FICCI's 82nd Annual General Meeting
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Inaugural address by Mr. Pranab Mukherjee, Hon'ble Finance Minister, Govt. of India

It gives me great pleasure to be here at the 82nd Annual General Body Meeting of the Federation of Indian Chambers of Commerce and Industry. It is not my intention this morning to talk about the Union Budget. In the course of the day, I would have an opportunity to interact on the Union Budget with the representatives of apex associations and captains of Indian industry. Instead, I would confine myself to talking about the state of the Indian economy and some challenges confronting us at this juncture.

After a phase when the economy registered an unprecedented spurt in its growth rate, the last two years saw the economy confronted with multiple challenges originating in its external sector. The rise in international commodity prices affected domestic inflation in the first half of 2008. Our exports declined sharply due to the widespread slowdown in the global economy. This had implications for employment growth, especially in the export sectors of the economy, and there was considerable uncertainty on financial flows into the economy. On the domestic side, we had to confront the uncertainty arising out of delayed and sub-normal monsoons in 2009-10, with its repercussion on inflation and the growth of rural demand.

Each of these developments raised multiple concerns for our policy makers - sometimes even conflicting. Despite some difficult choices the short-term challenges arising from these shocks were met and quite successfully at that. We managed a GDP growth of 6.7 per cent in 2008-09 followed by 7.2 per cent in 2009-10, as per the Advance Estimates of the GDP released by the Central Statistical Organisation. Indeed the recovery has been swift and broad based. The turnaround came in the second quarter of 2009-10 when the economy posted a 7.9 percent growth in GDP after growing at around 6 per cent in the preceding three quarters.

There are several factors emerging from the performance of the economy in the last 12 months that lend optimism to a rapid return to the high growth path. First, there has been a revival in investment and private consumption demand, though the recovery is yet to attain the momentum of the pre- 2008 period. Second, despite the continued sluggishness in the developed economies, the Indian exports have recorded impressive growth in November and December 2009 and early indications of the January 2010 data on exports are also encouraging.

Third, notwithstanding; the favourable base effect there is a strong revival of industrial growth, which is reminiscent of the momentum imparted by the industrial sector in stepping-up GDP growth in the period 2003-04 to 2007-08. Indeed the manufacturing growth of 18.5 per cent in December 2009 is the highest in the past two decades. Fourth, the infrastructure services including railway transport, power, telecommunications and, more recently but to a lesser extent, civil aviation have shown a remarkable turn-around since the second quarter of 2009-10. Fifth, the favourable capital market conditions with improvement in capital flows and business sentiments, as per RBI's business expectations survey is also encouraging.

Finally, with the letdown of the Kharif crop behind us and the likelihood of an above average Rabi crop before us, the recovery appears deep and broad enough to pull the economy to a higher growth in fiscal 2010-11.

The main area of concern is the certain persistence in the momentum in food prices, with double digit food inflation. On a year-on-year basis, the WPI headline inflation in December 2009 was 7.3 per cent but for food items it was 19.8 per cent. Thus, unlike the first half of 2008-09 when global cost-push factors resulted in the WPI inflation touching nearly 13 per cent, with inflation in primary and manufactured products just below the overall average and that of fuel and power group at over 17 per cent, the upsurge in prices in the second half of 2009-10 has been more concentrated and confined to food-items only. The weekly food inflation for February 13th, 2010, is around 17.58 per cent and that of fuel, power light and lubricants is 9.89 per cent. A significant part of this inflation can be explained by supply side bottlenecks in some of the essential commodities, precipitated by the delayed and sub-normal south-west monsoons.

Secondly, though I have taken the first few steps in partially rolling back the fiscal stimulus in the Budget proposals that I announced yesterday there is the issue of the necessity and the timing of its withdrawal in a gradual and calibrated manner. I am committed to fiscal consolidation in the interest of the economy's capacity to sustain growth in the medium to long term. But it can be fully effected only when the recovery on private demand, both consumption and investment, is sufficiently robust. This is where I expect the industry to respond. Growth can be sustained over long periods only through rapid increase in investments. It was the prime driver of growth in the last 5 to 6 years and it has to be the prime driver, at least in the next 10 years.

Finally there some concerns regarding the extent to which export recovery seen in November and December 2009, can be sustained in the coming months, given the uncertain recovery in the developed economies. Here again we need to relook at our strategy. We need to diversify our export markets to recover some of the growth momentum.

In a globalizing world, the challenges and opportunities of development, in general, and that of sustaining high growth over an extended period of time, in particular, have become more complex. The analysis of the developments in the economy over· the last two years bring to the fore the importance of pursuing reforms; including in the financial sector, to make the economy more competitive and the economic regulatory and oversight system more efficient and sensitive to new developments.

While we have been alert and responded proactively to developments in the external sector that impacted us directly or indirectly, our focus has to be on strengthening our domestic economic growth drivers. We need to pursue the factors underpinning the recent spurt in our growth in order to quickly regain the momentum that slipped in the past year or so and build on it in the coming years. On balance, I feel the fundamentals of the economy are strong. The positives from our recent performance outweigh the negatives, so that one can hope to see the economy breaking the double digit growth barrier in the very near future, which is essential for reducing poverty in the country.

For us, economic growth has to be an instrument for development and not an end in itself. It has to be not only inclusive but also equitable so as to sustain it over long period. In the last five years, we have moved steadfastly in that direction. It is my earnest hope that the Indian entrepreneurs and the industry will continue to contribute effectively in our journey ahead to achieve this shared vision.

I appreciate the role of FICCI for its contribution to Indian Economy and wish good luck for all its future endeavours.

Thank you