

**Union Finance Minister Shri Pranab Mukherjee's Address to
the
National Development Council (NDC) on
22 October 2011, Vigyan Bhavan, New Delhi**

Prime Minister Dr. Manmohan Singh,
Deputy Chairman Planning Commission,
My Cabinet Colleagues,
Distinguished Members of the NDC,
Ladies and Gentlemen,

It is my privilege to address the meeting of the National Development Council, convened to consider the Approach Paper to the Twelfth Five Year Plan. I would like to congratulate the Deputy Chairman and the Members of the Planning Commission for the work undertaken in preparing this Paper.

2. The renewed uncertainty in the global economy, due to sluggish US growth and worsening of the Euro-zone sovereign debt crisis and weak business sentiments and persisting high inflation at home, poses considerable challenges to the task of making a five-year plan. The fact that this task has been done well and the Approach Paper is before us for consideration is commendable.

3. In the last decade, the Indian economy moved to a higher growth path. Between 2005 and 2008, the economy grew at around 9.5 per cent per annum. This made India one of the fastest growing nations in the world. The global financial crisis brought the growth down to 6.8 per cent in 2008-09, though even then India remained a growth leader in the world. This was followed by a strong recovery and the Indian economy grew by 8 and 8.5 per cent in the subsequent two years. Data for the first quarter of 2011-12 indicate a growth rate of 7.7 per cent. While there may be some moderation in growth in the current fiscal, the fundamentals of the economy are intact and the medium-term growth prospects remain buoyant.

4. Over the last two decades the Indian economy has become increasingly integrated with the global economy. It is indeed a matter of pride that the world views India today as a major driver of growth. But globalization also has a downside. It means that when the world sneezes, India runs the risk of catching a cold. Not surprisingly, the economic crisis in Europe and the slowdown in the US are impacting us adversely. As an important contributor to the global growth process, we are playing an increasing role in the international policy arena. In my intervention in the G 20 meet held recently in Paris, I highlighted the spill over effects of the policies of advanced economies. I pointed out that the strong injections of liquidity by Central Banks seem to have done little to stimulate lending and borrowing. Instead we are witnessing negative consequences, especially on asset and commodity prices that have strengthened inflation in emerging markets.

5. Let me at the outset say that I endorse the overall theme of the Approach Paper to the Plan, namely, "*Faster, Sustainable and More Inclusive Growth*". It captures well the aspirations of ordinary Indians. There are, however, several issues that we need to focus on, I intend to briefly touch upon some of these.

Growth target for the Plan

6. While making a plan, it is important to be realistic and not get carried away by flights of fancy. At the same time, when we make a plan in the midst of a difficult economic situation, it is easy to be over-pessimistic. We have to remind ourselves that a plan is not like a Budget. The horizon for a plan is much longer and we must look beyond the immediate concerns. The Approach Paper outlines two alternative growth scenarios - 9 per cent and 9.5 per cent. There are good reasons, as has been outlined in the document before us, to pitch for a 9 per cent average growth for the plan period. Yet we need to retain a certain flexibility in our planning to consider raising the growth target to above 9 per cent, should the global environment improve and we make good progress in strengthening our

domestic growth drivers in the initial years of the Twelfth Plan. We have achieved 9 per cent plus growth prior to the global slowdown. Our ability to deepen and broad-base the inclusion of the marginalised and vulnerable segments of our society in the economic mainstream, hinges crucially on sustaining buoyancy in our resource mobilisation and sustaining high growth path.

7. It is also important that more of this growth takes place in the backward areas of our country. There is already evidence that some of the slow growing states in the past have improved their performance in the recent years. This trend should be further reinforced. The objective of making growth more inclusive cannot be realised unless we are able to narrow down the regional imbalances and disparities.

Fiscal consolidation

8. The budgetary support for the 11th Plan was targeted at Rs 16.08 lakh crore in nominal terms and has been fully financed by the Government. However, this was possible at high fiscal costs. After bringing down the fiscal deficit to 3.3 per cent of GDP in 2007-08 we had to breach fiscal targets and incur fiscal deficit of 7.8 per cent and 6.5 per cent of GDP in 2008-09 and 2009-10 respectively. The fiscal impact of these deviations will be felt in years to come in terms of high debt servicing requirements. We could afford this deviation to tide over the global economic crisis without any solvency concerns only because of the fiscal space we had created during the period 2004 to 2008. That fiscal space for manoeuvrability is no longer available.

