Growth Prospects of the
Indian Economy

Vision 2021: Trillion dollar growth opportunities

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PHD RESEARCH BUREAU

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Salil Bhandari
President

Foreword

The economic history of India dates back to the inception of the Indus Valley Civilization. The integration with the world and self sufficiency of villages is a phenomenon of the Vedic period. However, the arrival of the East India Company and the subsequent colonization of the economy by the British ruined its prospects.

In 1700, with a population of 165mn, India was the world's largest economy, followed by China with 138mn people. Even a century later, in 1820, as industrial revolution was gathering pace, India and China accounted for half of world's GDP. However, thereafter, China and India got relegated to the bottom of the League of Nations.

During the post-Independence period and the period of the “Five-year plans” efforts were focused on identifying the needs of the economy to take off again. Further, the economic reforms in early 90s opened a new chapter in India's economic history. It gave India an opportunity to shake off the shackles of its past and emerge on the world stage as a progressive nation.

Today India is on the high road of economic growth. However, the current global economic slowdown and volatility have the potential of posing a threat to its growth story. Its demography entails large untapped opportunities as well as fundamental challenges. From the perspective of its booming trillion dollar economy, it has to pass through many phases before it can achieve steady and inclusive growth.

India by 2021 will hopefully lead in many economic indicators in spite of its complex character. The sheer momentum of the young will make the 'elephant dance'.

The study analyzes the growth prospects of the country from various economic parameters and identifies critical areas of strengths and weaknesses. I am hopeful that this study will add to the growing literature in this subject and enhance the horizons for further research in this area.

Salil Bhandari

Susmita Shekhar
Secretary General

Preface

Growth Prospects of the Indian Economy, is one of the first exhaustive report on the economic performance of the country that the PHD Chamber has come up with and it gives me immense pleasure and honour to present it to our esteemed readers. This study is unique in its kind, which captures the potency and limitations of the trillion-dollar economy.

The study highlights the current global scenario and its prevalent ambiguities, apart from detailing the demand supply dynamics of the country. It also brings together latest policy developments in the country, the potential hindrances to the growth story and forecasts future growth rates of GDP and each of its components, apart from highlighting the potential roadmap for further growth by making recommendations on measures to improve the various sectors of the economy.

I would quote Victor Hugo's saying, “no power on earth can stop an idea whose time has come”. Ever since, India launched wide ranging structural economic reforms in 1991, there has been no looking back as it has made significant economic progress over the past two decades.

India's per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years. If India could maintain the current pace of growth it will lift millions out of poverty and enrich the global economy.

The PHD Chamber has always aimed to be an important stakeholder in the development of the nation. I hope that this study helps in further policy formulation, so as to serve as a vehicle for their inclusive growth and socio-economic development.

I commend and appreciate the tireless efforts of PHD Research Bureau which has come up with this report with its focused approach.

Susmita Shekhar

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Abbreviations

Bn	Billion
BoP	Balance of Payments
BRICS	Brazil, Russia, India, China and South Africa
CAD	Current Account deficit
CPI	Consumer Price Index
Cr	Crore
ECBs	External Commercial Borrowings
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
G7	Group of Seven
IMF	International Monetary Fund
IIP	Index of Industrial Production
IT/ ITES	Information Technology/ Information Technology Enabled Services
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
Mn	Million
MNERGA	Mahatma Gandhi National Rural Employment Gurantee Scheme
MSMEs	Micro, Small & Medium Enterprises
PPP	Public Private Partnership
RKVY	Rashtriya Krishi Vikas Yojana
RBI	Reserve Bank of India
Q	Quarter
US	United States
WPI	Wholesalers Price Index

India in the world economy

The world economic environment is extremely volatile at this stage which has the potential of disruptive consequences for all the economies around the globe. Most of the advanced economies are caught up in the quagmire of unemployment, high debt and fiscal deficit. The sovereign debt problems that have beset the euro area over the past year, are now threatening the larger economies of the region. Advanced economies' attempts to fight the sovereign debt has caused unstable financial markets and caused stock markets to fall across the globe.

While the sovereign debt increases have been most pronounced in only a few euro zone countries they have become a perceived problem for the area as a whole. Concern about rising government deficits and debt levels across the globe together with a wave of downgrading of European many European economies created alarm in financial markets. Economies like Ireland, Portugal, Spain and Greece are all caught up in the trap of worsening fiscal positions and the situation is considerably tense. Of late the concerns over sovereign default in USA and the downgrade in the long-term US sovereign rating have significantly increased uncertainty. Apart from these economies, such events could cause capital out flows from emerging economies, creating loss of economic activity, unemployment and other social issues caused due to negative wealth effects.

It may however be noted, that the situation at present is different from the global meltdown of 2008. The crisis has left behind a legacy of public debt. Advanced economies public debt, as percent of GDP, is about 30 percentage points higher, on average, than before. Then, uncertainty came from the poor health of financial institutions. Now, it has come from doubts about the health of sovereigns. Then, the answer was unprecedented monetary accommodation, direct support for the financial sector and a dose of fiscal stimulus. Now, the monetary policy is more constrained, with the advanced economies face near zero interest rate stance and emerging economies face high interest rate regimes due to high inflationary expectations.

India, one of the emerging markets, is not insulated from such developments. The increased inter-dependencies and integration among different economies have reduced the possibilities of India remaining untouched by the international happenings, which have the likelihood of seeping in through various financial linkages. India is a structurally supply constrained current account deficit economy. This deficit is, in turn, financed by capital flows, which over the past several years, had been large and stable enough to more than offset the current account deficit. Actually, when capital stops coming in, the current account drives the exchange rate and, naturally, the pressure is to depreciate. The recent deterioration in capital flows has significantly impacted the various financial channels, deceleration in stock markets, depreciation in currency markets and surge in the prices of international commodities in domestic markets due to exchange rate disadvantages.

However, on the growth front, in the recent global financial crisis during 2008-09, India had proven to be largely resilient to the global meltdown. The Indian economy posted a 6.8% real GDP growth during the world economic slowdown in 2008-09. The resilience of Indian economy is evident from the fact that during the financial crisis, China had provided a larger support (around 14% of GDP) to stimulate its economy whereas India managed to stimulate its economy with a significantly lesser amount (around3% of GDP). However, the divergence from the trend growth was almost same in India and China and both the economies picked up their growth at the same speed.

The fact is that ever since India launched wide ranging structural economic reforms in 1991, there has been no looking back. India has made significant economic progress over the past two decades. India's industrial environment has become more competitive and open, infrastructural gaps have been sought to be bridged through public-private initiatives with both domestic and foreign sources of funding, current account has become fully convertible while capital account is virtually free for non-residents.

As a result, India's per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years. The average saving rate also showed a substantial increase from 23% of GDP in the 1990s to about 31% in the 2000s with a peak saving rate of over 33% achieved during the high growth phase of 2004-08. The efficiency of capital utilisation also improved as the incremental capital output ratio (ICOR) declined to 3.7 during the high growth phase of 2004-08 from 5 in the 1990s.

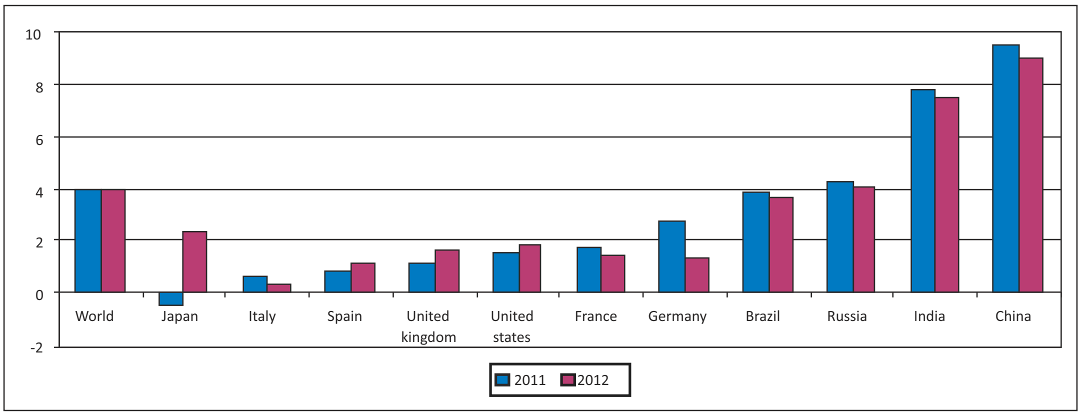
We believe, India has every potential to emerge as fastest moving world economy and a leading investment destination in the next very few years. While downside risks to growth may have increased in the wake of global developments, they are likely to have limited impact on India; however, it requires urgent policy actions to remove bottlenecks to growth. The most important and the immediate challenge to resume the high growth momentum is to address the structural supply side bottlenecks. inflation has been posing a major challenge to India's growth story. High levels of prices, especially vegetables, fruits, milk; eggs and fuels etc have been reflected in double digit rates of inflation.

The government should focus on structural problems like easing supply side constraints to tackle the price pressures instead of hawkish monetary policy measures which in turn affect the production situation cascade the prices. With the view to re-capture the growth momentum, the RBI of late has refrained from further hike in policy rates, however, the rates are in the higher trajectory. Going ahead, if the global economic slowdown persists further, then there is a fair chance of moderation of inflation creating a scope for monetary easing.

1. Growth risks amplified

The advanced economies are mainly feeling the pinch of high fiscal deficit, worsening unemployment scenarios and deteriorating output growth outlook. The global growth is also likely to face the downward risks due to current uncertainties. The projected global growth by IMF is likely to be at 4% in 2011 and 2012. The growth of advanced economies are likely to hover around 1.6% in 2011 and 1.9% in 2012, while emerging and developing economies are likely to grow at more than 6% during the 2011 and 2012.

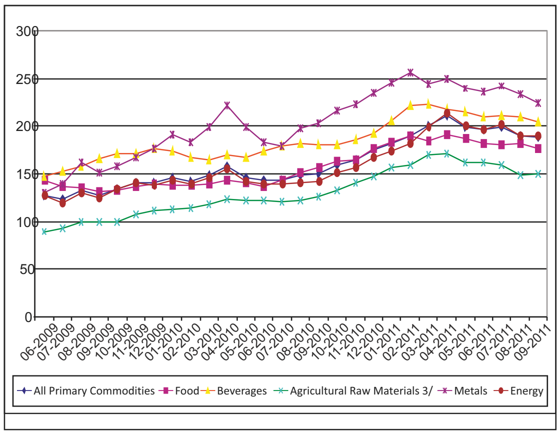
Real GDP growth forecasts: 2011 and 2012



Source: PHD Research Bureau, compiled from IMF

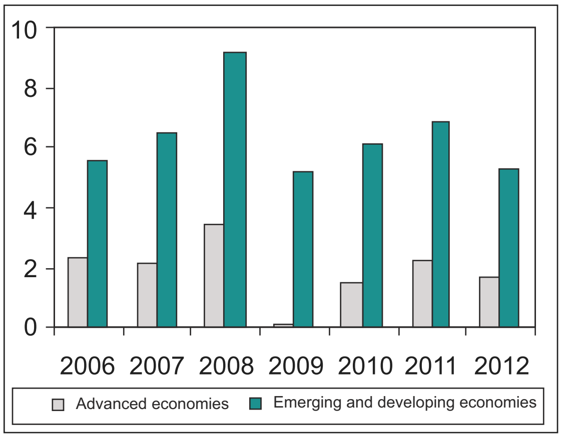
Commodity prices remain steady - Prices for both oil and non-oil commodities rose considerably in 2010 in response to strong global demand and also to supply shocks for selected commodities. Although recently, following the stagnation in advanced economies, some moderation has been observed in the prices of few key commodities, it however remains on the higher trajectory. In sum, commodity situation remains highly volatile on the wake of re-emergence of global recession.

Commodity price indices



Source: PHD Research Bureau, compiled from IMF

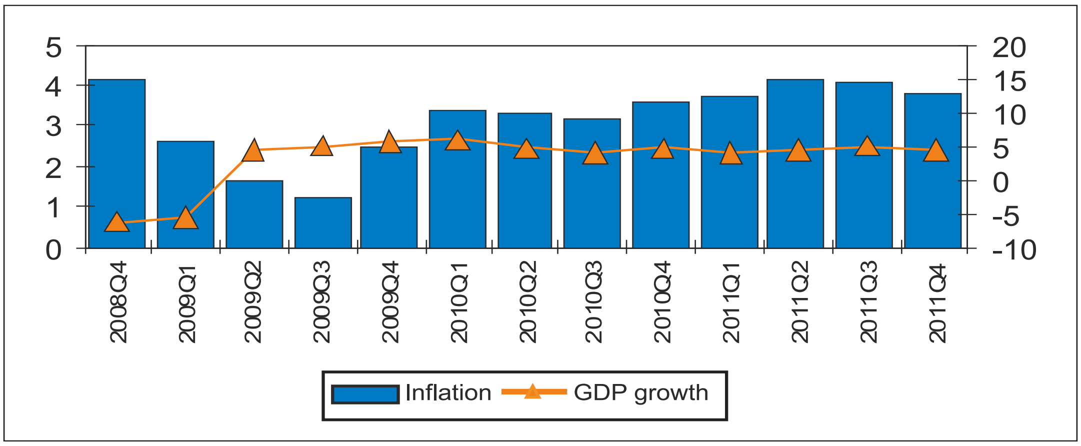
Inflation rate in select economies



Source: PHD Research Bureau, compiled from IMF

The global inflation path remains uncertain. A strong softening bias has been induced in by the re-emergence of global recession fears. Producers' pricing power remains low in most of the advanced economies. Wage inflation is also likely to be restrained as unemployment still remains a significant challenge in these economies. However, this is offset by inflation persistence in emerging and developing economies due to strong demand conditions and steady economic growth.

