A STUDY ON PROSPERITY DUE TRANSIENT ECONOMY OF INDIA DURING 2011-2014

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Abstract :A survey by global consultancy firm Ernst & Young (E&Y) sees India as the world's most attractive investment destination. With the opening up of foreign direct investment (FDI) in several sectors, India is today an eye-catching destination for overseas investors. The relaxation of norms by the government has created a vast opportunity for foreign players, who are competing for a greater role in the Indian market. Sectors projected to do well in the coming years include automotive, technology, life sciences and consumer products.

INTRODUCTION

With 1.2 billion people and the world's fourth-largest economy, India's recent growth and development has been one of the most significant achievements of our times. The World Bank has projected an economic growth rate of 5.7 per cent in FY 15 for India, due to a more competitive exchange rate and several significant investments going forward.

India will become the third largest economy in the world by 2043, as per Mr. P Chidambaram, Union Finance Minister, India.

The paper reviews status of the various sectors of the Indian economy. It discusses various basic core businesses n their operations like infrastructure industries, telecom sector, trends in inflation , Stock Market trends, Trends in exchange rates, foreign trade along with recent trends in balance of payments, fiscal management , external debt, foreign exchange reserves ,foreign investment and human development .

The paper focuses on various aspects of Indian economy related to growth and its future.

Indian economy and Industrial Growth

India is the third biggest economy in the world in terms of purchasing power parity (PPP), according to a World Bank report. The country was ranked 10th in the previous survey conducted in 2005. Managing growth and price stability are the major challenges of macroeconomic policymaking. In 2011-12, India found itself in the heart of these conflicting demands. The Indian economy is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-9). At the same time, sight must not be lost of the fact that, by any cross- country comparison, India remains among the front-runners. With agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely to weakening industrial growth. The manufacturing sector grew by 2.7 per cent and 0.4 per cent in the second and third quarters of 2011-12. Industrial performance in 2013-14 remained lackluster for the second successive year. The latest gross domestic product (GDP) estimates show that industry grew by just 1.0 per cent in 2012-13 and slowed further in 2013-14, posting a modest increase of

0.4 per cent. Inflation as measured by the wholesale price index (WPI) was high during most of the current fiscal year, though by the year's end there was a clear slowdown. Monetary policy was tightened by the Reserve Bank of India (RBI) during the year to control inflation and curb inflationary expectations.

Over the past one year, in the financial year 2013, the Indian economy is anticipated to grow at 4.9% as compared to 4.5% in FY 2012 with higher output in both industrial & agriculture sector and a rebound exports. However, sluggish growth in consumption and investment weaker the domestic demand. Main macroeconomic indicators influences the overall economic conditions of India are as follows: GDP, IIP, WPI and CPI, CAD, Foreign Trade, FDI.

Performance of Eight Core Industries

From among the industries in the IIP basket (Index of Industrial Production), an indicative monthly index of eight industries—**coal, fertilizer, electricity, crude oil, natural gas, refinery products, steel, and cement** are 'core' in nature because of their likely impact on general economic activity as well as other industrial activity—is brought out, based on provisional production estimates for the month concerned. The average growth rate of eight core industries was 5.0 per cent in 2011-12 and 6.5 per cent during 2012-13. The index of eight core industries grew by only 2.7 per cent during 2013-14. The moderation in growth occurred mainly on account of the negative growth witnessed in natural gas (-13.0 per cent) and crude oil (-0.2 per cent) and low growth in coal (0.7 per cent), fertilizers (1.5 per cent), and refinery products (1.7 per cent).

Bases of Transient economy

1.Services Sector

Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment. In the year 2011-12 Services Sector grew by 9.4% which was little higher than 9.3% in the previous year. . In 2011-12 and 2012-13, in tune with the general moderation in the economy, the growth rate of the services sector also declined. Employment to more people, but employment growth is probably below the desired pace. Services GDP 10.9 Services constitute a major portion of India's GDP with a 57 per cent share in GDP at factor cost (at current prices) in 2013-14 — an increase of 6 percentage points over 2000-01. Including construction, the share is 64.8 per cent. The CAGR of services- sector GDP at 8.5 per cent for the period 2000-01 to 2013-14 has been higher than the 7.1 per cent CAGR of overall GDP during the same period. In 2013-14 the growth rate of the services sector at 6.8 per cent is marginally lower than in 2012-13. This is due to deceleration in the growth rate of the combined category of trade, hotels, and restaurants and transport, storage, and communications to 3.0 per cent from 5.1 per cent in 2012-13, despite robust growth of financing, insurance, real estate, and business services at 12.9 per cent. Construction, a borderline services inclusion which has not been performing well since 2012-13, grew by only 1.6 per cent in 2013-14

