GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:28
ANSWERED ON:23.11.2012
DECLINING GROWTH RATE
Hegde Shri Anant Kumar;Joshi Dr. Murli Manohar

Will the Minister of FINANCE be pleased to state:

(a) the factors contributing to the declining growth rate in the country;

(b) whether the Government has adopted any strategy to control inflation and ensure sustainable growth rate in the country; and

(c) if so, the details thereof including the priority set by the Government and the basis thereto?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a) to (c): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 28 BY DR. MURLI MANOHAR JOSHI AND SHRI ANANTKUMAR HEGDE REGARDING DECLINING GROWTH RATE FOR ANSWER ON NOVEMBER 23, 2012

(a) The slowdown in the growth of the economy in 2011-12 is mainly on account of the slowdown in the industrial sector and lower growth registered in the agriculture sector. This reduction in the growth rate is attributable to both domestic and global factors. Global factors include, in particular, the crisis in the Euro-zone and the near-recessionary conditions prevailing in Europe; sluggish growth in several industrialized economies; hardening of international prices of crude oil, etc. Among domestic factors, the tightening of monetary policy in order to control inflation, inter alia, resulted in the slowing down of investment and growth, particularly in the industrial sector.

(b) & (c) The main aim of economic policies in India has been to achieve high growth with moderate inflation. Monetary, fiscal and other policies are used appropriately depending on prevailing economic situation. High inflationary pressures had necessitated adoption of tight monetary policy by the Reserve Bank of India. It raised policy rates by 375 basis points between March 2010 and October 2011. With some moderation in inflation, there has been some relaxation in the monetary policy stance. This is reflected in reduction in cash reserve ratio (CRR) in phased manner from 6.0 per cent in October 2011 to 4.25 per cent in October 2012 , reduction in statutory liquidity ratio from 24 per cent since May 2012 to 23 per cent in August 2012 and a reduction in repo rate by 50 basis points in April 2012. As inflation eases further, there will be an opportunity for monetary policy to take measures to mitigate growth risks. The measures being undertaken by the Government to revive growth in the economy, inter alia, include better access to finance for manufacturing sector, fast tracking of large investment projects in the areas of power, petroleum and gas, roads, coal, strengthening of financial and banking sector, reducing the voiatility of exchange rate, etc. and use of buffer stocks to moderate food inflation. Certain specific measures taken by the Government to achieve higher growth, inter alia, include enhancing the level of investment for agriculture sector including irrigation projects, promoting Micro Small & Medium Enterprises (MSME) sector by way of higher allocation of funds, enhancing investment in the infrastructure sector and also focusing on Public Private Partnerships, a number of legislative measures to further develop the financial sector and introduction of a new National Manufacturing Policy, etc. Measures are also being undertaken to facilitate fiscal consolidation. The steps recently outlined include reduction in the subsidy on diesel, announcement of disinvestment in certain PSUs, measures to strengthen the investment climate (liberalization of FDI in multi-brand retail, aviation, broadcasting) and are expected to revive market confidence and restore growth momentum.