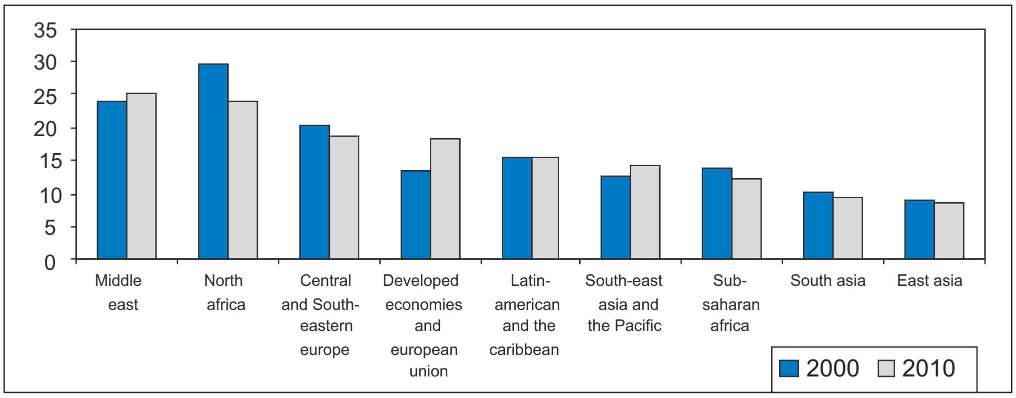
Quarterly world GDP growth vis-à-vis Inflation (Y-o-Y)



Source: PHD Research Bureau, compiled from IMF

Unemployment persists throughout the globe - Estimates show that more than 210 million people across the globe are unemployed marking an increase of more than 30 million since 2007, three-fourths of which has occurred in the advanced economies. In emerging economies, high youth unemployment is starting to gather concern. It may be mentioned that the unemployment situation is more serious in countries in the Middle East, North Africa, European and Developed economies as compared to the South and East Asian countries. However, over the period of 2000-10, economies like North Africa, Latin America, Sub-Saharan Africa, South and East Asia have been able to improve their employment situation, whereas countries in the Middle East, Developed economies and South-East Asia and Pacific regions have deteriorated in this regard.

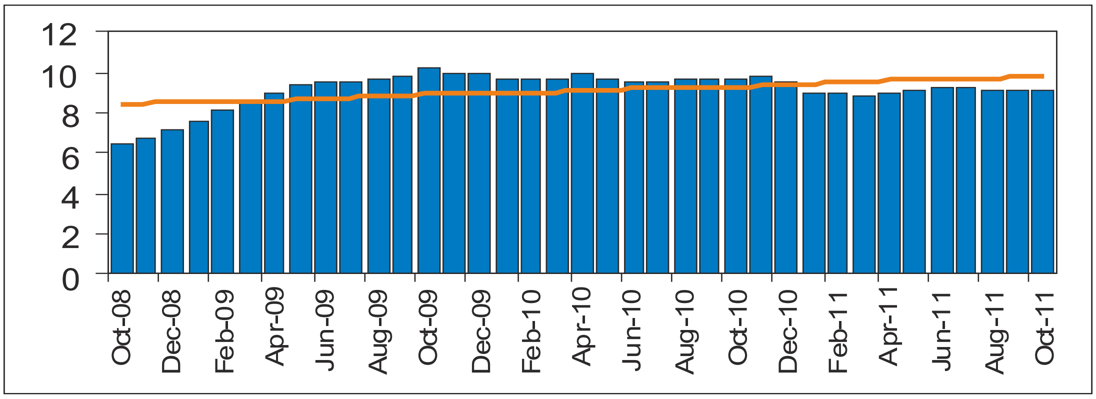
Youth unemployment in major regions (%)



Source: PHD Research Bureau, compiled from IMF

Unemployment scenario in US worrying - Unemployment in US rose to a 14-year high to 6.5% in Oct'08 following the financial crisis. By Feb'09, it had already reached 8.1%, which further increased to 10.2% very shortly, by Oct'09. Even during 2010, the jobless trend stayed at a similar level, with an average unemployment rate of 9.7%. However, the 2011 January Jobs report moderately dropped the rate to 9%, on account of the addition of 36,000 new jobs in the country. The trend has persisted in and around 9% till October 2011. However, the unemployment situation is slated to remain grave in the coming years and it has been projected[1] that in the least promising scenario, the US economy would only create an extra 9.3 million jobs by the start of the next decade (2011-20), meaning that unemployment would close to the double digit mark.

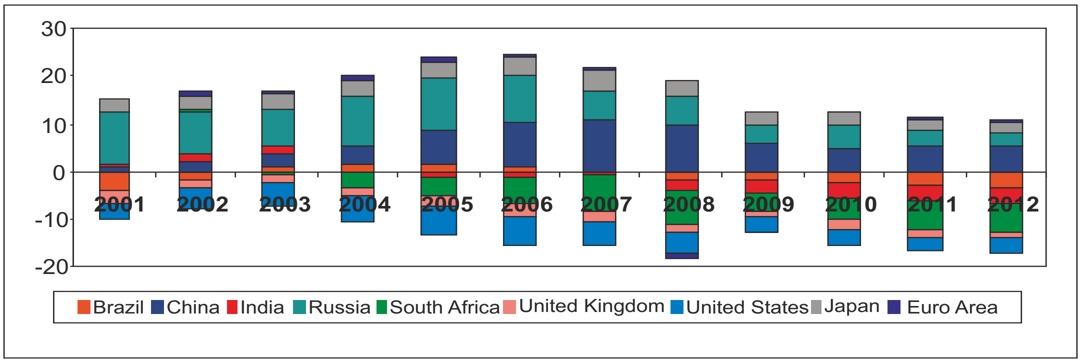
Monthly unemployment trend in the United States (%)



Source: PHD Research Bureau complied from various sources

Current account deficit widens - The Current account deficit among the emerging and developing economies have been rising on account of their high growth in imports vis-à-vis growth in exports. The significant import content in the manufacturing process of several goods produced in these economies have lead to sharp rise in imports, which in absolute terms is also greater than the volume of exports. On the other hand, the advanced economies have huge current account deficits, especially Russia, Euro Area and the United States.

Current account balance in select economies

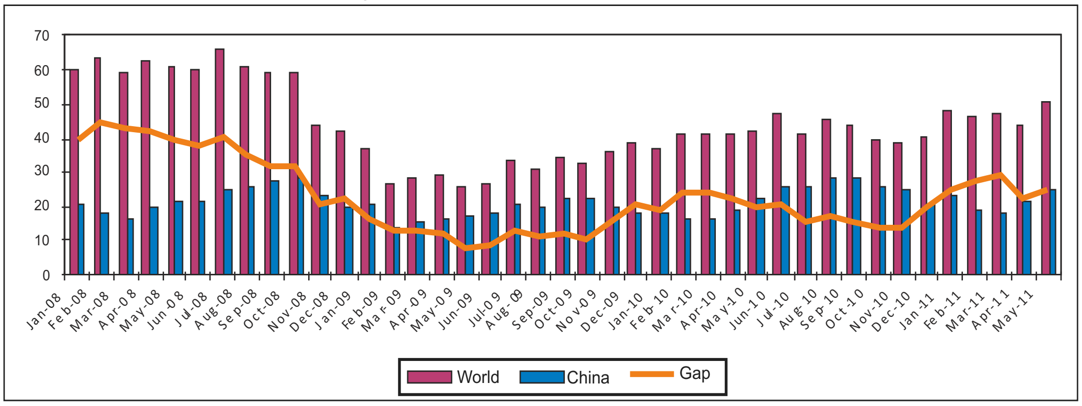


Source: PHD Research Bureau, compiled from IMF

[1] *'An economy that works: Job creation & America's future', June 2011 by McKinsey & company*

US trade deficit - The escalating high trade deficit values for US trade with the world although did decline visibly with the onset of the global economic crisis, but has regained shortly, to high levels, though still below the pre-Lehman figures. The US trade deficit with the World has risen from US$503.5bn in 2009 to US$604.2bn in 2011. Also, it was observed that the US trade deficit with China has more or less been the same over the years from US$226.8 in 2009 to US$245.5 in 2011.

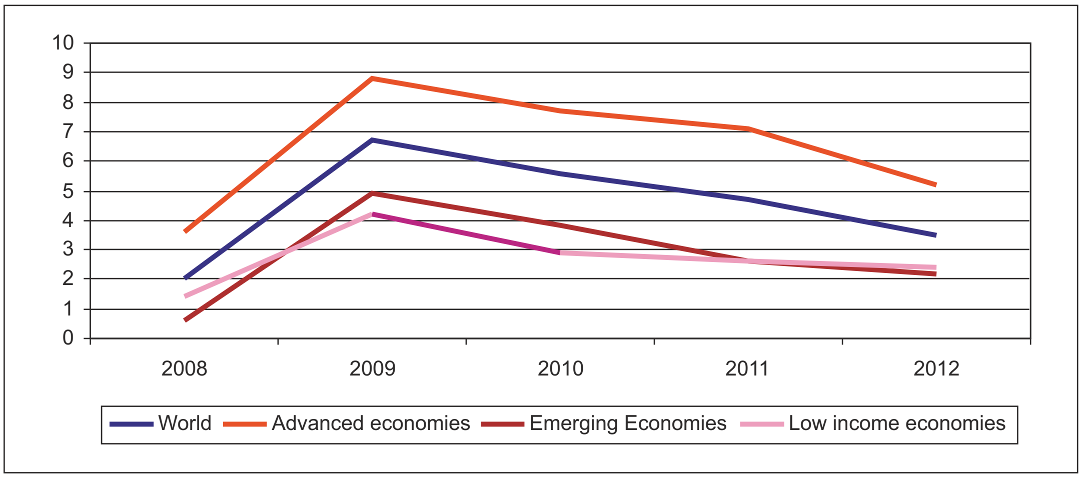
US Trade deficit pattern with the World and China (US$bn)



Source: PHD Research Bureau, compiled from The US Census Bureau

Fiscal deficit worsens - Most advanced economies are caught up in the quagmire of high unemployment and sluggish growth. So, despite the tough austerity measures adopted by their governments, these economies are unable to reduce their fiscal deficits significantly. Emerging economies have however been able to bring about moderation in their fiscal deficit which hovers around 2.5% of the GDP in 2011 and is further expected to reduce it in 2012. Low income economies have also posted a stable fiscal performance by brining down its fiscal deficit to a comfortable trajectory over the years.

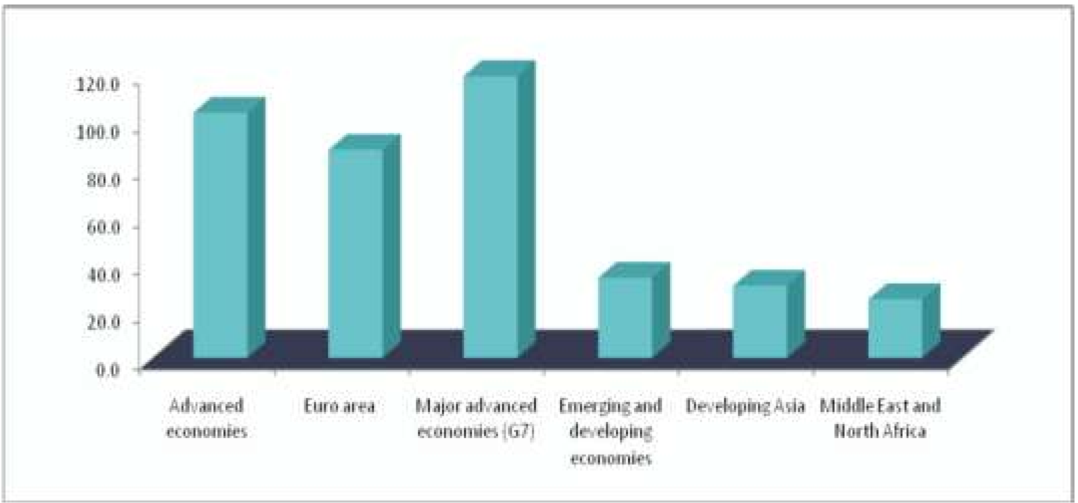
Fiscal deficits of select country groups



Source: PHD Research Bureau, compiled from IMF

Gross debt to GDP ratio increases each day - In 2011, the gross government debt to GDP ratio was highest in major advanced economies (G7), followed by advanced economies and euro area. Emerging economies have posted moderate gross government debt to GDP ratios. Advanced economies have failed to generate sufficient capital to fund their growing expenditures because of low output growth.

Gross debt to GDP ratio



Source: PHD Research Bureau, compiled from IMF

In addition to this, the scope for continued policy support in advanced economies has become much more limited and has, in some cases, been exhausted; the worrying factor is that the current expansionary fiscal policies have coincided with rising age-related spending (pension and health care costs) in most advanced economies such as Japan, Spain, Italy and Greece, which are already laden with high debts and sluggish growth trajectories. Thus, the public debt levels in these economies are set to be continuously rising for the foreseeable future. The current fiscal policy and expected future age-related spending imply a difficult path of debt/GDP ratios over the next several years, going forward.

India's gross debt position better-- The other hand, emerging economies are facing high gross debt to GDP on account of the stark interest rate differential with other economies vis-à-vis an escalating inflationary scenario. However, the gross debt position of India has improved as compared to other nations. India's gross debt to GDP ratio has reduced 2.7 percentage points, from 77.7% in 2007 to 75% in 2011 which is concurrent with the recent global meltdown period. Among the BRICS economies, Brazil too has shown impressive performance, reducing its debt by 0.2 percentage points.