2.Inflation

When we talk about the rate of inflation in India, this often refers to the rate of inflation based on the consumer price index, or CPI for short. The Indian CPI shows the change in prices of a standard package of goods and services which Indian households purchase for consumption.
Consumer Price Index (CPI) in India averaged 123.75 Index Points from 2011 until 2014, reaching an all time high of 141 Index Points in June of 2014 and a record low of 105 Index Points in February of 2011. The inflation rate in India was recorded at 8.28 percent in May of 2014. Inflation Rate in India averaged 9.62 Percent from 2012 until 2014, reaching an all time high of 11.16 Percent in November of 2013 and a record low of 7.55 Percent in January of 2012. Inflation Rate in India is reported by the Ministry of Statistics and Programme Implementation (MOSPI), India.

3.Prices and Monetary Management

Monetary policy framework, however, has been a continuously evolving process contingent upon the level of development of financial markets and institutions as also the degree of global integration. In India as in other countries, monetary policy framework has undergone significant transformation over time. Monetary policy remained focused on controlling inflation and anchoring inflationary expectations, with 13 adjustments in policy rates since March 2010, which has slowed growth. These effects, coupled with a favorable base effect in prices and continued global slowdown, are expected to moderate inflation to around 6.5 to 7.0 per cent by March 2012; inflation is expected to come down further during 2012-13. High inflation, particularly food inflation, was the result of structural as well as seasonal factors.IMF projects most global commodity prices are expected to remain flat during 2014-15.The RBI with a view to restoring stability to the foreign exchange market, hiked short term interest rate in July and compressed domestic money market liquidity.

4.Fiscal management

Following the slowdown induced by the global financial crisis in 2008-09, the Indian economy responded strongly to fiscal and monetary stimulus and achieved a growth rate of 8.6 per cent and 9.3 per cent respectively in 2009-10 and 2010-11, but due to a combination of both external and domestic factors, the economy decelerated growing at 6.2% and an estimated 5% in 2011-12 and 2012-13 respectively. The fiscal outcome of the central government in 2012-13 so far indicates improvement over 2011-12. The fiscal outcome of the central government in 2013-14 was in line with the fiscal consolidation targets, despite macroeconomic challenges of growth slowdown, high global crude prices & slow growth of investment. The fiscal policy for 2013-14 was calibrated with two-fold objectives; first, to aid growth revival; and second, to reach the FD level targeted for 2013-14.

5.Balance of Payments

Balance of payment developments during 2011-12 was merchandise exports of US$ 150.9 billion in the first half of the year, which represented an increase of over 40 per cent over the corresponding period in 2010-11. Imports of US$ 236.7 billion during April-September 2011 recorded an increase of 34.3 per cent over April-September 2010.

India’s balance of payments continues to be under stress due to worsening of trade deficit reflected by the sharper decline of exports vis a vis imports this has resulted in high trade deficit of 10.8 percent of GDP and current account deficit of 4.6 percent of GDP during the period April - September 2012.
The India’s balance-of-payments position improved dramatically in 2013-14 with current account deficit at US $ 32.4 billion as against US$ 88.2 billion in 2012-13.

6. International Trade

Despite the recent setback faced by India’s export sector due to global slowdown, merchandise exports recorded a compound Annual Growth Rate of 20.0% from 2004-05 to 2010-11.The economic survey point out that the exports in April-Dec 2010 went up by 29.5 percent while the imports during the same period registered a growth of 19 percent. The trade gap narrowed down to US $ 82.01 billion in the same period. In 2011-12 exports grew by 40.5 percent in the first half of this fiscal and imports grew by 30.4%, foreign trade performance to remain key driver of growth. During 2012-13, exports stood at US $ 75.2 billion & showed a decline of 1.7% as against an increase during Q1 of 2011-12. Imports also declined by 6.1% over the corresponding quarter to 2011-12 & stood at US $ 115.3 billion.
World trade volume which decelerated to 2.8% in 2012 has shown signs of recovery in 2013, little bit slowly with a 3.0 percent growth.

