughly between 90 and 95 dollars. This sharp subsequent rise has placed an unexpected burden on us. Other commodity prices have seen volatile changes, as also the capital flows. The monetary policy tightening and the increase in the interest rates along with the global uncertainty have not helped the industry to go in for fresh investments.

6. Most observers are expecting India's growth to go down to below 8%. This is disappointing but at the same time we must not lose perspective of the global situation. There is slowdown all over the world. In the second quarter of this calendar year (2011), the US economy grew by 1.6% and the European Union economy grew by 1.7%. If you look at the growth rate in the first and second quarters of this calendar year, among the G20 countries there is only one nation, Australia, which had faster growth rate in the second quarter, when it achieved a growth rate of 1.4%. Indonesia had the same growth rate in both quarters. All other nations had slower growth in the second quarter.

7. A number of policy measures are being taken and fortunately the long-run indicators look robust. Net FDI this year has been double that of last year for the corresponding period. In 2010-11 from April to August we received 6.5 billion dollars of FDI. This year over the corresponding period we have received 16.8 billion dollars. Credit off take is also showing a healthy trend. Last year from April to September Bank credit grew by 19.2%. This year the growth over the corresponding period was 19.5%. Revenue collections so far have kept pace with the expectations and there could be potential upside. Services have done well and agriculture is expected to grow at **3%**. I am sure that these factors would help sustain growth. I will not make a formal forecast of the growth this year. For that you will have to wait for the Mid-Year Review which I will present to parliament in early December.

8. All I will say is that, in this climate, even if India's growth rate this year goes down to below our earlier expectation, we will still be among the **10** or so fastest growing nations in the world. Even ten years ago the news that India would grow by 8 per cent would be reason for celebration. The fact that we feel disappointed that India may grow by around **8** per cent this year shows more than anything else how our yardstick for evaluating India has changed. This to me is good news.

Inflation

9. Inflation as measured by Wholesale Price index (WPI) has remained sticky around **9** per cent during the first half of current financial year. The WPI inflation for the month of September 2011 is reported at **9.72** per cent as against **9.78** per cent last month. The inflationary pressure in recent times have emanated from multiple sources, the most important being the global rise in commodity prices and liquidity enhancing policies adopted by central banks in industrialized nations. There were also some seasonal factors that created upward pressure on prices.

10. Food inflation has significantly dropped from a peak of **20** per cent in February 2010 to about **8** per cent June-July 2011. However, the sources of inflation have now switched to non-food; much of it, as I just mentioned, was due to imported global commodity inflation. I expect overall WPI inflation to decline from December and I am hoping that we will end the fiscal year around **7** per cent.

Agricultural Production

11. As I have indicated earlier, during the southwest monsoon season, 2011, the cumulative rainfall over the country as a whole was above normal. As per the first advance estimates released by Ministry of Agriculture on 14.09.2011, production of kharif food grains during 2011-12 is estimated at **123.88** million tonnes compared to about **120** million tonnes in 2010-11. In the kharif season 2011-12, the country is likely to achieve production of **87.10** million tonnes of rice, **20.89** million tonnes oilseeds and **36.10** million bales (170 kg. each) of cotton. This augurs well for supply side response to arrest inflation in food items.

Industrial Growth

12. As per national accounts data, the industrial sector has not been doing well since the third quarter of 2010-11. This is mainly on account of the lower levels of growth in the manufacturing sector. The overall growth of the industrial sector as per the quick estimates of IIP released by the CSO for the month of August 2011 has been **4.1** per cent as compared to the growth rate of **4.5** percent recorded in August 2010. The cumulative growth during April-August 2011-12 has been **5.6** per cent as compared to **8.7** per cent during the corresponding months of 2010-11.

Monetary Developments

13. Monetary policy has been tightened by RBI to contain inflation and anchor inflationary expectations since March 2010 in a series of steps. The policy repo rate has been raised cumulatively by **325** basis points since then. The steady rise in policy rates was reflected in borrowing as well as lending rates with a lag. Though reserve money growth evinced a deceleration, broad money growth remained above the indicative trajectory in the current fiscal. Credit growth, which had accelerated in 2010-11, moderated in the first quarter of 2011-12 on a year-on-year basis. Non-food credit growth remained close to the indicative trajectory of RBI.