The fastest growing nation, China's position has worsened in the same period. The gross debt to GDP ratio in China increased from 19.6% in 2007 to 26.9% in 2011. The other major economies like Ireland, Greece, Japan and USA, have performed significantly poor, with their Gross Debt/ GDP ratio increasing by 84.3, 60.1, 45.4 and 37.7 percentage points, respectively, during the same period.

Gross Debt to GDP ratio (%) amongst major economies

Country	Debt to GDP ratio in 2007	Debt to GDP ratio in 2011	Change in percentage points (-) indicate improvement
India	77.7	75	-2.7
Brazil	65.2	65	-0.2
Russia	8.5	11.7	3.2
China	19.6	26.9	7.3
Italy	103.6	121.1	17.4
Germany	65	82.6	17.6
Spain	36.1	67.4	31.3
United Kingdom	43.9	80.8	36.8
United States	62.3	100	37.7
Portugal	68.3	106	37.8
Japan	187.7	233.1	45.4
Greece	105.4	165.6	60.1
Ireland	24.9	109.3	84.3

Source: PHD Research Bureau, Compiled from IMF.

In a nutshell, developments in the global economy over the past few months are a matter of serious concern. Global growth prospects appear to be receding as recovery is weaker than assumed. Risks to global growth have amplified with business and consumer confidence dampening on back of the deepening sovereign debt crisis in Europe. There have been significant downward revisions in growth projections for the advanced economies. Going ahead, the emerging markets may face a more difficult environment with adverse external conditions and more volatile capital flows. If the euro area crisis escalates further, as currently expected, it may have spillovers to these economies.

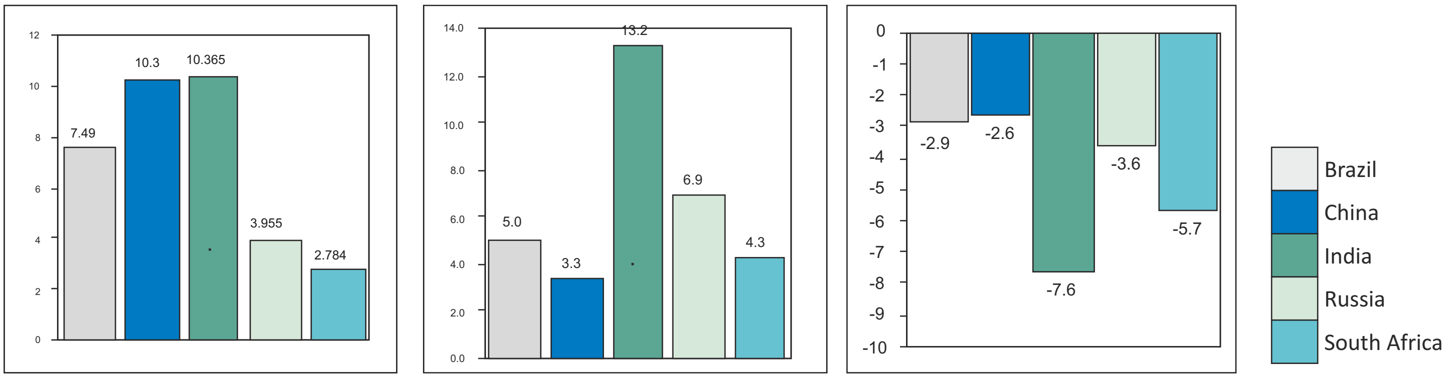
2. BRICS faces price pressures

The BRIC (Brazil, Russia, India, and China) countries were joined by South Africa in 2010 to form the BRICS. The organization, having about 18% of the World's trade and around 45% of the current growth in the world, is being termed as the most emerging organization in the World economic system. Among BRICS, China and India, being the most populated countries, could be a source of world demand. These economies are seen to be the highest growing nations in BRICS, as is observed in the emerging world as well. The average growth during the last decade (2000s) was around 10.4% in China (at constant market prices) and around 7.3% in case of India (at constant factor costs at 2004-05 prices).

However, all five economies are facing high price levels on account of rising international food and commodity prices. It is also observed that the fiscal deficit across the BRICS is on the higher side, with India having the largest deficit (7.6% of GDP[2]), followed by South Africa at 5.7% of GDP.

[2] *Combined deficit of Centre and State, Revised estimate for FY2011*

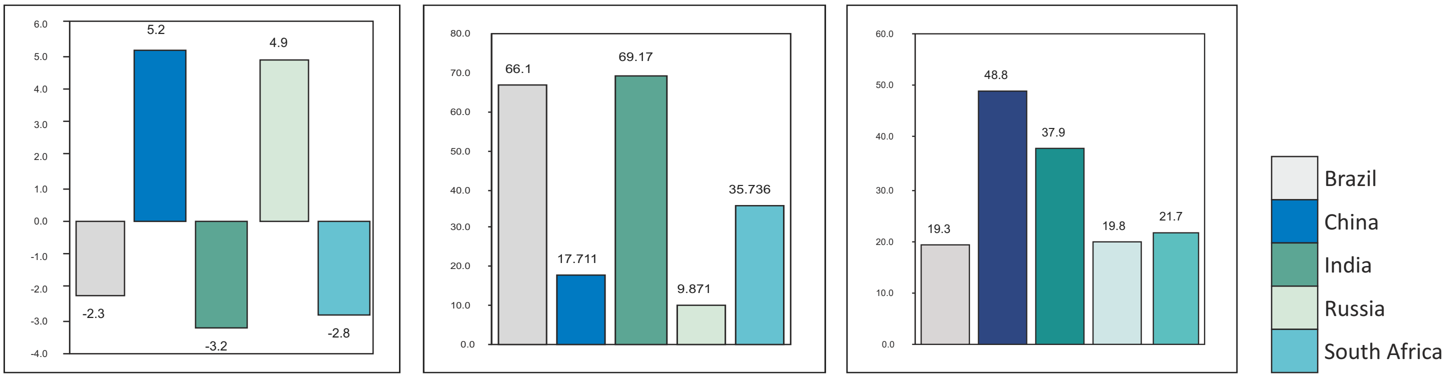
GDP growth (constant market prices), Consumer price inflation, Fiscal Balance (% of GDP)



Source: PHD Research Bureau, compiled from IMF

Driven by high exports growth, China (5.2%) has a positive current account balance along with Russia (4.9%), which has high oil revenues, while Brazil, India and South Africa are sent to be net importers. China and India have the highest investments in their countries with their share in GDP at around 46% and 38% respectively.

Current account balance, Gross Debt and Investments (% of GDP)



Source: PHD Research Bureau, compiled from IMF

Brazil - The country witnessed strong growth in 2010 (7.5%) driven by massive infrastructure spending. However, inflationary pressures coupled with labour shortages and effects of the significant currency depreciation are major challenges before the economy. The central bank is carrying out monetary tightening, including introducing numerous measures to restrain credit expansion and curb money supply to abate high consumer price inflation which stood at around 5%.

Russia - The economic growth in the country seems to have slowed slightly in Q1 2011 with GDP growth being estimated at 4.1%, despite a sharp rise in oil revenues. The credit environment is improving with credit to both households and corporations improving up to about 20%. Strong domestic demand, fuelled by credit growth, led to surging import growth. Monetary tightening is being adopted by the central bank to check the rising inflationary pressure.

India - India is currently facing growth-inflation trade-off. Despite the country's sharp recovery from the slowdown caused by the global financial crisis (2008), the Indian growth story has been challenged by high inflation. Even though the fiscal deficit of the Government is observed to reduce over recent years, however, with increased subsidy burden in FY2012, on account of increased food bill and inflated international crude oil prices, it unlikely to remain within the comfortable trajectory. India's current account deficit has also witnessed an upward trend, as a proportion to GDP, which is also a cause of concern. The central bank has been constantly carrying out tightening of monetary policy since the last many months, which has impacted growth. The country has strong implications for BRICS as it is the 2nd largest labour force provider in the world.

China - The country having the largest population and highest labour force has enormous potential to scale up the BRICS development in ways more than one. China, being the largest exporter and the second largest importer, has the highest volume of foreign exchange reserves in the world. However, even though the GDP growth stands at 9.5% in Q2 2011, the high price level in China has led to the changes in monetary policy stance and other efforts. Also, the current account balance has been falling moderately due to lower exports growth and higher commodity prices.

South Africa - The recovery of South Africa is evident from the first half of 2011, as economic activities seem to have gained momentum with the rebound in demand and employment growth. Notwithstanding upward pressure from food and energy prices, the narrowing output gap would help keep inflation within the comfortable zone. The high current account surplus implies shrinking of budget deficits, which could help the pace of fiscal consolidation. However, the massive scale of unemployment, particularly among the young, remains a factor of concern, as the youth unemployment rate is close to 50%.

To sum up, most almost all the BRICS economies are facing high inflationary pressures and continuous monetary tightening by the central banks has been observed to tackle the challenge. However, the recent slowdown in commodity prices, especially crude oil prices, over the past many months due to declining growth prospects of world economy, could come as relief to emerging economies, cooling their inflation scenarios. If recessionary tendencies emerge in the world and commodity prices continue to decelerate further, then there is a fair chance of moderation of inflation in the BRICS economies creating a scope for monetary easing, going forward.

Select World Economic Indicators

	2006	2007	2008	2009	2010	2011*	2012*
Real GDP(Annual %change)							
World	5.1	5.0	3.9	-0.7	5.1	4.0	4.0
United States	2.7	1.9	-0.3	-3.5	3.0	1.5	1.8
Euro Area	3.0	2.9	0.5	-4.3	1.8	1.6	1.1
Japan	2.0	2.4	-1.2	-6.3	4.0	-0.5	2.3
United Kingdom	2.8	2.7	-0.1	-4.9	1.4	1.1	1.6
China	12.6	14.1	9.6	9.2	10.3	9.5	9.0
India	9.5	9.9	6.1	6.7	10.1	7.8	7.5
Brazil	3.9	6.0	5.1	-0.6	7.5	3.8	3.6
Russia	8.1	8.5	5.2	-7.8	4.0	4.3	4.1
South Africa	5.6	5.6	3.6	-1.7	2.8	3.4	3.6
Consumer Price Inflation (%)							
United States	3.3	2.8	3.8	-0.3	1.6	2.9	1.2
Euro Area	1.9	2.4	2.0	1.0	1.6	2.5	1.5
Japan	0.2	0.0	1.3	-1.3	-0.7	-0.4	-0.5
United Kingdom	2.3	2.3	3.6	2.1	3.3	4.5	2.4
China	1.5	4.8	5.9	-0.7	3.3	5.5	3.3
India	6.2	6.4	8.3	10.9	12.0	10.6	8.6
Brazil	4.2	3.6	5.7	4.9	5.0	6.6	5.2
Russia	9.7	9.0	14.1	11.7	6.9	8.9	7.3
South Africa	4.7	7.1	11.5	7.1	4.3	5.9	4.9
Current Account Balance (%toGDP)							
US	-6.0	-5.1	-4.7	-2.7	-3.2	-3.1	-2.1
Euro Area	0.4	0.2	-0.6	-0.2	-0.4	0.1	0.4
Japan	3.9	4.8	3.2	2.8	3.6	2.5	2.8
United Kingdom	-3.4	-2.6	-1.6	-1.7	-3.2	-2.7	-2.3
China	8.6	10.1	9.1	5.2	5.2	5.2	5.5
India	-1.0	-0.7	-1.9	-2.8	-2.6	-2.2	-2.2
Russia	9.5	5.9	6.2	4.1	4.8	5.5	3.5
Brazil	1.2	0.1	-1.7	-1.5	-2.3	-2.3	-2.5
South Africa	-5.3	-7.0	-7.1	-4.1	-2.8	-2.8	-3.7
Gross Debt to GDP Ratio							
US	61.1	62.3	71.6	85.2	94.4	100.0	105.0
Euro Area	68.6	66.4	70.1	79.7	85.8	88.6	90.0
Japan	191.3	187.7	195.0	216.3	220.0	233.1	238.4
United Kingdom	43.1	43.9	52.0	68.3	75.5	80.8	84.8
China	16.2	19.6	16.9	17.6	33.8	26.8	22.1
India	75.4	72.6	73.1	69.4	64.1	62.4	61.9
Russia	9.0	8.5	7.9	10.9	11.7	11.6	12.1
Brazil	66.7	65.2	63.5	68.1	66.8	64.9	63.9
South Africa	31.4	27.4	26.8	30.9	33.8	36.1	37.6
Fiscal Balance (% of GDP)							
US	-2.0	-2.7	-6.5	-12.8	-10.3	-9.6	-7.9
Euro Area	-1.3	-0.6	-2.1	-6.4	-6.1	-4.2	-3.2
Japan	-4.0	-2.4	-4.2	-10.3	-9.2	-10.3	-9.1
United Kingdom	-2.6	-2.7	-4.9	-10.3	-10.2	-8.5	-7.0
China	-0.7	-0.9	-0.4	-3.1	-2.3	-1.6	-0.8
India	-5.3	-4.0	-7.2	-9.7	-8.8	-8.0	-7.6
Russia	8.8	6.7	4.9	-6.3	-3.5	-1.1	-2.1
Brazil	3.3	3.4	-1.4	-3.1	-2.9	-2.5	-2.8
Unemployment (% of total labour)							
US	4.6	4.6	5.8	9.3	9.6	9.1	9.0
Euro Area	8.4	7.5	7.6	9.5	10.1	9.9	9.9
Japan	4.1	3.8	3.9	5.1	5.1	4.9	4.8
United Kingdom	5.4	5.4	5.6	7.5	7.9	7.8	7.8
China	4.1	4.0	4.2	4.3	4.1	4.0	4.0
India	7.8	7.2	6.8	9.4	9.4	NA	NA
Russia	7.2	6.1	6.4	8.4	7.5	7.3	7.1
Brazil	9.9	9.3	7.9	8.1	6.7	6.7	7.5
South Africa	25.5	22.7	22.9	23.9	24.9	24.5	23.8