9. Our recent experience has shown that sustained high growth and fiscal consolidation can be mutually reinforcing. The fiscal consolidation path as envisaged in the Medium Term Fiscal Policy Statement in the Budget 2011-12 has to be followed. As Finance Minister, I stand committed to this path of fiscal consolidation. However, I do recognize that to sustain growth along with fiscal consolidation, we will have to take our due diligence beyond monitoring the quantitative

parameters. The quality of expenditure and its multiplier effect on growth must get our attention.

10. The States' finances have been improving steadily in recent years. The fiscal consolidation brought about through implementation of the Debt Consolidation and Relief Facility in the Twelfth Finance Commission award period, 2005-10, has been built upon through higher devolutions under the Thirteenth Finance Commission award. Plan assistance to the States through the Centrally Sponsored and Centrally administered schemes has also expanded over the years. The States' share in central taxes has been showing an upward trend: this share was 29.5 per cent during the Eleventh Finance Commission period (2001-2005); it was raised to 30.5 per cent during the Twelfth Finance Commission period (2005-2010) and currently stands at 32 per cent for the period 2010-15. The current Finance Commission award also aims to fulfil identified specific needs of States through grants of nearly Rs.28,000 crore over the next four years.

11. The flow of resources to the local bodies has been stepped up and made more buoyant during 2010-15, as the Thirteenth Finance Commission has linked grants to local bodies with the quantum of taxes collected by the Union Government. Reforms at the local body level have been incentivized through additional grants. The local body reforms have been uneven across States, but I am sure that the States are working at strengthening local bodies through improved devolution of funds and functions. The capacity of local bodies has to be enhanced by making higher devolutions through the State Finance Commissions.

12. These steps, and the States' own efforts, have led to improvement in the States' aggregate fiscal parameters. There has been a decline in the aggregate debt to GDP ratio for the States from 28.4 per cent in 2007-08 to an estimated 23.7 per cent in 2011-12. The estimated aggregate fiscal deficit of States in 2010-11 was 2.5 per cent of GDP, which was within the FC-XIII target of 2.6 per cent. The 2011-12 Budget Estimates of the States show an aggregate fiscal

deficit of 2.2 per cent of GDP, which is well within the target of 2.5 per cent set by FC-XIII. The aggregate revenue surplus of States in 2011-12 is about 0.3 per cent, again ahead of FC-XIII projections. It is expected that the improved fiscal health of the States will result in their taking up more responsibilities for developmental activities at the State level, particularly in bridging the infrastructure gap during the Twelfth Plan period.

13. One area of concern which some States need to address relates to tax revenues of States'. The States' **tax to GSDP ratios** show wide variations. In the 2008-09 actuals, the tax to GSDP ratios of General Category States ranged from 4.1 per cent to 9 per cent, with the average being 6.7 per cent. The top two States had tax to GSDP ratios of 9 per cent and 8 per cent and the bottom two 4.1 per cent and 4.2 per cent. These ratios point towards the need for more work by many States to rationalize tax rates, improve compliance and widen the tax base.

Infrastructure Development

14. In the Eleventh Plan, the investment target in infrastructure was about Rs 20.5 lakh crore, with an attendant objective of increasing the share of private sector in the total investments, from around one-fourth to one-third. We have been successful in scaling-up infrastructure investments. According to Planning Commission estimates, in the first four years of the current Plan, the infrastructure investment will be around Rs.15.26 lakh crore. Gearing up to sustain the momentum during the next plan period commencing in 2012, would be a greater challenge. Issues like land acquisition, environment clearance and resettlement and rehabilitation will have to be addressed to de-risk both green-field and brown-field project development. We have to be focused on creating an enabling environment to facilitate investments.

15. A major challenge in this context would be to manage the funding requirement of the sector. We have to collectively plan for meeting the investment target of US \$ 1

trillion during the Twelfth Plan, with half of the proposed investment coming from the private sector.

