FINANCE MINISTER'S STATEMENT AT THE ECONOMIC EDITORS' CONFERENCE

New Delhi, November 16, 2005

I am happy to welcome all the participants at this year's Economic Editors' Conference.

This Conference has grown into an important forum for extensive interface between various departments of the Central Government and the media. Occasions like this offer the rare opportunity of taking stock of our economic performance, outlook and the evolving policies. I do hope that the next two days will witness reasoned deliberations and rich exchange of ideas.

The United Progressive Alliance (UPA) Government has been in office for eighteen months. We can look back at this period with considerable satisfaction. Our economic prospects have brightened. Given the state of economic fundamentals, we are optimistic of the outlook becoming even brighter in the near term.

Sustained levels of robust economic growth are absolutely essential for achieving our goals. For the present, we appear to be firmly on track in this behalf. After recording almost 7 per cent growth in GDP last year, we have grown by more than 8 per cent during the first quarter of the current financial year. The Reserve Bank of India has projected the economy to grow at a rate between 7-7.5 per cent in the current year. We agree with the assessment, and are optimistic of improving our growth performance over that of the previous year.

Let me explain the reasons behind our optimism. Initial apprehensions about a contraction in farm output arising from the delayed onset of the South-West monsoon have turned out to be wrong. Rainfall during June-September has been 99 per cent of the long period average. This has put at rest all speculation regarding a setback to agriculture. The projected Kharif output of food grains at 105.25 million tonnes during the current year is actually expected to be higher than 103.32 million tonnes during 2004-05. Our food grains stocks with the central pool as on 1st October 2005 were estimated at 15.1 million tonnes (comprising 4.8 million tonnes of rice and 10.3 million tonnes of wheat), which were marginally lower than the buffer stock norm of 16.2 million tonnes (5.2 million tonnes of rice and 11.0 million tonnes of wheat). Given the healthy water storage levels in reservoirs, the prospects are bright for not only kharif, but for rabi output as well. Kharif procurement of rice as on 14th November, 2005 is 9.3 million tonnes compared to 8.2 million tonnes last year at the same time.

Apart from agriculture, our optimism regarding overall growth has much to do with the buoyancy in domestic industry. After growing by a robust 8.2 per cent in 2004-05, industrial output, as measured by the Index of Industrial Production (IIP), has grown by almost 9 per cent during the first six months of the current year. The manufacturing sector, which has grown at almost double-digit rate during this period, has been providing the main thrust to industrial growth. It is encouraging to note the broad-based expansion in industrial performance with capital goods, basic goods as well as consumer goods, performing better than the previous year. Among infrastructure industries, cement, coal and steel are performing much better in the current year, compared to the previous year. The upbeat industrial performance has witnessed a rise in corporate profits and has led to firming up of business confidence indices. However, the performance of mining (especially coal) and electricity has been somewhat disappointing, partly due to the excessive rainfall in some areas. Corrective steps are being initiated to step up mining and electricity production.

Services, like in the earlier years, also continue to perform commendably. While in 2004-05, services posted an overall growth of 8.9 per cent, in the first quarter of the current year, services growth has been nearly 10 per cent. Trade, hotels, transport and communication are leading the services rally by recording a growth of 12.4 per cent in April-June 2005-06. Financial services are also doing well and have recorded a growth of 8.3 per cent.

The momentum gathered by domestic industry has also been reflected in a sharp rise in non-food credit growth during the current year. At the end of the first half of the current year, the year-on-year growth of non-food credit was recorded at 31.5 per cent, which was much above 24.9 per cent recorded during last year. The credit off-take pattern points to good flow of credit to core industries like automobiles, coal, electricity, petroleum, roads, steel and textiles. Among non-farming, non-industrial sectors, housing and real estate has experienced sharp growth in credit flow.

The growth in broad money during the year so far has been higher than that in the previous year. Domestic capital markets have remained buoyant. Stock indices, driven by strong fundamentals, have been scaling new heights. Foreign institutional investors (FII) have continued to repose their faith in the Indian capital market with net FII inflows crossing US$ 4.3 billion during the first six months of the fiscal year.

The composition of India's balance of payments is experiencing a structural shift. After being in surplus for three consecutive years from 2001-02 to 2003-04, the current account of the balance of payments turned deficit last year. Such a deficit reflects excess of domestic investment over domestic savings. It is evident that the pace of expansion of economic activity has stimulated investment demand from domestic industry, which has manifested in a sharp rise of imports used by the industry, a large trade deficit and an overall deficit in the current account. These trends continue to prevail in the current year as well.