Source: PHD Research Bureau, compiled from various sources
**Data represents projections by IMF, NA: Not Available*

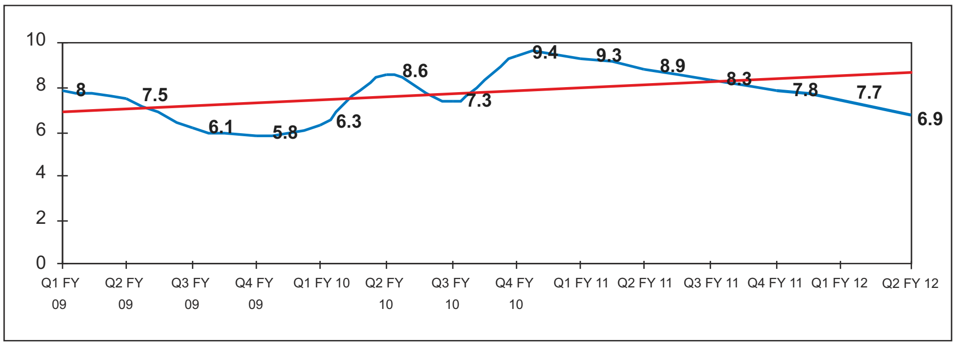
3 India faces growth-inflation trade off

The Indian economy has scaled a steady growth path, growing steadily from 5.7% during 1990s and 7.3% during 2000s. India's growth stood at 6.8% after the dip in FY2009 in the wake of the global financial crisis and considerable slowdown in the world economy. The economy rebounded strongly in FY2010 and FY2011 with a real GDP growth rate of 8% and 8.5% respectively. Since mid 2009, the pace of India's recovery has been strong, led by domestic demand and infrastructure investment. The robust growth was also supported by strong performances in services, while growth in industry, construction activities and agriculture were also commendable. However, several macroeconomic factors posed new challenges in 2011-12 which got aggravated due to emerging global recessionary trends once again.

Currently, the Indian economy is witnessing a slowdown with the inflation much beyond the comfortable trajectory, lead indicators growing lesser than expected and interest rate hovering in the higher trajectory. Following India's robust economic expansion of 8.5% in FY11 driven by a solid recovery in agriculture and fast growth in services, the GDP decelerated to 7.7% in Q1 FY12 and further to 6.9% in Q2 FY12 due to a sharp decline in growth of manufacturing, mining and construction.

During the Q2 FY12, the real GDP growth is estimated at 3.2% in agriculture, 2.6% in industry, 7.7% in construction and 9.2% in services sector. The economic activities which grew robust are electricity, gas & water supply (9.8%), trade, hotels, transport and communication (9.9%), financing, insurance, real estate and business services (10.5%). However, growth in some components like mining & quarrying (-2.9%) and manufacturing (2.7%), were lower as compared to the others.

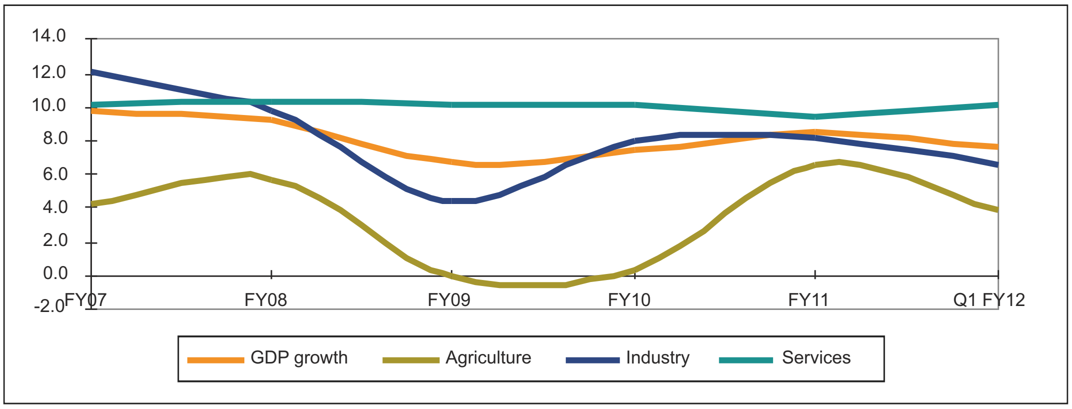
Quarterly growth in India's real GDP



Source: PHD Research Bureau, compiled from CSO

A look at the trend growth of India's real GDP has shown its cyclical movements along with the world economic environment. The dip in the real GDP from 9.7% in FY07 to 6.8% at the end of FY09 was aligned with the global meltdown in 2008-09. The agriculture sector decelerated considerably in FY09 and FY10 due to severe drought like situation. However, the strong growth in services sector helped the economy grow close to its trend growth rate of around 7%.

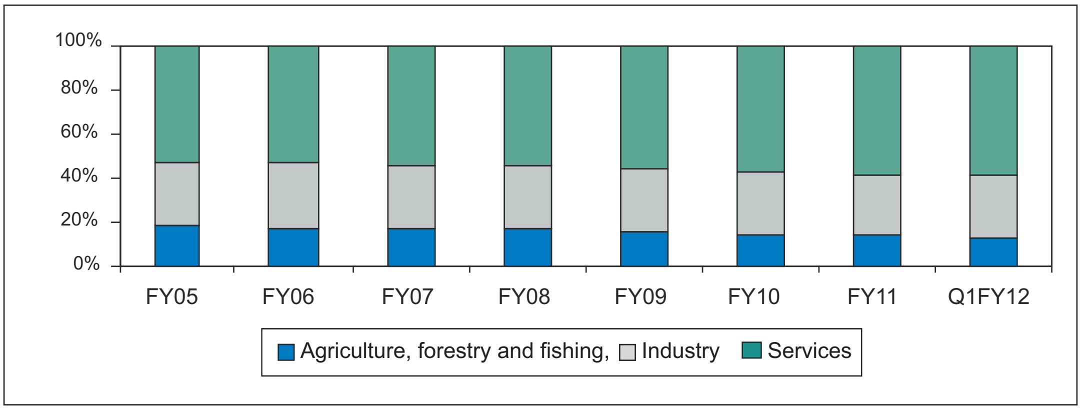
Trend in growth in GDP and its components



Source: PHD Research Bureau, compiled from CSO

The share of agriculture, forestry and fishing in overall GDP has decelerated significantly from 19% in FY05 to 16.8% in FY08 and to 14.4% in FY11. The share of industry (construction included) increased from 27.9% in FY05 to 28.7% in FY08 and then declined to 27.9% in FY11. Services sectors' share, however, on the other hand, has shown positive growth by improving from 53% in FY05 to 54.5% in Fy08 to 57.7% of GDP in FY11. Presently, the share of agriculture, industry and services stand at 11.6%, 27.4% and 61.3% of GDP, respectively in Q2 FY12.

Contribution of agriculture, industry and services to growth in GDP



Source: PHD Research Bureau, compiled from CSO

In a nutshell, though the Indian economy rebounded sharply during FY10 and maintained the high growth momentum in FY11 too, however, almost all lead indicators of the economy, barring electricity generation in industrial segment and trade and hotels in services sector, are exhibiting a modest growth prospect which is a matter of serious concern.

Components of India's GDP (real GDP growth at factor cost)

Components of India's GDP	Share in GDP Q2 FY12	FY09	FY10	FY11	Q1 FY12	Q2 FY12
Agriculture, forestry & fishing	11.06	1.6	0.4	6.6	3.9	3.2
Industry (IIP)	19.7	2.6	8.3	7.8	6.5	2.6
Of which						
Mining & quarrying	2.0	3.6	6.9	5.8	1.8	-2.9
Manufacturing	15.7	2.4	8.8	8.3	7.2	2.7
Electricity, gas & water supply	2.0	3.4	6.4	5.7	7.9	9.8
Construction	7.7	7.2	7	8.1	1.2	4.3
Services	61.3	9.6	10.1	9.4	10.1	9.2
Of which						
Trade, hotel, transport & comm.	27.8	9	9.7	10.3	12.8	9.9
Financing, insurance, real estate & business services	18.8	7.8	9.2	9.9	9.1	10.5
Community, social & personal services	14.7	13.1	11.8	7	5.6	6.6
Overall real GDP	100	6.7	8	8.5	7.7	6.9

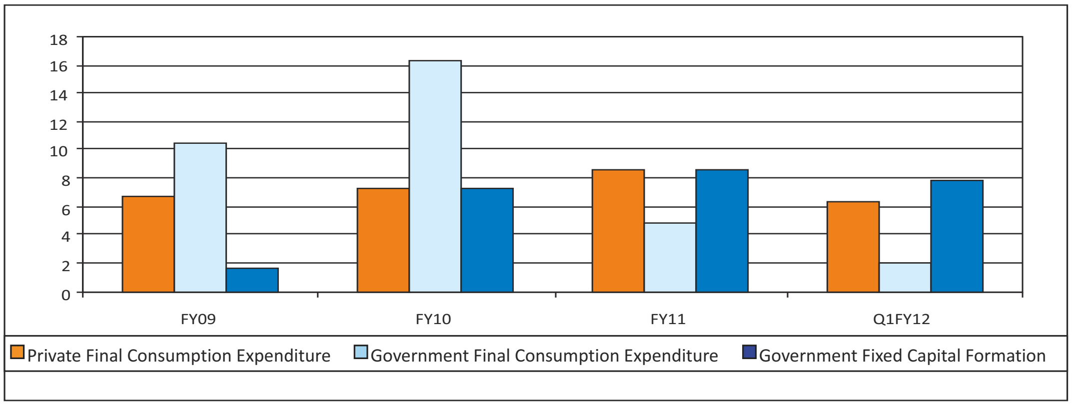
Source: PHD Research Bureau, compiled from CSO

India domestic consumption led economy

India's exposure to the global economy has increased, but it remains an overwhelmingly domestically driven economy. Domestic demand in India continues to be supported by strong rural demand led by fiscal expansion, increased spending on rural employment generation programmes, robust growth in the services sector, rising incomes and changing consumption pattern of the middle income population. It is on account of this that the Private Final Consumption Expenditure (PFCE) in India has led its domestic demand story with a contribution of around 60% in its total demand. Total final consumption expenditure which includes private final consumption expenditure and government final consumption expenditure (GFCE) account for more than 70% of the total GDP as on FY2011.

PFCE grew from 4.8% during 1990s to 6.4% 2000s while GFCE growth decelerated from 6.3% to 5.8% during the same period. The growth of PFCE and GFCE stand at 8.6% and 4.8% respectively as on FY2011. Presently these demand side components of GDP are facing stagnation. However, most of the components of the demand side indicators have shown a decelerating trend. Private final consumption expenditure has grown by 5.9% in the Q2 FY2012 as compared to 8.9% in Q2 FY2011. Gross Fixed Capital Formation has increased by a disappointing -0.63% in Q2 FY2012 compared to 10.2% in Q2 FY2011 whereas Government Final Consumption Expenditure has grown by 4% in Q2 of FY2012 vis-à-vis 6.3% in Q2 Fy2011.

Growth of demand side components of real GDP **(%)**



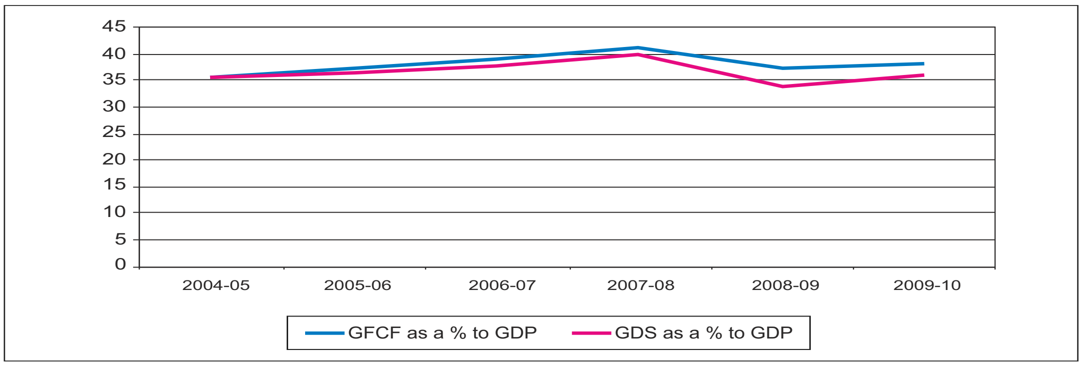
Source: PHD Research Bureau, compiled from Asian Development Bank

Savings and investments looking up

Savings has always been one of India's strength, with its growth driven by its three major components namely (i) Household savings, (ii) Private corporate savings, and (iii) Public sector savings. The gross domestic savings have exhibited a robust growth path, growing steadily over the past many years. It has maintained the increasing trend over the past years, barring FY 2009, following the financial crisis where savings across all sectors declined. The share of gross domestic savings to GDP has always been sizable hovering around 35%. Household savings, which has contributed to about 70% of the total gross domestic savings and about 23% of India's GDP, has kept the high savings growth momentum going. Private corporate savings and public sector savings have also shown a healthy growth over the years and have recovered sharply post the crisis in FY09.

The growth in investments has also been robust over the past many years. Gross capital formation is contributed by three sources, namely, (I) Private corporate sector, (ii) Public sector and (iii) Household sector. The share of gross capital formation in GDP has been robust (barring some bad years), through out and has followed the similar trend as that of Gross Domestic Savings. This is a positive sign as it implies that the savings generated in the economy are largely being chanellised into productive investments.

