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CII NATIONAL COUNCIL MEETING

Address by Hon'ble Minister of Finance - Shri Pranab Mukherjee

Date: 3 AUGUST 2009 Time: 1945 Hrs. Venue: Taj Mahal Hotel

Mr. Venu Srinivasan, President CII

Mr. Hari Bhartia, Vice President CII

Mr. Chandrajit Banerjee, DG CII and

Distinguished Members of National Council of CII

It gives me great pleasure to address the National Council of the Confederation of Indian Industry. This occasion provides me a valuable opportunity to interact and learn from the doyens of Industry and Trade who are present here today.

We are meeting just about a month after the presentation of the Union Budget for 2009-10. This budget was presented at a critical juncture when the Indian economy had just started to show signs of revival after having weathered the fallout of the global financial crisis. Despite the severity of the global financial crisis, the Indian economy managed to grow at a respectable rate of 6.7 per cent in 2008-09. After two successive quarters of very low growth, the industrial sector seems to

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be reviving during the current fiscal. While this performance is indicative of the resilience of the economy, it also vindicates the policy measures that were promptly taken by the Government to mitigate the adverse impact of the financial crisis on India.

You will recollect that in view of the sharp worsening of the global financial situation in mid Sept 2008, India took both monetary and fiscal measures to contain its negative effects. The monetary and credit measures taken by the RBI related to provision of adequate liquidity, progressive reduction in the signalling Repo rate, reduction in cash reserve and statutory liquidity ratios for banks and improving the forex liquidity. These measures were supplemented with sector specific credit measures for exports, housing, micro and small enterprises and infrastructure.

The fiscal measures consisted of expansionary plan expenditure, reduction in indirect taxes, sector-specific measures and authorisation to specified financial institutions like the IIFCL to raise tax free bonds to fund infrastructure projects. These measures came on top of the implementation of the farm loan waiver package that aimed at alleviating the burden of debt on the farm sector and the payout to government employees following the acceptance of the pay

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commission report. These measures put money into the hands of the consumers, including rural consumers and helped sustain demand.

As I mentioned in my budget speech, at this stage we cannot afford to lower guard even though the global financial situation has shown some signs of improvement. This is because the uncertainties over the revival of the global economy continue. Therefore, the Government, through this budget has addressed the short term imperative of ensuring that the recovery in the Indian economy is sustained. At the same time, we are acutely conscious of the need to address the medium and long term concerns relating to the development of physical and social infrastructure, ensuring that the growth process remains inclusive and improving the quality of governance. Let me add, that there is no inherent conflict between these objectives as made out in some quarters. If growth has to be sustained, these challenges will need to be addressed simultaneously and also innovatively.

I am given to understand that by now there is a better appreciation of the measures in the Union Budget 2009-10 and also of the policy announcements made in my budget speech. From these announcements, it should be clear that the process of economic

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reforms that began in the early 1990s will continue in right earnest so that the economy is back on the path of 9 per cent plus growth at the earliest.

The Government clearly recognises that sustained growth of the economy, including the industrial sector, is contingent on the availability of human skills, technology, infrastructure, power and finance. The endeavour of this Government is to create an environment that enables these to develop in an unfettered manner. I will highlight only a few of the initiatives mentioned in my budget speech so as to convey to this distinguished audience that the Government is intent on addressing each of these issues by dedicating resources and by creating an environment where the private sector can participate effectively as an equal partner.

For human resource development, we have enhanced the outlay on health and education under the National Rural Health Mission and Sarva Shiksha Abhiyan respectively. Under the Rashtriya Swasthya Bima Yojana, more than 4.6 million BPL families have been issued smart cards that provide them the choice of using health care services

including through private hospitals. Accordingly, there is an opportunity that will open up for the private healthcare sector.

In the area of higher education, I have proposed additional expenditure on setting up central universities, IITs and NITs as well as increased funds for polytechnics. This will enlarge our pool of scientific and technological manpower and make workers industry-ready.

In order to give a boost to the development of infrastructure and power, the Government has decided that the IIFCL will refinance 60 per cent of the commercial bank loans for PPP projects in critical sectors. The IIFCL and banks would be in a position to support projects involving a total investment of Rs 100,000 crores in infrastructure. Additional funds have also been allocated for the roads and highways sector, and for power under the Accelerated Power Development and Reform Program. Urban development expenditure has also be stepped up. With the increased emphasis on PPP, we envisage greater private sector involvement in upcoming infrastructure projects.

