**Full Text of Prime Minister's Statement at the Full Planning Commission Meeting on Twelfth Five Year Plan (2012-17) on 15.09.2012**

(For distribution)

My Cabinet Colleagues,
Deputy Chairman of the Planning Commission,
Members of the Planning Commission,
Distinguished Invitees,

I welcome you to this meeting to consider the draft Twelfth Five Year Plan.

We ended the Eleventh Plan period with notable achievements. The average growth rate was 7.9 percent. This was lower than the 9 percent target, but better than the 7.6 percent achieved in the Tenth Plan. Since the period saw two global crises – one in 2008 and another in 2011 – the 7.9 percent growth is commendable.

There was also progress in inclusiveness. Poverty declined twice as fast between 2004-05 and 2009-10 than it did in the previous ten years. When the data for 2011-12 are included, the rate of decline in the Eleventh Plan period will be even higher.

Agriculture grew at 3.3 percent per year in the Eleventh Plan, much faster than the 2.4 percent observed in the Tenth Plan. The latest NSSO data also establish that the growth rate of rural consumption per capita in the period 2004-05 to 2011-12 was twice as high as in the previous period 1993-94 to 2004-05.

These are positive features, but we must also recognise that the Twelfth Plan is starting in a year when the world economy is experiencing difficulties and our economy has also slowed down. Growth decelerated to 6.5 percent in 2011-12, and was only 5.5 percent in the first quarter of 2012-13.

These short term problems present a challenge. But they should not lead to undue pessimism over our medium term prospects. The economy has developed many areas of strength which will enable us to get back to high growth.

The Plan document suggests that the immediate priority must be to orchestrate a rebound in the second half of the current year. Thereafter, we should attempt to accelerate gradually to around 9 percent by the end of the Plan period.

This will yield an annual average growth rate of around 8.2 percent over the Twelfth Plan period. This is lower than the 9 percent originally envisaged in the Approach Paper, but some downward revision is realistic given the state of the world.

As the Plan document points out, our objective is not just growth of GDP, but growth that is inclusive and also sustainable. I have mentioned that our record on inclusiveness in the Eleventh Plan has been good. We must do even better in the 12th Plan. The SC/STs, OBCs, and the Minorities must all participate fully in the growth process. The Plan has many elements designed to ensure this.

The most important area for immediate action is to speed up the pace of implementation of infrastructure projects. This is critical for removing supply bottlenecks which constrain growth in other sectors, and also for boosting investor sentiment to raise the overall rate of investment.

The infrastructure ministries must set ambitious goals for their sectors over the Twelfth Plan and strive to achieve them. We need close to a trillion dollars of investment in infrastructure and we have to work hard to achieve this.

Constraints are many. Power projects are held up due to lack of fuel supply. Coal projects are being delayed because of environmental clearances and forest clearances. Port projects have slowed down because of security clearances. Many of our infrastructure sectors face financing difficulties which call for some creative solutions.

We need to put in place new empowered mechanisms to overcome bottlenecks. The Investment Tracking System, the monitoring of large PSU investments, the process to speed up security and other clearances are all part of the effort at de-bottlenecking. Many problems require that we work in closer cooperation with state governments to achieve our common goals.

I have asked the Planning Commission to make a quarterly assessment of performance against targets in the infrastructure sectors. I will personally review the situation based on the performance in the first six months. I hope that as a result of this review, we can ensure that timelines are met and projects are completed as planned.

Turning to the longer term policy agenda, the Plan can be seen as consisting of three broad components.

One is the set of Government programmes aimed at achieving specific sectoral objectives. The Plan contains ambitious programmes in health, education, water resource management, infrastructure development, and a number of programmes aimed at inclusiveness, most notably the MGNREGA, the PMGSY, the IWDP and the National Rural Livelihoods Mission. Considerable resources are being allocated for these programmes. We need to pay much greater attention to whether they are also delivering results on the ground, especially for the SCs/STs and the weaker sections. For this, we need better monitoring and concurrent evaluation and also a willingness to be flexible in programme design.

Some of the changes suggested by the B.K. Chaturvedi Committee to reform in the Centrally Sponsored Schemes will help to improve effectiveness.