Trend in Savings and investments (as a percentage to GDP)

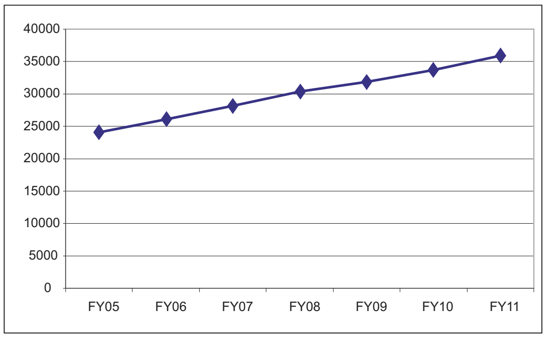


Source: PHD Research Bureau, compiled from CSO

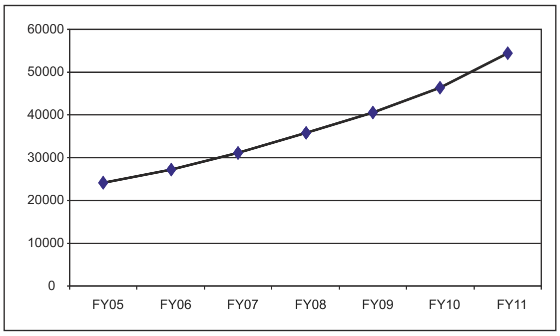
Real per-capita income grows steady

India has been able to improve its per-capita income over the decades. India's per capita income, which had taken four decades to double by 1991, doubled thereafter in 15 years and is likely to double again in 10 years. The trend in growth of real per-capita income is very inspiring as it grew steady from Rs24143 in FY05 to Rs30354 in FY08 and Rs36003 in FY11 marking an increase of about 49% during FY05-FY11. The nominal per-capita income grew from Rs24143 in FY05 to Rs35820 to Rs54527 in FY11 scaling a growth of around 126%.

Growth in real per capita income



Growth in nominal per capita income



Source: PHD Research Bureau, compiled from CSO

Although India is on the high road of growth from the last few years, the present slowdown in the advanced world coupled with domestic economic challenges like inflation, high borrowing costs, stagnation in industries, etc, have slightly impacted the growth situation. However, the domestic macroeconomic fundamentals like savings, investments, per capita income, etc, are growing strong and would drive the further process of growth stabilization in the coming years.

4. Agriculture emerges as a key growth driver

The role of the agriculture sector remains critical to the Indian economy as it accounts for about 53% of employment in the country (as per 2001 census). Moreover, this sector is a supplier of food, fodder and raw materials for a vast segment of industry. In fact, India is a strong rural demand led economy which boosts its growth. However, its share in India's GDP has not been very encouraging. The sector accounted for about 20% of India's GDP in FY05, declining to 16.8% in FY08 and 14.4% in FY11.

Agriculture in India met with a major turning point in the 1960s, post the implementation of what is popularly known as the 'Green Revolution'. High agricultural production and productivity achieved in subsequent years had aided India in attaining food security to a large extent. However, the country has not witnessed any big technological breakthrough in agriculture since then. This is explained by the fact that whereas overall GDP has grown by an average of 7.3% during the 2000s while agriculture has posted a modest growth of only 2.4% during the 2000s.

However, the agricultural sector emerged as the key growth driver during FY2011 with a robust year- on-year growth of 6.6%. As per the 4th advance estimates, there was a record food grain production in FY2011 at around 241mn tonnes as compared with 218mn tonnes in FY2010, surpassing the earlier record of 234mn tonnes achieved in FY2009. Going ahead, the country received good monsoon in the year too and the 1st advance estimates (of FY2012) are also very promising.

According to the 1st Advance estimates of FY2012, rice production in this kharif season is likely to be around 87mn tonnes as compared to 80mn tonnes in FY2011 kharif season. However, production of pulses is expected to decline to around 6mn tonnes as against 7mn tonnes in the last Kharif season. Oilseeds production in the current kharif season is likely to be around the same level around 21mn as it was in the last kharif season, Cotton production is estimated to touch around 36mn bales as against 33mn bales last season. Sugarcane production is also expected to increase and is estimated to be at around 342mn tonnes as against 339mn tonnes in FY2011.

1st advanced estimates of kharif crops production FY2012

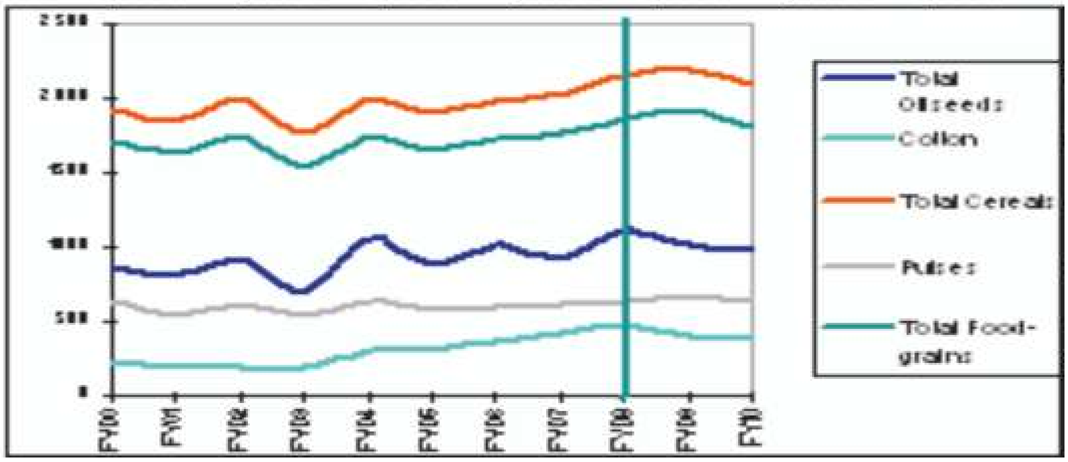
Crop	FY2011 (4th adv estimates)	FY2012 (1st adv estimates)
Rice	80.65	87.10
Jowar	3.48	3.00
Maize	16.32	15.86
Coarse cereals	32.43	30.42
Cereals	113.08	117.52
Tur2.89	2.90	
Urad	1.40	1.17
Moong	1.52	1.20
Total pulses	7.12	6.43
Total foodgrains	120.20	123.88
Groundnut	5.66	5.62
Castorseed	1.34	1.69
Sesamum	0.88	0.73
Soybean	12.66	12.57
Total nine oilseeds	20.85	20.89
Sugarcane	339.17	342.20
Cotton	33.43 m.bales	36.10 m.bales
Jute & mesta	10.58 m.bales	11.22 m.bales

Source: PHD Research Bureau compiled from that 1st Advance Estimates FY2012, Ministry of Agriculture

Agricultural yield stagnates

The agricultural yield in India has been stagnating and is raising concerns. The yields of the main food grains as well as commercial crops are seen to be almost stagnant since FY2000s, and are actually falling FY2008 onwards, much behind the yields of countries throughout the World. The yield of food grains in India stand at 1798 kg/hectare as on FY10 declining from 1860 kg/ hectare in FY08 and 1909 kg/ hectare in FY09.

Agricultural yield of food-grains and cash-crops



Source: PHD Research Bureau, compiled from RBI

A major reason behind the stagnating yield is the small size of land holdings in India. More than 80% of agricultural holdings in India are of less than 2 hectares and more than 60% of farmers operate on less than 1 hectare each. As employment opportunities in the non-farm sectors are growing very slowly, there is very little shift of labour force from agriculture. However, improving the viability of smaller holdings by providing access to technology, inputs and credit has been effectively tackled by the Union Budget 2011-12.

Agri-credit grows robust

According to the Ministry of Agriculture, Farm credit of Rs.112731crore has been disbursed across the country as on end-June 2011, which is around 24% of the target of credit flow for the FY12. The target for the current year FY12 has been fixed at Rs.475000crore. The farm credit has gone up from Rs.125309crore in FY2005 to Rs.446779crore in FY2011. The targets set for the credit flow has been over achieved consistently since FY2005.

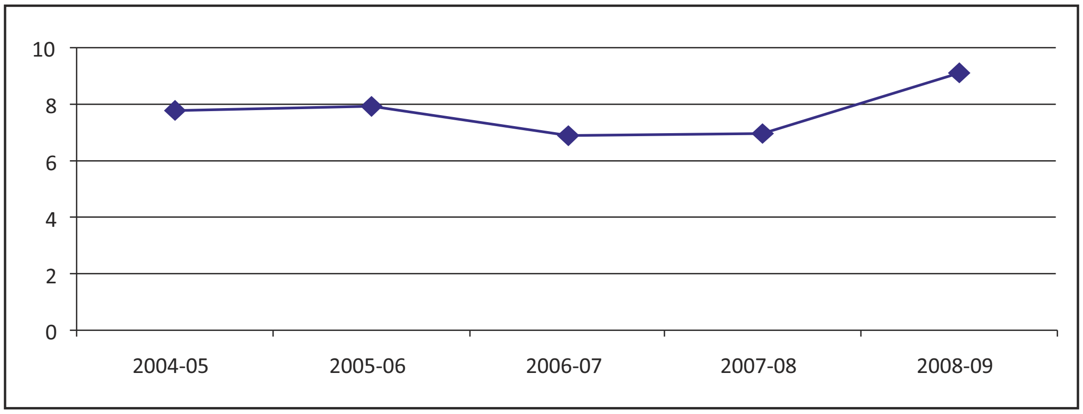
Agri-credit: Target vs achievement **Rs. Crore**

Source: PHD Research Bureau, compiled from Ministry of Finance

Gross capital formation

The share of gross capital formation in the agriculture sector in the total gross capital formation has varied between 7-9% in the last few years. However, it may be mentioned that, considering the huge population dependency on agriculture and its importance as a major supply side indicator, the share has remained way below the comfortable level. This is an area which needs to be addressed.

Share of agriculture sector in total GCF

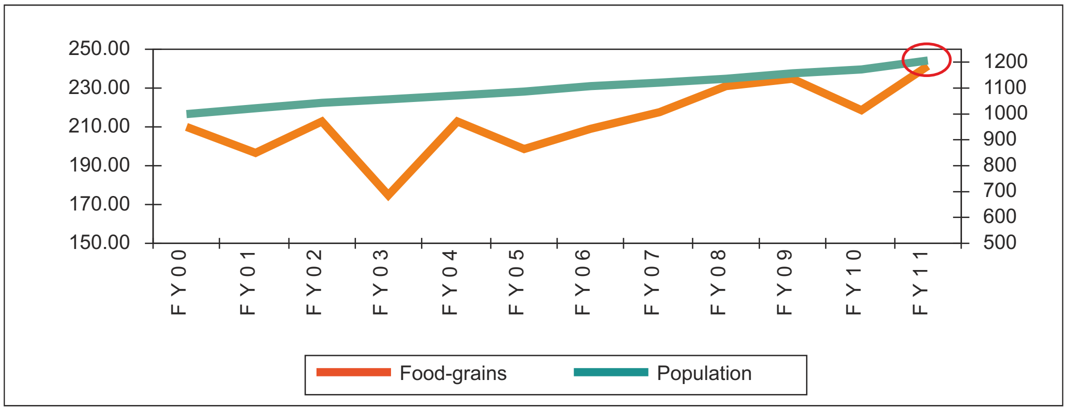


Source: PHD Research Bureau, compiled from Ministry of Agriculture

Food demand swells

The output-availability gap of food-grains in India still exists, which has led to excess demand for food-grains. This caused a price rise to an extent and higher inflationary expectations to a much larger extent, further giving rise to food inflation. Hence, we can see the macro-economic environment being affected due to the resultant food inflation, which was mainly initiated by the expanding divide between production and population.

Growth in food-grain production vis-à-vis population growth



Note: Left y axis: Million tonnes ; Right y axis: Million people
Source: PHD Research Bureau, compiled from RBI

Total demand for cereals is projected to reach 261.5 mn tonnes by 2021. Demand for pulses in the same period would grow to 19.1 mn tonnes. Domestic demand for foodgrains is projected to reach 280.6 million tonnes by the year 2021.

It may be mentioned that, although the total production of food grains during the 11th plan has exceeded the projected demand in the period, about 40% of the total produce in the country gets wasted due to lack of proper storage and warehousing. So to realize the full potential of the production and cater to the demand at large, there is an acute necessity to strengthen the supply chain and agro-infrastructure situation which can arrest the loss due to wastage.

Projected demand for food grains by 2021 (Mn Tonnes)

	Base year Fy05	End of 11th Plan	By 2021
Cereals			
Direct demand as household food	151.7	159.1	166.6
Indirect food demand and other uses	41.1	59.8	94.9
Total demand	192.8	218.9	261.5
Pulses			
Direct demand as household food	9.8	11.8	12.5
Indirect food demand and other uses	4.4	4.3	6.6
Total demand	14.2	16.1	19.1
Foodgrains			
Direct demand as household food	161.5	172.5	187.4
Indirect food demand and other uses	45.5	64.1	101.5
Total demand	207.0	235.0	280.6

Note: Projections do not include exports.
Source: PHD Research Bureau, compiled from National centre for agricultural economics and policy research

Protein-rich food items remain a challenge

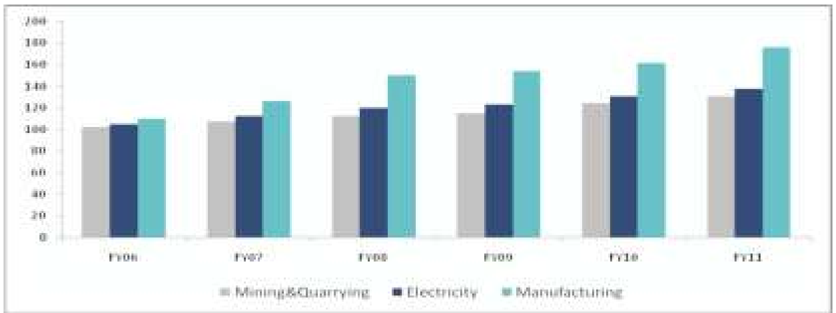
The country is not yet self-sufficient in pulses and oilseeds. Consumer expenditure survey by the 66th round of NSSO suggests that there has been a structural change in food consumption pattern towards protein-rich food items, both in rural and urban areas. Simultaneously, the share of cereals in food has declined. A situation when the demand for high value items such as meat and fish, eggs, fruit and vegetables is rising faster than supply, calls for an overhaul of the entire supply chain mechanism. Development of vegetable clusters and terminal market complexes under the public-private partnership model is a significant step which holds immense potential for better post-harvest management and price discovery.