7.Agriculture & Food

The agriculture sector growth in the first four years of the 11th Plan (2007-12) is estimated at 2.87 per cent. The food grain production went up to 232.1 billion tones from 218.1 billion tonnes in 2009-10. With a relatively good monsoon the agriculture-sector is expected to grow at 5.4 per cent during 2010-11. The rising food inflation and the critical role of agriculture underline the need for a larger investment in agriculture enroot to the second green revolution. Food grains production likely to cross 250.42 million tones; largely on back of increase in rice production.

In 2012-13 while some slowdown could also be attributed to the lower growth in agriculture and industrial activities. For improved agricultural growth, there is the need for stable and consistent policies where markets play an appropriate role, private investment in infrastructure is stepped up, food price, food stock management and food distribution improves, and a predictable trade policy is adopted for agriculture.Aided by favorable monsoons, agricultural and allied sector registered a growth of 4.7 per cent in 2013-14. Record food grains and oilseeds production of 264.4 million tones (mt) and 32.4 mt is estimated in 2013-14.Due to higher procurement, stocks of food grains in the Central Pool have increased to 69.84

million tones as on June 1, 2014.The net availability of food grains increased to 229.1 million tones and that of edible oils to 12.7 kg per year in 2013.

8.Foreign Exchange Reserves

Foreign exchange reserves increased by US $ 18.2bn from US $ 279.4 billion in end April 2010 to US $ 297.3 billion in end December 2010. In 2011-12, Forex reserves expanded further, covering almost the entire external debt stock to the country. On the Balance of Payments and External Position, & with net exports declining, India’s balance of payments has come under pressure. Foreign exchange reserves have fluctuated between US$ 286 billion and US$ 295.6 billion, while the rupee remained volatile in the range of Rs 53.02 to Rs 54.78 per US dollar during October 2012 to January 2013. India’s foreign exchange reserves increased from US$ 292.0 billion at end March 2013 to US$ 304.2 billion at end march 2014.

9.Human Resource Development

During 2004-05 to 2011-12, employment growth [CAGR] was only 0.5 per cent, compared to 2.8 per cent during 1999-2000 to 2004-05 as per usual status. In absolute terms, the number of poor declined from 407.1 million in 2004-05 to 269.3 million in 2011-12 with an average annual decline of 2.2 percentage points during 2004-05 to 2011-12.The poverty ratio (based on the MPCE of ` 816 for rural areas and `1000 for urban areas in 2011-12 at all India level), has declined from 37.2 per cent in 2004-05 to 21.9 per cent in 2011-12.According to HDR 2013, India has slipped down in HDI with its overall global ranking at 136 (out of the 186 countries) as against 134 (out of 187 countries) as per HDR 2012. It is still in the medium human development category. The Economic Survey 2013-14 presented by the Finance Minister Arun Jaitely has listed that India’s performance continues to be below global average in most of the HDI indicators like life expectancy at birth, mean years of schooling, expected years of schooling and even per capita income. The Economic Survey says, massive efforts are needed in the form of investment insocial infrastructure, skill development and empowerment of women. Target of skilling 50 million people in the 12th Plan period, including 9 million in 2013-14.

Conclusion:

India’s economy has grown very rapidly in recent years. Since 1991 it has been among the top 10% of the world’s countries in terms of economic growth.

The primary challenge for India is to sustain this growth while spreading its benefits more widely. This requires continuous effort as international experience shows that growth slows down unless reforms are pushed through when growth is high. Stronger growth is associated with revisions in GDP methodology and a change in the base year to 2011/12. Though there are gaps in India's fiscal policy, there is also an urgent need for making India's fiscal policy a rationalized and growth oriented one. Inflation continues posing a threat. Inflation has been caused by rapid growth Fall in oil prices and higher interest rates will lead to reduction in inflation. New emerging markets should be given a special focus on international trade to enable competitive exports which can be possible only if adequate export assistance is provided. India should be focusing on improving its marketing skills to promote its “BRAND INDIA”, on a global platform. Indian economy have to reduce the over dependence on US dollar to maintain the balance of payments position.

In order to maintain the trend experienced in the last few years and to increase our competitiveness, policies have to be geared to access new markets in line with the growth projections and continue the quest for achieving higher efficiency and productivity in our production systems.

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