Merchandise exports are growing at 22 per cent. However, merchandise import growth at more than 30 per cent has been far higher than that of exports. Balance of Payments (BOP) estimates also indicate that our receipts from services continue to be buoyant, primarily on account of robust software exports and steady inflow of remittances. Among capital flows, gross inflow of commercial borrowings amounted to US$ 6.1 billion during April-September 2005, which, however, was somewhat lower than US$ 7.2 billion recorded during April-September 2004. FDI inflows into India during the same period, however, were higher at US$2.2 billion vis-à-vis US$1.9 billion in the corresponding period of the previous year. On account of a larger surplus in the capital account, the balance of payments was in overall surplus during April-June 2005. However, the accretion to foreign exchange reserves during the period was at a much lower level of US$1.2 billion, compared with US$7.6 billion in the corresponding previous period, primarily due to the deficit on the current account.

The Indian Rupee continues to remain broadly market-determined with the foreign exchange market witnessing orderly conditions during the year. The evolving alignments between major global currencies have resulted in a sharp strengthening of the US Dollar vis-à-vis other major currencies like the Euro and Pound Sterling. Over the last couple of months, the Indian Rupee has also weakened against the US Dollar, as a result of these significant changes.

Let me now turn to one of the major policy challenges that we have been grappling with since we assumed office. Sustained hardening of international crude oil prices has posed a major threat to price stability. However, efficient macroeconomic management has ensured that the adverse effects of high global oil prices do not affect domestic consumers. Despite aligning retail prices of domestic petroleum products through partial 'pass-throughs', care has been taken to ensure that the burden is minimised for the poorer sections of the society. Indeed, our success in containing the inflation rate to below 5 per cent vindicates the effectiveness of our extant price management policies. The moderate level of prices has also enabled the Reserve Bank of India to maintain a monetary policy stance which is aimed at both price stability and promoting growth.

I must, however, confess that the current state of global crude oil prices is not only a major worry for us, but for the entire global economic outlook. The recent assessment of the world economic outlook (WEO) carried out by the International Monetary Fund (IMF) flags the oil prices as a major risk to global expansion in the medium term. Leaving aside the escalation in global energy prices, however, the international economic environment is relatively benign. According to the latest projections by the International Monetary Fund (IMF), the world economy is expected to grow by 4.3 per cent in the year 2005. There are, however, some concerns over the expansion of volume of global trade, which depends crucially upon the outcomes of the forthcoming Hong Kong Ministerial of the World Trade Organisation (WTO).

The last financial year (i.e. 2004-05) was the first year of the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. The progress recorded in fiscal consolidation was quite satisfactory during the year. Provisional estimates point to a decline of the Central Government's revenue deficit from 3.6 per cent of GDP in 2003-04 to 2.7 per cent of GDP in 2004-05. During the period, the fiscal deficit also declined from 4.8 per cent of GDP to 4.1 per cent of GDP. Fiscal indicators of the States point to a substantial reduction in revenue deficit from 2.2 per cent of GDP in 2003-04 to 1.4 per cent of GDP in 2004-05 (RE). The States' fiscal deficit is also estimated to have declined from 4.4 per cent of GDP in 2003-04 to 3.8 per cent in 2004-05 (RE). The combined revenue deficit of the general Government has consequently declined from 5.8 per cent of GDP in 2003-04 to 4.1 per cent of GDP in 2004-05 (RE).

The Budget estimates of the States for 2005-06 has sought to carry forward the fiscal consolidation process by halving the revenue deficit to reach 0.7 per cent of GDP and reducing fiscal deficit to 3.1 per cent of GDP. Centre's fiscal consolidation process has been slower in the current financial year (2005-06) owing to the commitments already detailed in the Budget, arising out of the Twelfth Finance Commission. During the first six months of the current year (i.e. April-September 2005), the revenue deficit and gross fiscal deficit of the Central Government accounted for 68.3 per cent and 55.5 per cent of the budgeted estimates, respectively.

The smooth introduction of Value Added Tax (VAT) system and the management of the transitional problems are testimony to the commitment of the Government on fiscal reforms. Available estimates indicate that most of the Indian States that have graduated to the VAT have experienced higher revenues. The Centre is fully committed to ensuring a smooth transition of the entire Indian federation to a uniform VAT by way of assuring financial compensation to loss-making States.