The second component relates to macro-economic balance. The Plan envisages a substantial acceleration of growth. This is critically dependent on raising the rate of investment in the economy. The investment environment is therefore critical.

High investments must be supported by much higher levels of domestic savings. Our macro policies must therefore encourage savings, especially long term savings. One of the key elements in this process must be the reversal of the decline in government savings in recent years, which is reflected in the sharp increase in the fiscal deficit.

Our fiscal deficit is too high and is attracting adverse comment from analysts. It must be brought down over the medium term to release domestic resources for productive deployment in the economy.

Because export performance is likely to be weak, a high growth, high investment strategy will require financing a current account deficit of about 2.9 per cent of GDP. This must be financed mainly through FDI and FII flows, so that reliance on external debt is limited. I believe we can attract the financing we need, provided our fiscal deficit is seen to be under control and our growth is seen to have regained momentum.

The third key component of the Plan is the set of policies which can improve performance in individual sectors. Numerous policy deficiencies in individual sectors need to be addressed and are discussed at length in the Plan. Let me mention a few key sector priorities.

- ✓ Health, education, and skill development are key sectors which enhance human capability and can contribute hugely to the objective of inclusive growth. They must be given high priority in the Twelfth Plan. These are sectors where additional public resources are needed but there is also need to ensure greater efficiency in delivery through system reforms.

- ✓ Agricultural growth must be accelerated to about 4 percent. This can be done by resorting to better technology and better seeds combined with more effective water management. Most of the growth will come from perishables (horticulture, dairy, fisheries) where post-harvest logistics are important. The plan makes many recommendations for States to follow to modernise agriculture.

- ✓ Manufacturing must grow much faster than it has, to generate the employment growth we need. The plan outlines a multi-pronged strategy for faster growth in manufacturing, especially for MSMEs which are much more employment generating.

- ✓ Infrastructure development increases the competitiveness of Indian producers, especially small and medium industries that rely heavily on general infrastructure. It is also critical for opening up remote areas by improving connectivity. Infrastructure development needs a combination of public investment and PPP.

- ✓ Energy is a difficult area where our policy needs a comprehensive review. We are energy deficient and our import dependence is increasing. It is vital for our energy security that we increase domestic production and also increase energy efficiency. Rational energy pricing is therefore critical. The Plan points out that our energy prices are out of line with world prices. This is true not just in petroleum products, but also natural gas, coal and therefore also electricity. We cannot achieve energy efficiency, or increase domestic production without aligning our prices with global trends. The increase in diesel prices effected recently is a step in the right direction.

- ✓ Water is another area where problems of scarcity and the challenges of effective natural resource management are likely to expand in the years ahead. We do not really have an institutional and legal framework in which water can be efficiently managed.

- ✓ Urbanisation is a new challenge which we must address through a combination of additional resources and reforms.

The central message of the Plan is that we can achieve our objective provided we put in place policies that will take care of our weaknesses. To emphasise the role of policies, the Plan for the first time presents alternative scenarios.

Scenario one is called “Strong Inclusive growth” and presents what is possible if the numerous policy actions outlined in the Plan are substantially implemented. One can expect a number of virtuous cycles to start operating, leading to positive results on both growth and inclusion. This is the scenario we should aim for.

Scenario two is called “insufficient action”. It describes a state of partial action on policies with weak implementation. The virtuous cycles that reinforce growth in Scenario-I will not kick in, and growth can easily slow down to 6 to 6.5 percent. Inclusiveness will also suffer. This is where we will end up if we slip in implementation, and make only half-hearted efforts. It is my sincere hope that we do not do so.

Scenario three is called “policy logjam”. It reflects a situation where for one reason or another, most of the policies needed to achieve Scenario 1 are not taken. If this continues for any length of time, vicious cycles begin to set in and growth could easily collapse to 5 percent per year, with very poor outcomes on inclusion. I urge everyone interested in the country's future to understand fully the implications of this scenario. They will quickly come to an agreement that the people of India deserve better than this.

I believe we can make Scenario I possible. It will take courage and some risks, but it should be our endeavour to ensure that it materialises. The country deserves no less.

Let me now invite the Finance Minister to give us his perspective, after which I will request others to join.

Thank you.

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