Financial Markets

14. Indian financial markets remained more or less orderly even in the face of corrections taking place in global financial markets and fragile financial conditions in some Euro Area countries. The benchmark 10-year G-Sec yield has trended up reflecting the tight conditions and the level of Government borrowings. Significant developments have taken place in the Capital Markets side. We raised FII limit on investments in corporate long-term infra bonds from **US \$ 5 Billion** to **US \$ 25 Billion**. **US \$ 5 billion** was carved out of this for more liberal treatment. In the auction in the first week of October, 2011, the entire **US \$ 5 billion** has been subscribed to by the FIIs. Qualified Foreign Investors (QFIs) have been allowed to invest a total of **US \$ 10 Billion** in mutual fund equity schemes. QFIs have also been allowed to invest upto **US \$ 3 Billion** in mutual fund debt schemes. Government has liberalized External Commercial Borrowings

(ECBs). A separate treatment has been given for Infrastructure Debt Fund under ECB. Automatic approval route has been liberalized. For the first time, Renminbi (RMB) has been approved as an acceptable currency for raising ECB upto **US \$ 1 Billion**. ECB for refinancing rupee loans on infrastructure has been opened up.

Balance of Payments

15. Capital flows to the tune of **US\$ 23.5** billion was received during the first five months of the current fiscal. Complete data on Balance of Payments is available only upto the first quarter. Net capital flows stood at **US\$ 20.9** billion during the first quarter of 2011-12 as against a level of **US\$ 16.8** billion in Q1 of 2010-11. Thus Current account deficit was placed at **US\$ 14.2** billion in the first quarter of 2011-12 as against **US\$ 12.1** billion in the previous years.

16. As you are aware, the growth in exports during the current year has been a matter of satisfaction. India's merchandise exports on customs basis have reached a level of **US \$ 160** billion during April-September 2011 reflecting an increase of **52** per cent over the corresponding period of previous year. Seen in the context of the uncertainty and slow down in the US and EU markets, our endeavour is to support our manufacturers and exporters in their efforts of diversification etc. for continued high exports. In this regard, while the DEPB Scheme was discontinued on 30th September, 2011, we were able to ensure a very smooth transition to the Duty Drawback Scheme, through addition of 1100 new items in the Drawback Schedule. Some minor issues of classification or omissions have also been rectified thereafter. During the same period, the imports were at **US \$ 233.5** billion; growth of **32.4** per cent. Consequently, trade deficit stood at **US \$ 73.5** billion, during the same period.

Fiscal Developments

17. Fiscal policy stance for 2011-12 remained broadly on the consolidation track complementing the monetary policy stance. We presume **4.6** per cent fiscal deficit this fiscal. We had originally planned for **5.5** per cent fiscal deficit for the year 2010-11. We hoped that this could be brought down to **5.1** per cent with huge inflows on 3G auctions in RE stage; but could end at **4.7** per cent last fiscal. One of the largest fiscal corrections was achieved in fiscal 2010-11 when fiscal deficit/GDP ratio declined to **4.7** per cent from a level of **6.4** per cent in 2009-10. The compression in fiscal deficit must be seen in the light of huge inflows last year on account of Telecom Spectrum auctions and which is not going to be repeated this year.

18. It may be recalled that the required growth for achieving gross tax collection as in 2011-12 BE was **17.3** per cent over 2010-11 actual collections. With the crude prices remaining where they are, it will be a great challenge to maintain the fiscal deficit numbers at **4.6** per cent this year; however, we will make strenuous attempts to keep the

fiscal deficit at around these numbers. We would be closely monitoring the revenue and expenditure trends and take steps as deemed appropriate.

Global Scenario

19. In so far as the global economic environment is concerned, the lingering Euro Zone crisis is resulting in an uncertain external economic environment. The world economy suffers from the confluence of two adverse developments. First, a much slower recovery in advanced economies since the beginning of the year. Second, a large increase in fiscal and financial uncertainty, which has been particularly pronounced since August 2011. Each of these developments is worrisome and their combination and interactions more so. The peripheral eurozone is into a deep and structural sovereign debt crisis.

G-20 Issues

20. In the G-20 Ministers Meet last week in Paris, we impressed upon the Euro Zone Finance Ministers to fix the solvency problem of Euro Zone countries by the Cannes Summit. Additional resources for providing liquidity could be thought of when the solvency issue of the Euro Zone countries are assessed and addressed. Simultaneously, we pitched in for additional capitalization of the World Bank. We were able to develop predominant opinion on not rolling back of the NAB into the 2010 Quota Reforms.