Let me now reflect upon the progress of policy pronouncements in some key sectors.
Enhancing the flow of credit to agriculture has been one of our main objectives. Accordingly, on 18 June 2004, a credit policy package was announced, which envisaged 30 per cent growth in credit flow to agriculture during 2004-05 (over the previous year) and doubling of the level over a period of 3 years. The progress in the implementation of the package indicates that as on 31 March 2005, the total disbursement by all lending agencies was Rs.1,15,242.81 crore (provisional). This marked an overstepping of the target for the year by around 10 per cent. As against the target of Rs.57,000 crore for commercial banks, Rs.39,000 crore for co-operative banks, and Rs.8,500 crore for regional rural banks (RRBs), respectively, these agencies disbursed Rs.72,886.26 crore, Rs.30,638.38 crore, and Rs.11,718.17 crore, thus achieving targets of 128, 79 and 138 per cent, respectively. By end-March 2005, 79 lakh new farmers were brought under the institutional fold and 777 agri-clinics were financed. Banks provided debt relief to the extent of Rs.8,807.48 crore and Rs.2,146.13 crore to farmers-in-distress and in farmers-in-arrears, respectively. Commercial banks extended loans worth Rs.57 crore to 16,758 farmers indebted to informal sources to redeem their past debts.

The Kisan Credit Card (KCC) scheme, introduced in August 1998, is an important instrument for extending short-term (ST) loans for Seasonal Agricultural Operations (SAO). During 2004-05, co-operative banks, commercial banks, and RRBs, respectively, issued 35.56 lakh, 35.49 lakh, and 17.29 lakh cards, respectively. Since the inception of the scheme, a total of 510.80 lakh cards have been issued by the banking system. Among these, co-operative banks accounted for the largest share (54%), followed by commercial banks (35%) and RRBs (11%). Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh have been the leading States in issuing Kisan Credit Cards and have accounted for 76 per cent of such cards issued.

We have emphasized on micro-finance for ensuring that institutional credit becomes available to small farmers across the country. The National Bank for Agriculture and Rural Development (NABARD) has been promoting the micro-finance initiative through Self-Help Groups (SHGs). During the year 2004-05, 5,39,385 new SHGs were credit linked with banks, as against 3,61,731 during 2003-04, indicating a growth of 49 per cent over the previous year. The cumulative number of SHGs credit linked increased to 16,18,476 during the year, while the bank loans extended increased to Rs.6,898.46 crore during the same period. In this regard, I must mention that guidelines have been issued for enabling capable Non-Government Organizations (NGOs) engaged in micro finance activities to raise ECBs under the automatic route.

The National Common Minimum Programme (NCMP) of the UPA government has underlined enhancing employment opportunities as one of its primary objectives. I am glad to report that the National Employment Guarantee Bill has been passed by the Parliament on August 24, 2005. This scheme will provide livelihood security to crores of poor people across the country. We are committed to finding resources and ensuring successful implementation of the programme. In addition to this scheme, I am happy to report that the coverage of the Antyodaya Anna Yojana (AAY) has been expanded from 2 crore BPL families to 2.5 crore BPL families and necessary guidelines for identification of additional beneficiaries have been issued to all the State Governments on May 12, 2005.

Our progress towards achieving the Millennium Development Goals (MDGs) will remain stunted unless we take significant strides in improving primary health facilities in the country. The National Rural Health Mission (NRHM), which aims to strengthen primary health care through grassroot level public health interventions based on community ownership, was launched by the Hon'ble Prime Minister on April 12, 2005. The States have started taking steps for operationalising various strategies formulated under the Mission. A timeframe has been drawn indicating start up activities for operationalisation of NRHM both at the Centre and State levels.

In the last Union Budget (2005-06), I had mentioned that the universalisation of the Integrated Child Development Services (ICDS) scheme is long overdue. I had also declared that it is my intention to ensure that, in every settlement, there is a functional anganwadi that provides full coverage for all children. The scope of the Scheme has since been expanded by adding 467 projects and 1,88,168 additional anganwadi centers. I had also proposed doubling of supplementary nutrition norms under the Scheme and sharing one-half of the States' costs for this purpose. For the year 2005-06, 50 per cent of the Government of India's share has already been released to the States/UTs and the balance will be released in normal course.

