

SPEECH ON “PROSPECTS FOR ECONOMIC GROWTH & THE POLICY IMPERITIVES FOR INDIA”

It is a matter of pleasure for me to be addressing this special session on "Prospects for Economic Growth and the Policy Imperatives for India". I am indeed happy that the Calcutta Chamber of Commerce, the oldest association of its kind in the country, like always is taking keen initiatives in deliberating upon economic issues of significant contemporary relevance.

2. On a platform as old as yours, while discussing prospective policy with regards to the economy, it would be only natural to start with a retrospective insight. After 190 years of colonial rule where policy was restricted to maintenance of a coercive state and planning was primarily about draining India's wealth for the benefit of the colonial masters, it was in 1947 after Independence that we started looking at policy as a tool to transform India's society and economy. It was also after Independence that the state started planning in the short, medium and long term through the Planning Commission established in 1950.

Friends,

3. Thereafter, the story has been nothing short of miracles for all its shortcomings. The First Five Year Plan (1951-56) had a total outlay of Rs 2,069 crore, while the XII Five Year Plan (2012-2017) had a outlay of Rs 80,50,123 crores. While the first budget of India in 1947 had a total revenue receipt of 171.15 crores, the corresponding figure for 2017-18 is 15,15,771 crores. The expenditure in the first Budget was to the tune of Rs

197.39 crores while the same figure for 2017-18 stands at 18,36,934 crores. The net deficit on revenue account in 1947 amounted to Rs 26.254 crores and the same figure in the current financial stands at 2,49,632 crores.

4. Annual GDP growth rate in India averaged 6.12% from 1951 until 2017. It reached an all time high of 11.40 % in the first quarter of 2010 and recorded a low of -5.2 % in the 4th quarter of 1979. Poverty that stood at 80% of the total population in 1947 is down to 22% currently. At US\$ 2.264 trillion in 2016 we today rank as the 7th largest economy of the world.

5. I witnessed the Indian growth story in the centralized public sector oriented mode as a student. As an MP and as a Minister, I had the opportunity to witness and be a participant in important milestones of nation building. From debating the nationalization of banks, the insurance sector and coal mines as an MP, to being a Junior Minister in the Department of Industrial Development, Shipping, and Expenditure & Revenue (DER) and then being the MoS, Independent Charge for Revenue and Banking (DBR), I witnessed the heydays of the regulated economy. As Cabinet Minister of Commerce, Textile, Steel and Mines in 1980 and thereafter as Finance Minister in 1982, I witnessed the limitations of a regulated economy and the need to open up. This period saw the seeds of economic liberalization getting sown. Thereafter, as Deputy Chairman of the Planning Commission from 1991-96, and concurrently being Commerce and External Affairs Minister, I was witness to unprecedented liberalization of the Indian economy under Prime Ministers Shri P V Narasimha Rao, and Finance Minister Dr Manmohan Singh. Back in the government in 2004, as Defence Minister, and thereafter as Minister of Foreign Affairs, it was again in 2009 that I came at the helm of our country's finances as the Finance

Minister. This was the period when the Indian economy displayed its resilience even in the light of a global economic crisis.

Friends

6. Ever since the reforms of early 90s, our economic trajectory has been that of sustained growth. If one were to look at the latest figures, India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF). As per Economic Survey 2017-18, the real GDP growth projections for 2017-18 is expected to be around 6.75%, which is further expected to reach to 7-7.5% in 2018-19 driven by major reforms initiated by the government.

7. The 2018 Global Economics Prospect (GEP) released by the World Bank projects India's GDP growth to pick up to 7.3% in 2018-19 and to 7.5% for the next two years. The report pegs overall economic growth for 2017 at 6.7%, despite initial setbacks from demonetization and introduction of the Goods and Services Tax (GST).

Ladies & Gentlemen

8. Norms of foreign investment in sectors such as defence, infrastructure, railway, construction etc were liberalized during the year, this may lead to a significant increase in the flow of foreign investment in the country. The Economic Survey also shows – ‘After remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and strengthened further in 2017-18. There was an augmentation in the spot levels of foreign exchange reserves to close to US\$ 414 billion, as on 12th January 2018’.

9. Initiatives such as Make in India, Invest India, Start up India and e-biz Mission Mode Project under the National e-governance Plan are expected to further improve the ease of doing business and provide a boost to manufacturing in the country. Other steps taken by the government in recent times include - Smart City, Urban development, Digital India initiative, Financial and communications inclusivity, Revitalizing public sector banks. These have begun to show positive results.