The higher allocations under Bharat Nirman including the PMGSY is expected to significantly improve the infrastructure in the rural areas and improve the rural linkages with the market. These programmes along with the National Rural Employment Guarantee Scheme will

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improve the purchasing power in the rural sector. I believe, rural spending is increasingly leading growth in key sectors of the economy, and this must be fostered in order to have a more inclusive development.

Recognising that private sector engagement in R&D will be critical to the development of emerging technologies, we have liberalised the weighted deduction on in-house R&D expenditure to extend to all manufacturing sectors, excluding a small negative list. I trust that this will stimulate corporate investment in development of new products and processes and urge you all to take advantage of this new measure.

The government is intent on encouraging people's participation in the disinvestment programme of PSUs while retaining 51 per cent Government stake. Naturally the timing of these decisions are subject to right market conditions. We recognise that sale of government equity is not merely a matter of gathering additional resources but has to result in higher efficiency and better productivity.

For the sectors especially hard-hit by the global economic crisis, such as exports and SME, a number of steps have already been announced and we will continue to address their requirements depending on the exigencies. It is essential to maintain the dynamism

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and creativity of the SME sector and to encourage the export sector in order to protect employment and growth.

On the fiscal front, we have announced important reform measures. The most crucial of these is the proposal for the introduction of GST from April 1 next year. I am aware that there are many issues that need to be clarified to the industry. I am confident the technicalities would be worked out well in time. I sincerely believe that the GST regime will usher in a new era in the competitiveness of our economy and I seek your full support. Under direct taxes, the government has provided relief by scrapping the FBT and Surcharge. I have also announced that a new Direct Tax Code Bill will be finalised after obtaining feed back on the discussion paper that will be released on the subject.

I am deeply conscious of the concerns expressed in some quarters on the government's borrowing programme. We are confident that government borrowings will not have the effect of raising interest rates and crowding out private sector investment. In this regard the Government and RBI are in constant touch so that the borrowing programme could proceed in a non disruptive manner. I would like to reiterate Government determination to revert to the path of fiscal consolidation at the earliest.

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Looking forward: Industrial growth during April and May 2009 was indicative of a revival in the industrial sector. The growth in the core sector of 6.5 per cent during June 2009 has indeed been encouraging. In general, there are other positive indications that suggest that the growth outlook for the Industrial sector is likely to improve further over the next quarter. More importantly, there are number of factors that favour growth of the Indian economy in general, and the industry in particular, over the medium to long term.

First, the size of the Indian market and the unmet demand for industrial products provide reasonable hope that demand would not be a constraining factor by itself. India has a large domestic market with immense absorptive capacity for industrial goods as also inputs for the development of the infrastructure. I understand that there is also an increasing realization that the corporate and industrial sector should make conscious efforts to reach out to the bottom of the pyramid. These factors can be translated into effective demand but this process may not be automatic.

To be able to do so, the industry will need to deliver products and services that give value for money in a cost effective way. I am



confident that such a shift in orientation will add and not dent the competitiveness of the industry. The large pool of managerial, technical and scientific manpower (including those in the public domain) has the potential for carrying out innovations leading to the creation of such products and services which can open up new market segments. However, for innovation to become a key driver of growth, the industry and the research fraternity will need to actively collaborate in a time-bound and result-oriented fashion.

I am confident that the inherent strength of Indian industrial corporate sector with its strong entrepreneurial abilities will respond well in this regard. Given the possible restructuring of industry that is underway at the global level, the time is opportune for the Indian industry to leverage its strengths. Let me also hasten to add that entrepreneurial dynamism needs to be tempered with good corporate governance that adheres to the best standards of ethics in business and industry.

It is well recognised that growth needs investment. But what is needed in greater measure is entrepreneurial spirit and innovativeness and a willingness to deal with adversities. We feel proud when India is mentioned as the one of the fastest growing economies even during the recent adverse developments. We also feel a sense of pride when





references are made to the entrepreneurial dynamism of Indian businesses and companies. The expectations of our citizens today are high and must be met. As leading corporate citizens, the members of the CII have a major role to play in fulfilling these aspirations in partnership with the Government which is committed to providing an environment that enables.

I would like to thank you for your kind attention and I sincerely look forward to the members of the CII playing a stellar role in making the Indian Growth story a continuing one.





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