5. Industry situation turns from bad to worse

The situation of the industry sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development. At 20% value added of industry to GDP, the sector in India does not seem representative of its potential. Although the sector has grown moderately over the last many years, scaling an average growth of 5.7% in the 90s and 7.3% in the 2000s, and there is a lot of scope for further improvement.

The manufacturing sector, which contributes around 75% in IIP, contributes to only 15.8% in GDP, which is much lower as compared with other emerging and developing economies. While in China, the manufacturing sector accounts for nearly 35% of the GDP, in South Korea, Malaysia and Indonesia, the share of manufacturing sector is around 30%. Even in Latin American economies like Argentina and Brazil, the manufacturing sector contributes around 24% in GDP. The lackluster performance in this sector, with special reference to manufacturing production, also has its socio economic implications in the form of over dependence on agriculture for livelihood, disguised unemployment and urban unemployment. It maybe mentioned that the population dependant on industry is only 12% where there exists a wide scope to divert the excess burden in the farm sector to the industry. Hence, for a country with the largest young population in the world, this creates a challenge of significant magnitude. The Indian industry has seen a rough patch, decelerating considerably over the last many months. Industry has recorded growth of 2.6% in Q2FY12, sharply declining from 8.3% in FY10, 7.8% FY11 and 6.5% in Q1FY12 owing to the negative growth in mining, and a decline in the growth of manufacturing.

Indices of IIP and its components



Note: Base year 2004-05;
Source: PHD Research Bureau, compiled from CSO

Decline in production in capital goods due to the likely slowdown in investment and a fall in consumer durables has caused industrial slowdown. Continuous monetary tightening by the RBI to curb inflationary pressures have shot up borrowing costs and have in turn affected investors' confidence by dwindling their price cost margins. Investment deceleration in this sector was also observed due to administrative difficulties like delays in obtaining environmental clearances, difficulties with land acquisition and the lack of progress on some expected policy reforms.

Growth in industry output, as measured in terms of IIP, for the month of Oct2011 decelerated sharply to (-)5.1% from 11.3% in corresponding period last year. The cumulative IIP growth during Apr-Oct 2011 over the corresponding period of 2010 in manufacturing and electricity have been at 3.7% and 8.9% respectively, mining posted a negative growth of -2.2% during the same period, which pushed the overall growth in the General Index to 3.5%. The cumulative IIP growth during Apr-Oct 2010 over the corresponding period of 2009 in the three sectorsmanufacturing, electricity and mining was 9.4%, 4.5% and 6.9% respectively, and the overall growth in the general index was estimated at 8.7%.

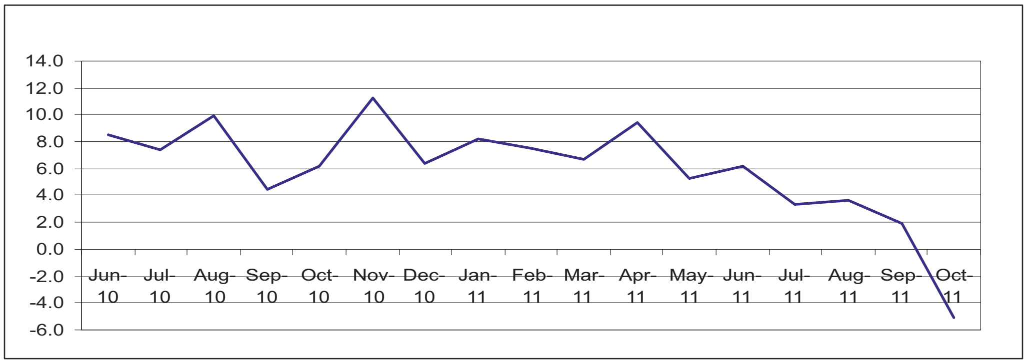
Recent growth pattern in IIP (% growth)

Industry Group	Weight in IIP	Apr-Oct 2010	Apr-Oct 2011	October 2010	October 2011
Mining	14.2	6.9	-2.2	6.1	-7.2
Manufacturing	75.5	9.4	3.7	12.3	-6.0
Electricity	10.3	4.5	8.9	8.8	5.6
Use based classification					
Basic goods	45.7	5.5	5.8	9.8	-0.1
Capital goods	8.8	17.1	-0.3	21.1	-25.5
Intermediate goods	15.7	8.6	0.6	9.7	-4.7
Consumer Goods					
Consumer goods	29.8	9.3	3.7	9.3	-0.8
a) Consumer durables	8.5	14.2	4.5	14.2	-0.3
b) Consumer non-durables	21.3	5.0	2.9	5.0	-1.3
Overall IIP	100.0	8.7	3.5	11.3	-5.1

Source: PHD Research Bureau, compiled from CSO

The slowdown in industry growth in October2011 as compared with October2010 is mainly attributed to deceleration in capital goods (-25.5%), mining (-7.2%), manufacturing (-6%), intermediate goods (-4.7%), consumer non-durables (-1.3%) and consumer durables (-0.8) However, electricity posted a growth of 5.6%. The IIP growth during the Oct 2010 was at 11.3%, which decelerated sharply to -5.1% in Oct 2011.

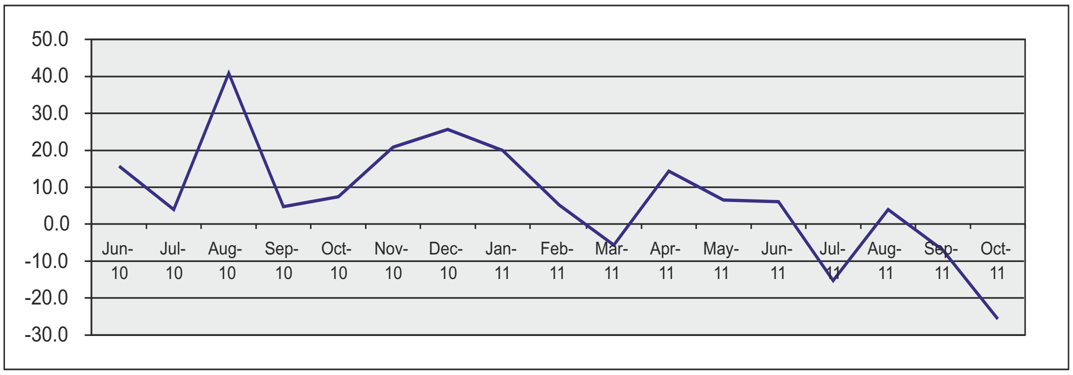
Recent trend in IIP growth (%)



Source: PHD Research Bureau, compiled from CSO

Capital goods have shown a negative growth of 25.5% during the Oct 2011 as compared to 21.1% during Oct 2010, however, slowdown in the cumulative growth of capital goods in Apr-Oct 2011 at -0.3% as compared with a 17.1% growth in the corresponding period last year.

Recent trend in the growth of capital goods (%)



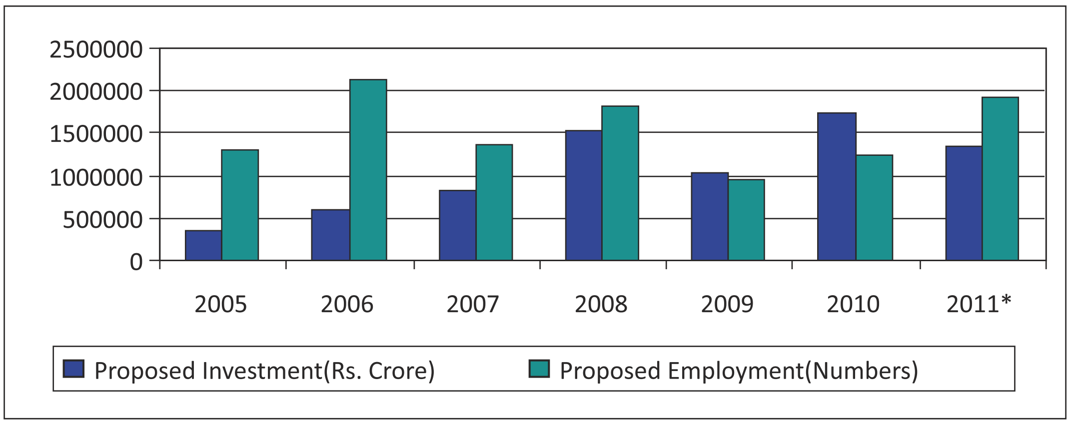
Source: PHD Research Bureau, compiled from CSO

It may be mentioned that capital goods enhance the future productive capacity of the economy. Capital goods are mainly used to produce the consumer goods. The slowdown in the growth of capital goods indicates slowdown in the consumer demand scenario and investment activity in the economy.

Industrial investment proposals

Industrial investment proposals have shown a healthy trend and are seen to increase over the years. Proposed investments have been increasing steadily since 2005, except 2009; however, proposed employment numbers have posted a volatile trend over the years.

Yearly Investment Proposals



Source: PHD Research Bureau, compiled from DIPP
*Note: *September*

Proposed industrial investments have witnessed an upward trend since 2005. It has augmented from Rs3569bn in 2005 to Rs17363bn in 2010. However, it was significantly declined to Rs10402bn in 2009. While the proposed investment as a percentage of GDP also has significantly increased from 10% in 2005 to around 23% in 2010, though it declined in 2009 at around 17%.

Proposed industrial investments as a percentage to GDP

Year	Proposed industrial investments (Rs. Bn)	GDP at current prices (Rs. bn)	Proposed investment as a % of GDP
2005	3569	35662	10.0
2006	5934	41160	14.4
2007	8342	47676	17.5
2008	15238	54470	27.9
2009	10402	61240	16.9
2010	17363	75122	23.1
2011(Sep)	13414	87455*	15.3

Source: PHD Research Bureau, compiled from DIPP and IMF,
**Represents the projections by IMF for 2011*
Note: The figures are represented as round off

Core infrastructure production disappointing

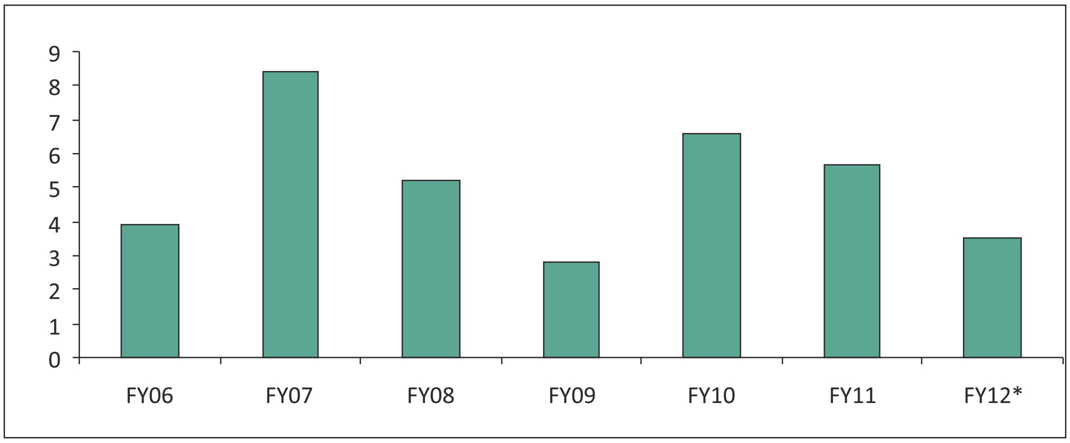
The role of infrastructure development is crucial in the current economic scenario. Extensive and efficient infrastructure network is important for sustainable and all-inclusive economic growth. Building a high class infrastructure is crucial for the effective functioning of the industrial sector, especially for the manufacturing competitiveness. As the key driver of the economy, it forms the basic foundation of its growth and the sustained development in infrastructure is a pre requisite for the progress of all the sectors of the economy.

However, the recent slowdown in the production of crucial infrastructure industries such as coal and natural gas, given the large growth in demand raise concerns about sustaining growth.

The eight core infrastructure industries having a combined weight of 37.9% in IIP had a modest trend in its production index and growth over the years. Steel, cement and electricity have been its most stable components, its “Movers” since Fy06.

However, industries like Fertilizers and Refinery products could be classified as “Shakers” in terms of the growth of the eight core industries. Crude oil, Natural Gas and Steel were the main contributing factors to the core growth in Fy11.