Power sector

16. In the context of Power generation, the recent concerns relate to supply constraints regarding fuel, coal and natural gas. Issues like land acquisition, deteriorating health of the state electricity boards and environmental clearances have also been adversely affecting this sector. On the distribution front, the efficiency as measured by the aggregate technical and commercial (AT & C) losses remains woefully low. On date the losses, on an average, exceed 40%. This is not acceptable. The operational efficiency of the distribution utilities has to be improved. The States will have to review and revise the tariffs regularly to ensure the financial health of these utilities. Urgent action is needed on both fronts to ensure that the cumulative losses of utilities do not ultimately devolve on State Governments.

17. I have recently reviewed the progress of the power projects requiring funding of Rs.5000 crore or more from Indian banks. A large number of cases are held up because of the delay in obtaining clearances from State Governments and some departments of the Government of India. While I am working with my colleagues at the Centre, I strongly urge Chief Ministers to set up a mechanism for according early clearance to such projects.

GST and DTC

18. We have initiated two major steps in the area of tax reforms. The first pertains to the DTC and the second to the Goods and Services Tax (GST). The DTC Bill was introduced in August, 2011 and has been referred to the Parliamentary Standing Committee. I am hopeful that the Committee will submit its report by the Winter Session of the Parliament, and thereafter we would seek to get the legislation passed during the Budget session. By amalgamating several taxes levied by the Centre and the States at different stages of the value chain, the GST would mitigate cascading and make

Indian industry competitive in domestic as well as international markets. It would also improve compliance and make the level of taxation transparent to the end consumers. The introduction of GST requires a Constitutional Amendment to enable the Centre to levy a tax on the distribution of goods beyond the manufacturing stage and to empower the States to levy a tax on supply of services. A Constitutional Amendment Bill to this effect has already been introduced and is currently with the Parliamentary Standing Committee. I seek full cooperation of the States in supporting this Constitutional Amendment Bill to pave the way for the early introduction of GST.

Food Security

19. Ensuring the food and nutritional security for all Indians is the collective responsibility of the Centre and the States. After initial consultations with States, Ministries, expert advisory bodies and other stake holders, the Department of Food and Public Distribution has prepared a draft National Food Security Bill.

20. The draft Bill has been sent to all States and Union Territories and the Central Ministries for their comments and suggestions. It has also been put on the website of the Ministry of Consumer Affairs, Food and Public Distribution. So far, only a few States and UTs have sent their comments. Since this is an important legislation, I request the States to send their views at the earliest to help us finalize the bill for introduction in the Winter Session of the Parliament.

21. The implementation of the Food Security Act will be the joint responsibility of the Centre and States. Both have to work together to procure the required quantity of food grains and ensure distribution of the food grains to the beneficiaries through an effective delivery system.

22. Revamping the PDS is a necessary pre-requisite for the effective implementation of the proposed National Food Security Act. The Supreme Court has also directed an end-to-end computerization of PDS. The Task Force under Shri

Nilekani is working on direct transfer of subsidy that will eliminate leakages and will minimize the distortion of prices. As soon as this is available the States/UTs should draw up a time bound action plan for computerization of Supply Chain Management.

APMC reforms

23. It is important to reduce the gap between producer prices and retail consumer prices through an efficient supply chain management. The APMCs were established to protect the interest of farmers. However, in reality, the APMC system has led to monopolistic behaviour and reduced the choices available to small farmers. Reforms in APMC Act could play an important role in reducing the supply side constraints. I would urge upon this august gathering to consider these proposals on merits without any delay.

Plan Size and Centrally Sponsored Schemes

24. There is at present excessive focus on plan size and greater demands for resources. What is important is the plan outcomes; there is a need to correlate outlays with outcomes. The number of Centrally Sponsored Schemes needs to be rationalized. There has been some progress on this front over the years but there is scope for much more streamlining of these schemes.

25. Let me take this opportunity to make an appeal to all our leaders, cutting across party lines and regional identities. No matter which party each of us belongs to, our first commitment must be to India. As politicians we like to win elections. Let me confess that I too like to win elections. But our own election victory must never take precedence over India's victory. I say this because there are some important reforms, which need legislative action and cannot be brought in by an executive order. We all agree that reforms like this are important for India's development and can happen only if we all work together. We must remind ourselves that if India wins, we all win.

Thank You.