The Mid Day meal scheme for children was revamped by issuing revised guidelines in December 2004. As per the revised scheme, in addition to free foodgrains and transport subsidy, assistance for cooking cost @ Re.1 per child per school day is also being provided now to States and UTs. Accordingly the budgetary allocation for the Scheme for the current year was enhanced to Rs.3,010 crore. Till now, out of the sanctioned budgetary outlay, Rs.1394.08 crore has been spent which is roughly 46 per cent of the budgeted outlay. Except five states (Bihar, Jharkhand, J&K, Punjab and West Bengal), all other States have universalized the programme.

The Sarva Shiksha Abhiyan (SSA) programme is the cornerstone of the Government's intervention in basic education for all children. The budgetary allocation for the Scheme for the year was increased from Rs. 4,754 crore in 2004-05 to Rs. 7,156 crore in 2005-06. As on

September 12, 2005, Rs. 3,903.76 crore was released under the programme, which constituted around 54 per cent of the budgetary outlay for the year.

Extending clean and safe drinking water to all sections of the population is one of the major MDGs. All drinking water schemes have now been brought under the Rajiv Gandhi National Drinking Water Mission. It is encouraging to note that during the current financial year, till end-September 2005, 26,732 additional habitations have been covered under the Scheme. Similarly, under the Total Sanitation Campaign (TCS), which now aims to cover all districts of the country, 42 new districts have been added during the year so far, taking the total number of covered districts to 494.

As you are aware, we have taken on the huge challenge of transforming rural India by announcing the ambitious 'Bharat Nirman' Scheme. The Scheme has been conceived as a business plan, to be implemented over a period of four years, for building infrastructure, especially in rural India. It has six components, namely, irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity. There is no need for me to reiterate the huge funds that are required for implementing the scheme. We are, however, determined to implement the scheme and have already started exploring ways of mobilizing fresh resources.

Improving irrigation facilities in the country continues to remain high on our list of priorities. In this regard, we have reviewed the Accelerated Irrigation Benefit Programme (AIBP). Our focus is now on early completion of truly last mile projects. Our latest assessment indicates that around 24-30 such projects should be completed during the course of the year.

In the latest Budget (2005-06), I had also increased the allocation under Indira Awas Yojana (IAY), the flagship rural housing scheme for weaker sections. Against the target of constructing 15 lakh houses under the Scheme during the current year, till now, about 80,568 houses have been constructed and 4,75,582 houses are under construction at various stages.

Let me now turn to some developments in the industrial sector. In my latest Budget, I had emphasized upon the need for upgrading the textile industry so that it is well-equipped to face the challenges of a post-quota regime. Accordingly, the scope of the Technology Upgradation Fund (TUF) has been enlarged by providing an enhanced allocation of Rs.435 crore. In addition to the benefits available under the TUF, a 10 per cent capital subsidy scheme for the textile-processing sector has been notified. Further, we have decided to adopt the cluster development approach for production and marketing of handloom products, by focusing on 20 select clusters in the beginning. Necessary guidelines in this regard have already been issued. The 'Mahatma Gandhi Bunkar Bima Yojana' has been launched on October 2, 2005, for providing life insurance cover up to Rs50,000 for handloom weavers. A health insurance scheme for the weavers has also been introduced since November 3, 2005.

In a major initiative aiming to impart greater efficiency to the banking sector, two amendment bills, to amend the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, have been introduced in the Lok Sabha on May 13, 2005. The Bills are currently being examined by the Standing Committee on Finance. The Bills aim to provide flexibility to the RBI to prescribe prudential norms by removing the bounds on the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR).

As I have mentioned on various occasions earlier, our objective is to implement economic reforms in a manner that is consistent with the basic requirements of the Indian people. Thus, while we are devoting considerable attention to removal of procedural rigidities in different sectors for enhancing productivity, efficiency, and competition, we have not deviated from our thrust on giving the Indian people a more dignified and honourable existence. In this regard, we are guided by the objectives clearly mentioned and outlined in the NCMP.

As I mentioned in the beginning, I have tried to take you through the progress and performance of the Indian economy since the time we met last. In doing so, I chose to focus on the salient developments only. There are several areas which I have not mentioned in this statement. That is not to imply that those issues and subjects have been relegated to the background. I wish to assure this august gathering that we are engaged in serious deliberations with all stakeholders on practically all policy issues.

I once again welcome all participants and wish the Conference every success.

Thank you.

BAE
AD:PC:HRS