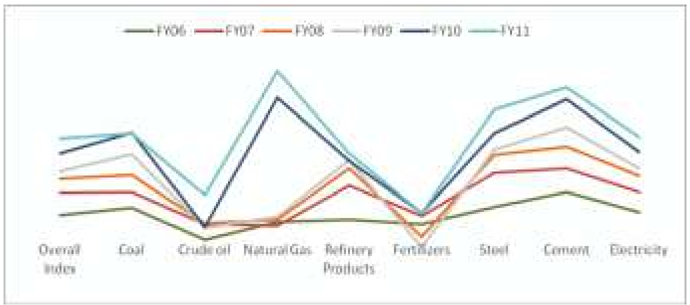
Trend in growth of core infrastructure industries (%)



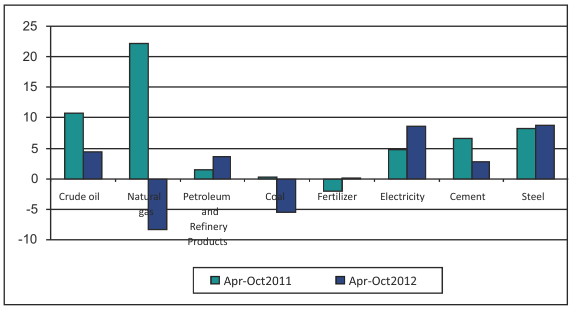
Source: PHD Research Bureau, Compiled from the Office of the Economic Advisor to the Govt. of India
**Apr-Oct Fy2012*

Impacted by decline in output growth of natural gas and coal, petroleum and refinery products and subdued output growth in electricity and steel, eight core infrastructure industries registered a growth of 0.1% in the month of October 2011 as compared to 2.3% registered in September 2011 and 3.7% in August 2011. However, in cumulative terms core infrastructure industries registered a growth of 4.3% during April-October 2011 as against 5.9% during the corresponding period of the previous year 2010.

Sector wise trend in production since FY06(%)



Current sector wise trend growth (%)



Source: PHD Research Bureau, Compiled from The Office of the Economic Advisor to the Govt. of India

Electricity generation grew by 8.6% during April-October 2011 as against its 4.8% growth during the same period of 2010 while steel production grew by 8.7% during April-October 2011 compared to its growth at 8.3% during the same period of 2010. The production in crude oil grew by 4.4% during April-October 2011 compared to its growth at 10.7% during the same period of 2010, whereas petroleum refinery production registered a growth of 3.6% during April-October 2011 compared to its 1.4% growth during the same period of 2010. Fertilizer production grew by 0.2% during April-October 2011 compared to its growth at (-)2% during the same period of 2010 and cement production grew by 2.8% during April-October 2011 compared to its growth at 6.6% during the same period of 2010.

Disappointing growth was observed in the production of coal which grew by (-) 5.5% during April-October 2011 compared to its growth at 0.3% during the same period of 2010 whereas natural gas production registered a growth of (-) 8.3% during April-October 2011 compared to its growth at 22.2% during the same period of 2010.

Exports' growth plummets

India exports situation was on a highroad of growth till few months back, but it seems that the slowdown in the advanced economies has hit the exports hard and exports growth has declined to 4.2% in November 2011 from 10.8% in October 2011. Increased diversification in trade destinations from the advanced economies to the emerging economies might open up fresh avenues for progress in this area, going forward.

India's exports for the month of November 2011 stand at US$22.3bn as against US$21.4bn in November 2010. Imports for November 2011 have reached US$35.9bn as against US$27.7bn recording a growth rate of 29.6%. The trade deficit stands at (-) US$13.6bn for the same month. The cumulative growth for the period April- Nov 2011 stands at 33% and 30% for exports and imports respectively.

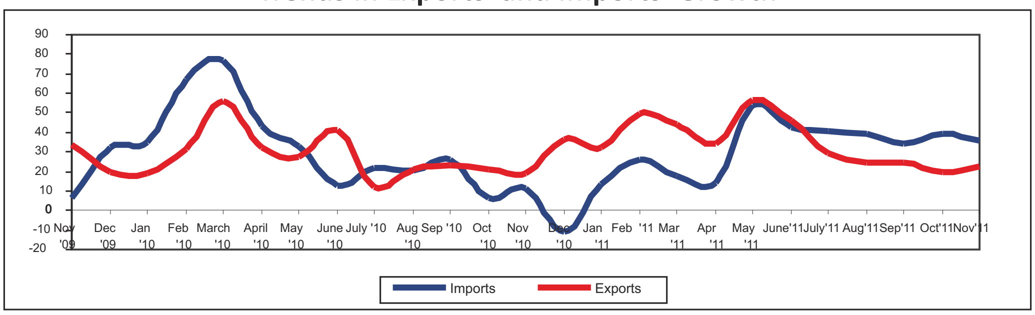
Value of foreign trade (in US$bn)

Period	November	April-November
Exports		
FY 12	22.3	192.7
Growth	4.2%	33%
Imports		
FY 12	35.9	309.5
Growth	29.60%	30%
Trade balance		
FY 12	-13.6	-116.8
FY 11	-8.9	81.6

Source: PHD Research Bureau, compiled from Ministry of Commerce

During April- Nov 2011, exports of engineering goods stands at US$94.1bn, followed by, gold and silver at US$41.4bn, machinery imports contributed US$22.8bn followed by electronics at US$22.3bn and organic and inorganic chemicals US$12.5bn followed by iron and steel US$7.7bn.

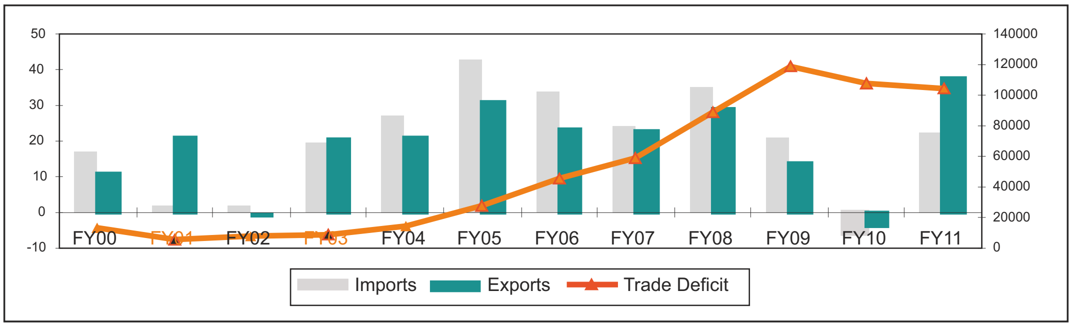
Trends in Exports' and Imports' Growth



Source: PHD Research Bureau, compiled from CMIE and Ministry of Commerce

As regards to imports during April-Nov 2011, the imports of POL stand at US$94.1bn followed by gold & silver touching US$41.4bn. Machinery imports during the period were valued at US$22.8bn followed by electronics imports at US$22.3bn and organic and inorganic chemicals at US$12.5bn.

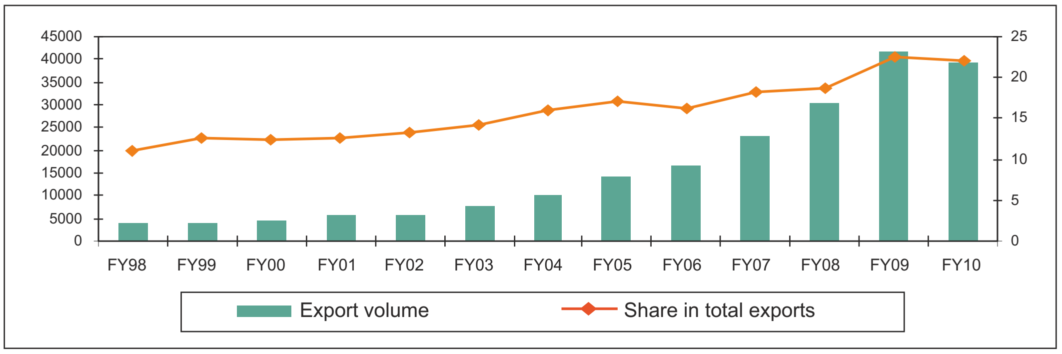
Trend in exports' and imports' growth and trade deficit



Source: PHD Research Bureau, compiled from RBI

A huge rise in India's export relations with the West Asia and North Africa (WANA) region has been observed since the last decade. WANA exports in FY10 have risen by over 600% from FY01; leading the share in the regional exports to total exports growth with a huge 75% contribution. India's exports to WANA went up from Rs5613cr (12.6% of total exports) to Rs39353cr (around 22% of total exports) and it is believed that exports to the region would rise further.

Trend in India's exports to WANA



Source: PHD Research Bureau, compiled from Ministry of Commerce

Diversification of exports markets

India's exports diversification from advanced economies to developing economies during the last decade is inspiring. Concentration of exports to top ten destinations has also been reduced from 57% in 2001 to 53% in 2011, which is also another sign of expansion of exports markets.

USA had maintained the highest rank in India's top 10 export destinations over the years. However, its share in India's total exports registered a fall from 20.88 % in 2001 to 10.17 % in 2011. During the year 2001, countries such as Japan, France and Bangladesh were among the top 10 export destinations of India but now these countries have been replaced by China, Singapore and Netherlands.

India's top 10 export destination - 2001 vs. 2011 (US$ billion)

Country	2001	%Share	Country	2011	%Share
U S A	9.30	20.88	United Arab Emirates	34.34	13.67
Hong Kong	2.64	5.93	U S A	25.54	10.17
United Arab Emirates	2.59	5.83	China	19.61	7.81
U K	2.29	5.16	Hong Kong	10.32	4.11
Germany	1.90	4.28	Singapore	10.30	4.10
Japan	1.79	4.03	Netherlands	7.75	3.08
Belgium	1.47	3.3	U K	7.14	2.84
Italy	1.30	2.94	Germany	6.75	2.69
France	1.02	2.29	Saudi Arabia	5.22	2.08
Bangladesh PR	0.93	2.10	France	5.06	2.08
Total	25.28	56.74	Total	132.03	52.63

Source: PHD Research Bureau, Compiled from Ministry of Commerce

The fact is that India's exports have undergone significant changes in the recent years in terms of volume, items traded and direction. Supported by market resilience and dynamism, exports witnessed robust growth to reach a level of US$251.13bn in 2010-11 from US$44bn during 2000-01. India's share of global merchandise exports was about 0.70 % in 2001, which rose to 1.45 % in 2011.

In a nutshell, the situation in Indian industry scenario is quiet tense and the stagnation in its growth scenario could have serious impacts on the overall growth of the economy. The spiralling input costs such as borrowing, energy and manpower have pushed the inflation, retarding output. The average price rise among key industrial inputs like fuel, chemicals, iron, machinery and transport equipment is above 8% in the last one year, which is alarming. The key policy rate, repo-rate has been hiked significantly since September 2009. The combined effect of high input costs and borrowing costs is set to cause a downtrend in industry outlook from the point of view of dwindling price-cost margins of producers and weakening purchasing power of consumers. The slowdown in exports due to stagnation in demand from advanced economies is a growing concern which is going to last for the next few months.

6. Services maintains momentum in good and bad years

Services are one of the most prominent sectors of the Indian economy with a contribution of around 58% in the GDP. Its impressive growth of more than 9% (average) over the last decade has made this sector one of the key driver of India's GDP not only in the good years but in the bad years too. The sector posted 9.4% during global financial crisis in FY09. In post crisis period, the services sector marked a robust growth of 9.2% during FY2010 and FY2011.

Always at the forefront in contributing to India's growth story, the services have been resilient even with the reemergence of global recessionary situation in FY2012, by keeping up the growth momentum at 9.2%

in Q2 of 2011-12. This growth has been mainly driven by trade, hotels, transport and communication and financing, insurance, real estate and business services. However deterioration in indicators for construction and telecom sector are likely to have an impact on the growth, going forward.

Services sector lead indicators **(Growth in percent)**

Indicators (Y-o-Y growth)	2009-10	2010-11	Apr-July 2010	Apr-July 2011
Tourist arrivals	4.4	8.3	6.3$	9.3$
Cement	10.5	4.5	4.6#	2.8*
Steel	6.0	8.9	6.6#	9.3*
Railway revenue earning freight traffic	6.6	3.8	2.3#	6.1*
Cell phone connections	47.3	18.0	36.5	-31.3
Cargo handled at major ports	5.8	1.6	0.6#	4.5*
Civil aviation				
Domestic cargo traffic	24.3	23.7	33.6	-5.3
International cargo traffic	10.5	17.7	25.3	3.9
Domestic passenger traffic	15.6	18.1	21.2	17.9
International passenger traffic	8.8	10.3	12.6	8.8

Source: PHD Research Bureau, compiled from RBI
** Data pertains to April-August; $ Data pertains to April- September*

Services exports

India's services exports have been growing strongly from US$57.6bn in FY2006 to US$105.9bn in FY2009 and further to US$ 131.9bn in FY2011. Even with the emergence of downside risks due to slowdown in global demand, the service exports have maintained its momentum and has posted a stable performance over the years. The service's exports and imports stood at around US$12 billion and US$ 7 billion respectively during Apr-Oct2011.

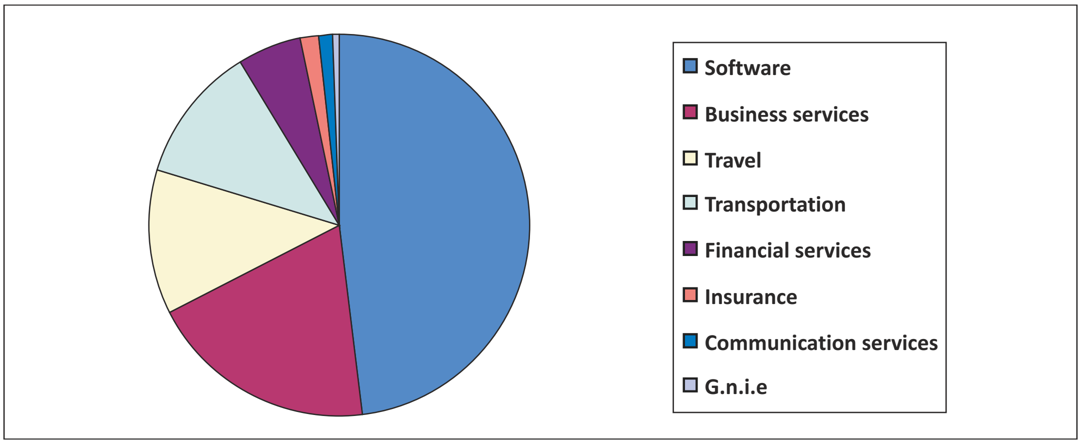
International trade in services **(US$ billion)**

Month	Exports	Imports
April 2011	11.46	6.88
May 2011	11.83	7.08
June 2011	11.04	7.20
July 2011	10.40	5.89
August 2011	11.89	6.86
September 2011	11.22	6.79
October 2011	11.45	6.82

Source: PHD Research Bureau, compiled from RBI

Software accounts for the highest share of around 45% in the export basket of services from India, followed by Business services (18.2%), Travel services (11.5%), Transportation services (10.8%), Financial services (4.9%), Insurance services (1.4%), Communication services (1.1%) and Government not included elsewhere(0.4%) during Fy2011.