Policy Decisions Taken

21. I would now briefly address the concerns of the so called 'popular' perception about policy paralysis. The only way I could demonstrate that is to list some of the key decisions taken and those on the anvil. We have recently announced a new Draft Telecom Policy; Infrastructure Debt Fund guidelines have been finalized by RBI and SEBI and its is expected that a couple of Funds would start soon; A new manufacturing policy is before a GoM; the Mining Bill is ready for introduction in the Parliament and Land Acquisition Bill has already been introduced in the last session of the Parliament; GoM on Coal is working earnestly to solve the issues related to coal. I have also met the captains of industry and am addressing their concerns. The Government has taken many measures including legislative measures recently to further develop banking sector in India. The State Bank of India (Amendment) Bill, 2010 and The State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2011 have been recently passed in the Parliament. Many other legislations or amendments are at various stages in an active mode. RBI is actively engaged in the process of grant of new banking licences.

Black Money

22. The issue relating to the black money has also been attracting a lot of media attention.

23. Due to our sustained efforts in the last two years, both domestically as well as internationally, we have been successful in creating an environment where a regular flow of banking information has started.

24. The following achievements are noteworthy:

- a) Huge network of amended DTAA (**81**) and TIEA with tax havens (**4**) has been created.
- b) Specific requests in **333** cases (220 by Foreign Tax Division of CBDT and **113** by FIU) have been made by Indian authorities for obtaining information from foreign jurisdictions.
- c) Over **9900** pieces of Information obtained (9743 information by Foreign Tax Division of CBDT and 177 information by FIU) regarding suspicious transactions by Indian citizens from several countries have been obtained which are now under different stages of processing and investigation.
- d) Over **30,700** pieces of domestic information about suspicious transactions has been obtained by FIU which are under investigation by respective agencies.
- e) Directorate of Transfer Pricing has detected mispricing of **Rs. 34,145** crore in last two financial years thus preventing the outflow of this amount to foreign jurisdictions.
- f) Investigation wing of CBDT has detected concealed income of **Rs.18,750** Crore in last two financial years. During the first five months of the current financial year, concealed income of **Rs. 3,014** crores has been detected due to focused searches on the basis of information received from foreign jurisdictions.
- g) Directorate of International Taxation has collected taxes of **Rs.33,784** crore from cross broader transactions in last two financial years.
- h) Under the EOI Article of **DTAA with France**, India has received some information regarding Indians having bank accounts. In **69** cases, the taxpayers have admitted to the unaccounted income of **Rs.397.17** crores. Taxes of **Rs. 30.07** crore have also been paid.
- i) A Protocol to amend the Double Taxation Avoidance Agreement (**DTAA**) between India and Switzerland which was signed on **30th August 2010** after completion of all formalities.

The revised DTAA will allow India to obtain banking information (as well as information without domestic interest) from Switzerland in specific cases for a period starting from 1st April 2011. The revised DTAA is expected to improve the inflow of banking information to India substantially.

- j) India is constructively engaged with Government of Mauritius to update the existing Double Taxation Avoidance Convention (DTAC) in line with the international practices.
- k) OECD and Task Force on financial integrity & Economic Development have acknowledged outstanding work done by India in its crusade against Black Money.

25. Another critical area that often gets articulated in the media is that of governance; this is particularly relevant for many social welfare programmes involving a large number of beneficiaries. The challenge, inter alia, has been to improve the “last-mile” delivery of various social sector schemes. Ad-hoc measures cannot address this mammoth challenge. There needs to be in place a systemic approach to address the criticalities in governance and the challenges of last mile delivery. The Government is undertaking a number of steps for a strategic revamp of public delivery mechanisms. The implementation of the Aadhaar project which ensures a unique number to every resident in India in order to facilitate better access to services seeks to address the issue of improving delivery mechanisms in a systemic way. The Task Force on direct transfer of subsidies, as IT strategy for PDS and an Aadhaar enabled payment infrastructure would favour an electronic, transparent, auditable and systemic approach to delivery public benefits in a more efficient manner. The setting up of the Goods and Service Tax Network and Expenditure Information Network would enable improved governance.

An appeal

26. Let me take this opportunity to make an appeal, through you, to all Indians, cutting across party lines and other group identities. I am aware that journalists will want to win accolades for what they write, sportsmen will want to win prizes and, in a democratic system, politicians will try to win elections. But at the same time we must all remember that we all win if India wins. That will happen if the reform process gains momentum and economy surges ahead. I solicit your cooperation in this endeavour and look forward to your views.

Thank you.