10. Having said this, there are yet major macro-economic challenges that confront India today;

i) Unprecedented rise in economic inequality – various studies point towards the growing trend of wealth being concentrated into fewer hands. Today we are the world's 7th biggest nation in terms of private wealth which has registered a 150% increase from 2013 to 2018. In a country like ours, where poverty, disease and even basic housing remain a challenge, such in-equity is not only unacceptable but also unsustainable. Expansion of economic and social opportunities will have to be a prime focus of not only the government but the Corporate Sector as well.

(ii) Recent reports suggest that unemployment figures in India are expected to increase from 17.8 million last year to 18 million next year. In percentage terms this will be 3.4%. As a nation with a demographic dividend where the population in the work age is going to increase to 48% by 2020, unless growth is aimed at employment generation rather than only profit, there is a real danger of the demographic dividend getting converted into demographic disaster.

(iii) Agricultural sector in which even today 60% of the Indian work force is employed registered a growth rate of 0.8% in 2016-17. Although, it is expected to grow at 2.1% at current fiscal, it is not going to be sustainable as the population grows.

(iv) Amidst growing global environmental concerns improving efficiency of resource utilization is another challenge that needs to be addressed in a systematic manner on an urgent basis.

(v) Managing the growth - inflation dynamics is another area that needs urgent attention. While a drop in consumption has ensured controlled inflation in FMCG sector, the same cannot be said about inflation with regards to the basic food basket.

(vi) In addition to this, managing the political economy of fiscal consolidation is a major macro-economic challenge that has to be addressed despite the pulls and pressures to the contrary.

Dear Friends, Ladies & Gentlemen

11. It was on this platform, on the occasion of the 185th Foundation Day Celebrations of the Calcutta Chamber of Commerce that I had said that it was possible for the country to achieve and maintain 8% growth rate provided we put our efforts and take bold decisions. The aforementioned challenges are the ones that provide opportunities to the nation to collectively find a solution.

12. Optimism about the growth of national economy is natural. However, there is abundant data to show that there are several potholes that could derail the ambitious growth plans of India. In the realm of health and

education and other Human Development Indicators India's performance has been far from satisfactory, showing a wide range of regional inequalities with urban areas getting most of the benefits. In order to provide a more egalitarian society to its mounting population, appropriate measures need to be taken.

13. We need to recognize that the knowledge, skills and productivity of our growing young and dynamic work force forms the backbone of our economy. This would not only require effective implementation of developmental and poverty alleviation schemes at the bottom of the pyramid, but also the recognition that these new factors of production, namely, knowledge, skills and technology which have the ability to unleash the productive frontiers of the economy in the most efficient and dramatic way.

14. Reforms and development in agriculture would be one of the most important pillars on which the sustained growth of our economy would depend. We need to assist the farmers in increasing yields and productivity through management chains and through a knowledge revolution in agriculture and focus on reduction in transit and storage losses by development of suitable infrastructure.

15. Employment opportunities need to be enhanced through a multipronged strategy. Major changes are required to boost organized employment. The larger significance of Small & Medium Enterprises lies in its employment generating potential. Small-scale industries in India are the second largest manpower employer in the country, next only to agriculture. Due to falling labour absorption capacity of agriculture, the workforce has

begun to shift away from agriculture. Share of unorganized sector (small-scale sector) in all the non-agricultural activities is more than 80 per cent. However, the employment intensity in the Small-Scale sector has been declining in recent years. In order to meet the employment goals, the need is to encourage the use of labour intensive and capital saving technology, in general and to rejuvenate the growth of the unorganized sector in particular.

16. As India prepares herself for becoming a major economic power, it must expedite socio-economic reforms and take steps for overcoming institutional and infrastructural bottlenecks inherent in the system. Availability of both physical and social infrastructure is central to sustainable economic growth.

17. The budgetary allocations to social sectors have notionally grown but this has been largely without any commensurate increase in welfare benefits to the masses. A change in the implementation modalities of budgeted schemes is required for better outcomes. Only well targeted expenditures coupled with sound implementation can benefit the poor.

18. We need to focus more on higher investments in agriculture and rural infrastructure, education and skill development, better health services, scaling up infrastructure investments, irrigation, sanitation further by faster execution of - projects and speedier delivery. These are the elements that would work to take us to a 10% sustainable growth path.

Thank You

Jai Hind