

## **FINANCE MINISTER CONFIDENT OF BRINGING ECONOMY BACK ON DESIRED TRACK; GIVES AN OVERVIEW OF MAP FOR RECOVERY**

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The Union Finance Minister, Shri P. Chidambaram has said that uppermost in his mind is the duty to re-gain the confidence of all stakeholders. Assuring that inflation can be moderated in the medium term, he said that the Government will work with RBI in this regard. In a statement, the Finance Minister said that a path of financial consolidation will be unveiled shortly. He made it clear that the burden of fiscal correction must be shared, fairly and equitably, by different classes of stakeholders. The Finance Minister said that the poor must be protected and others must bear their fair share of the burden. He further said that wherever required, the corrective measures will be taken in bringing clarity in tax laws, to have a stable tax regime, a non-adversarial tax administration and a fair mechanism for dispute resolution.

Following is the full text of the Finance Minister's statement:-

"I assumed the office of Finance Minister on Wednesday, August 1, 2012. It is a position of great honour, it is also a position of great responsibility.

In the last few days, I have been briefed by senior officials of the Ministry of Finance on the state of the economy. It is true that the economy is challenged by a number of factors, but it is also true that with sound policies, good governance and effective implementation, we would be able to overcome these challenges.

Uppermost in my mind is the duty to re-gain the confidence of all stakeholders. Obviously, where necessary, our policies have to be modified or fine-tuned in order to meet the expectations of different stakeholders.

We intend to unveil, shortly, a path of fiscal consolidation. I would like to make it clear that the burden of fiscal correction must be shared, fairly and equitably, by different classes of stakeholders. The poor must be protected and others must bear their fair share of the burden. Obviously, adjustments must be made both on the revenue side and on the expenditure side. We have asked Dr. Vijay Kelkar, Dr. Indira Rajaraman and Dr. Sanjiv Misra to assist the Government in formulating the path of fiscal consolidation and we expect that the work will be completed in a few weeks.

Price stability is an important objective. In fact, it is more important for the poor. There has been pressure on prices, and inflation - especially food inflation - is high. The causes are well known: some are beyond our control, such as prices of crude oil and imported commodities, but some others can be addressed by determined action. We will take steps to remove the constraints on the supply side. We will also use our stocks of foodgrain to moderate prices. Where necessary, we will enhance the import of items in short supply.

Non-food inflation is already declining. We are confident that inflation can be moderated in the medium term. Fiscal policy and monetary policy must point to the same direction and must move in tandem. Government will work with the Reserve Bank of India to ensure that inflation is moderated in the medium term.

We are conscious that current interest rates are high. High interest rates inhibit the investor and are a burden on every class of borrowers, be it a manufacturer of goods or a purchaser of a home or a two wheeler or a student who takes an education loan. Sometimes it is necessary to take carefully calibrated risks in order to stimulate investment and to ease the burden on consumers. We will take appropriate steps in this regard.

The key to restart the growth engine is to attract more investment, both from domestic investors and foreign investors. Since investment is an act of faith, we must remove any apprehension or distrust in the minds of investors. We will improve communication of our policies to potential investors. The aim will be to remove the perceived difficulties in "doing business in India", including fears about undue regulatory burden or regulatory over-reach. Indian companies, especially public sector enterprises, which have large cash balances will be encouraged to restart investment. Proposals pending with the Foreign Investment Promotion Board will be processed and decisions taken expeditiously.

Clarity in tax laws, a stable tax regime, a non-adversarial tax administration, a fair mechanism for dispute resolution, and an independent judiciary will provide great assurance to investors. We will take corrective measures wherever necessary. We have recently appointed two Committees, one to examine GAAR legal provisions and guidelines and the other to review taxation of the IT sector and Development Centres. I have also directed a review of tax provisions that have a retrospective effect in order to find fair and reasonable solutions to pending as well as likely disputes between the Tax Departments and the Assessees concerned. With these measures, and some other measures that we hope to take in the short term, it is our intention to raise the level of investment to 38% of the GDP that was achieved in 2007-08.

I believe that, around the world, there is enormous goodwill for India and most people continue to keep faith with the India growth story. It is natural that they look closely at certain economic indicators, one of them being the exchange rate. Volatility of the exchange rate has reduced in recent weeks. A reassurance on the investment climate, continued inflow of remittances, and a rise in capital flows – both FDI and FII – will bring further stability to the exchange rate. We intend to fine tune policies and procedures that will facilitate capital flows into India.

A high level of savings is a pre-condition to a high level of investment. In 2007-08, savings touched 36% of GDP. It is now down to 32% of GDP. One of the reasons may be a perceived lack of attractive investment opportunities and instruments. Hence the attraction of gold, but gold is not a productive asset and the demand for gold worsens the current account deficit. Both the mutual fund industry and the insurance sector have turned sluggish. In the next few weeks, we will announce a number of decisions to attract more people to invest in mutual funds, insurance policies and other well-designed instruments.

Manufacturing and exports are two key drivers of the economy. Both have registered low or negative growth in recent months. It is imperative that we reverse this trend. Supply side constraints upon manufacturing and exports must be removed in double

quick time. We intend to work with manufacturers and exporters and implement appropriate short term and medium term measures.

While greenfield investments are important, it is equally important that we implement the projects that are under construction. We need to focus more closely on large projects as well as infrastructure projects. An Investment Tracking System for projects with an outlay of Rs.1,000 crore or more has been put in place. The Prime Minister has set specific targets for key infrastructure sectors. We will review the progress of each of these projects, periodically, in the Cabinet Committee on Economic Affairs and remove the bottlenecks to quicker implementation of the projects.

Some sectors are under stress, for example, petroleum, electricity and textiles. We intend to find practical solutions to the problems that impede higher production or output in the coal, mining, petroleum, power, road transport, railway and port sectors. The Cabinet Committee on Economic Affairs will examine the issues affecting each sector and take decisions that will lead to quantitative growth in these sectors.

Unfortunately, the south west monsoon has been below expectations. Drought-like conditions have been reported from several States. It is the duty of the Government to provide relief to the people living in drought affected districts, protect wage employment and save agricultural production to the extent possible. MGNREGA and other schemes will be converged to meet the challenge of drought. Contingency plans are in place to supply drinking water and fodder and to help farmers replant alternative crops. We must seize the opportunity to build durable assets that will provide employment to the poor as well as help in drought-proofing agriculture in the affected districts.

As I said at the outset, the Indian economy faces many challenges. We are challenged by the global economy. We are challenged by the crisis that has afflicted several leading banks of the world. We are challenged by natural calamities such as floods in one part of the country and drought in other parts of the country. Above all, we are challenged by our own record of fiscal consolidation, high growth, moderate inflation and rise in human development indicators that we achieved during 2004-08. Let us remember that we had faced similar challenges in 1991, 1997 and 2008 and we overcame them. It is widely acknowledged that, today, the Indian economy is stronger and better prepared to face the challenges. Moderate growth in two out of eight years should not dent our confidence.

Several legislative proposals have gone through the full deliberative process and are ripe for debate and passing in Parliament. I seek the cooperation of all political parties represented in Parliament to pass these Bills. With the cooperation of political parties, civil society, farmers and workers, service providers, producers and consumers, and scientists and technologists, I am confident that we will prevail and we will return to the path of high growth, inclusive development, and economic and social justice for all."