Composition of Services Exports (%)



Source: PHD Research Bureau, compiled from RBI
Note: Data pertains to FY2011

7. External sector challenges

India is primarily a supply constrained domestic consumption led economy with exponentially growing consumer demand. India needs to import a substantial proportion of its total demand which comprises mainly crude oil, vegetable oils, pulses and fruits, among others. Apart from the food related imports, Indian manufacturing sector is also largely dependent on import of capital and intermediate goods comprising mainly electrical and non-electrical machinery, transport equipment, project goods etc. This is the sole reason why India has remained a net importer with widening current account deficits, despite its robust growth within in the exports front. With the growing domestic demand for goods and services, the current account deficit has increased from an annual average of US$4.4bn during 1990s to an average of US$8.3bn during 2000s. However, the current account deficit as a percentage of GDP (annual average) shrunk from -1.3% to -0.5% during the two decades, respectively.

The CAD stood at a huge US$44.3bn during 2010-2011 comprising about -2.6% as a percent of GDP. However, with the cyclical upswing in global trade and turnaround in invisibles the current account deficit improved markedly in the second half of 2010-11 on back of a strong pick-up in exports from November 2010. Diversification of trade in terms of composition as well as direction helped in achieving strong export performance. Notwithstanding the high exports growth momentum, the re-emergence of uncertain global conditions impacted the CAD scenario on account of strong growth posted by imports vis-à-vis domestic demand and severe depreciation in exchange rate scenario.

The uncertainties associated with the sovereign debt problem in the euro area and the slowdown in the US could pose challenges for India's external sector. Thus, it is imperative to for India to reduce CAD by diversifying goods and services exports towards the high growth developing and emerging economies.

Summary of India's balance of payments (US$ bn)

Item	Year				
	FY08	FY09	FY10	FY11	Q1 FY12
Exports	166.2	189	182.2	250.4	80.6
Imports	257.6	307.7	300.6	381	116.1
Trade Balance	-91.5	-118.7	-118.4	-130.6	-35.5
Net Invisibles	75.7	89.9	80.0	86.3	21.3
Current Account Balance	-15.7	-28.7	-38.4	-44.3	-14.2
Net Capital Account Balance	106.6	7.2	53.4	59.8	20.9
Overall Balance	92.2	-20.1	13.4	13	5.4

Source: PHD Research Bureau, compiled from RBI

Although there could be some pressure on CAD if the global economy weakens significantly and affects exports scenario, however, with adequate foreign exchange reserves, India remains capable of handling any pressures emanating from the external sector in the near term. India's net capital flows during Q1 of FY2012 stands at US$20.9bn as against US$16.8bn during the corresponding period last year, primarily due to rise in FDI and ECBs, while reversal trend was posted by FIIs. On the other hand, NRI deposits have marginally increased during the same period.

Net capital flows (US$bn)

Item	April-March		April-June	
	FY10	FY11	FY11	FY12
Net Capital Flows	53.4	59.7	16.8	20.9
Of which:				
FDI	18.8	7.1	2.9	7.2
Inward FDI	33.1	23.4	6.1	12.9
Outward FDI	-14.4	-16.2	-3.2	-5.7
Portfolio Investment	32.4	30.3	4.6	2.5
Of which:				
FIIs	29.0	29.4	3.5	2.5
ADR/GDRs	3.3	2.0	1.1	0.3
External Assistance	2.9	4.9	2.5	0.4
ECBs	2.8	11.9	2.2	2.9
NRI Deposits	2.9	3.2	1.1	1.2
Short term Trade Credits	7.6	11.0	4.3	3.1

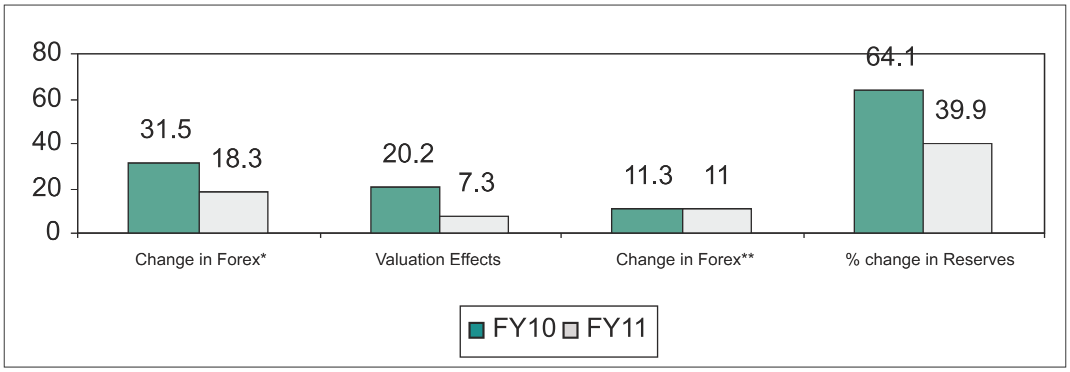
Source: PHD Research Bureau, compiled from RBI

Foreign exchange reserves

During 1990s the total foreign exchange reserves with India was about US$ 38 bn which was far less than most of the economies. However, post economic reforms phase since 1991, wherein the government undertook structural policy actions to integrate India with the world economy, the country witnessed a progressive increase in its foreign exchange reserves. The total foreign exchange reserves increased from around US$141 bn in FY2005 to around US$309bn in FY2008. However, due to global meltdown in FY2009, the foreign exchange reserves depleted marginally. In FY2011 foreign exchange reserves stands at around US$ 305bn.

With capital account surplus being higher than the current account deficit, there was a net accretion to foreign exchange reserves of US$13.1bn during FY11, on a BOP basis. In nominal terms (i.e. including valuation changes) foreign exchange reserves increased by US$25.8bn during FY11 while the valuation effects stood at US$12.7bn during the same period. The valuation gains, reflecting the depreciation of the US dollar against major currencies, accounted for 49.2% of the total increase in forex reserves.

Comparative position of forex (US$bn)



Source: PHD Research Bureau, compiled from RBI
** (Including Valuation Effects); ** (Excluding Valuation Effects); Source: PHD Research Bureau, compiled from RBI*

The foreign exchange reserves as on December 16th 2011 stands at US$306.7 billion, with US$ 271.6 billion foreign currency assets and US$ 28 billion gold.

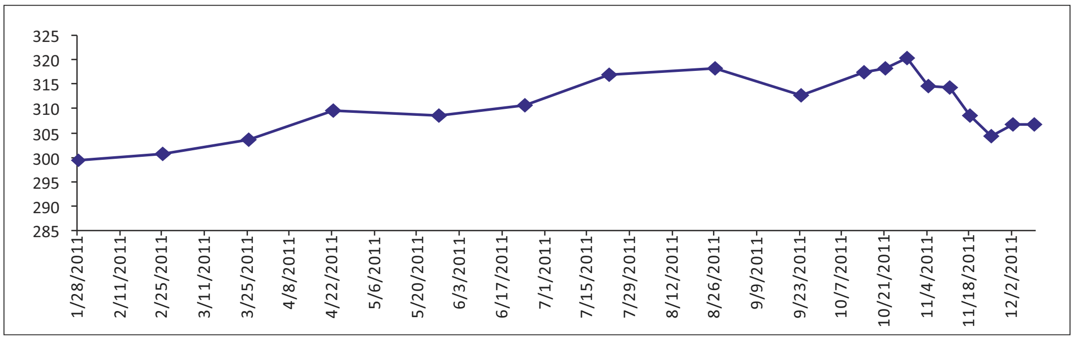
Foreign exchange reserves and its components (US$ Bn)

Items	As oan Dec, 16, 2011
Total Reserves	306.7
Foreign Currency Assets	271.6
Gold	28.0
SDRs	4.5
Reserve Position in the IMF	2.6

Source: PHD Research Bureau, Compiled from RBI

The Foreign Exchange Reserves have been increasing over the year from US$ 297.4Bn in January 2011 to US$ 317.5Bn in October 2011, with a marginal dip in the month of May and Sep 2011. The Forex reserves declined further in November 2011 at around US$ 304Bn.

India's foreign exchange reserve over 2011 (US$ Bn)



Source: PHD Research Bureau, Compiled from RBI

FDI rebounds

Post reforms period in 1990s, marked a new chapter in India's investment and business environment. Foreign capital inflows with specific reference to Foreign Direct Investment, has driven the investment growth story over the last two decades. The exponential growth in the volume of FDI inflows in India from an average (annual) of US$1.6bn in 1990s to an average of US$16.4bn during 2000s is phenomenal. The volume of FDI to India stood at US$30.3bn in 2010-11.

The FDI inflows, in the period April-September 2011 are estimated around US$19.1bn; representing an increase of around 74% over the FDI inflows of about US$11bn for the corresponding period last fiscal.

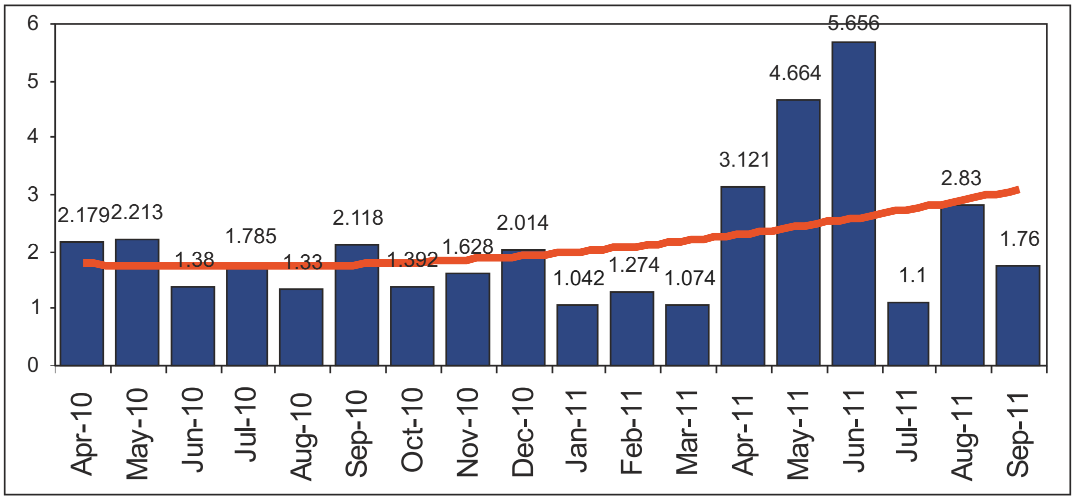
Recent trend in FDI inflows

FY 2011-12		FDI inflows	
		Rs. Crore	US$ bn
1	Apr-11	13,847	3.12
2	May-11	20,946	4.66
3	Jun-11	25,371	5.65
4	Jul-11	4,886	1.10
5	Aug-11	12,814	2.83
6	Sep-11	8,407	1.76
2011-12 (up to September 2011)		86,271	19.13
2010-11 (up to September 2010)		50,570	11.00
%age growth over last year		(+) 71%	(+) 74%

Source: PHD Research Bureau compiled from DIPP

Although, the FDI inflows have been relatively volatile of late due to the emergence of recessionary fears across the globe which have been transmitted through various financial challenges, the overall performance of FDI has remained stable and strong, driving the investment situation in the country.

Trend in FDI inflows over the months

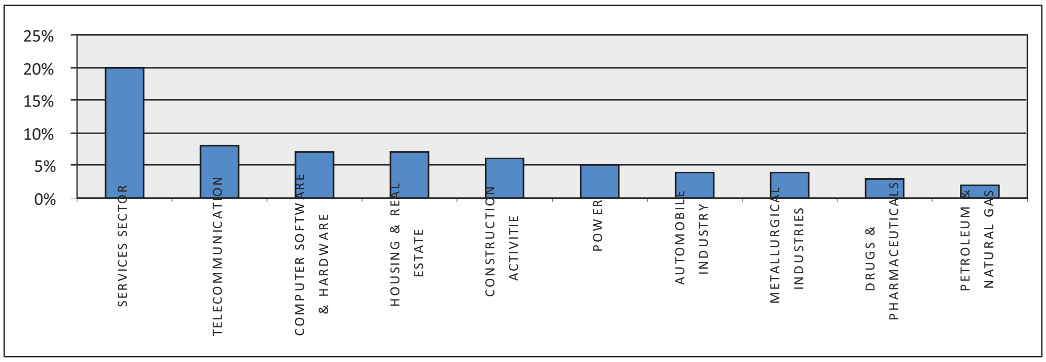


Source: PHD Research Bureau compiled from DIPP

Mauritius tops the chart as an investing country, with the top investing sectors being the services sector (financial and non-financial). Also, Mumbai and New Delhi are observed to be the cities attracting the highest FDI inflows.

During the 2000s the cumulative inflow of FDI was US$198.13bn. During the same period, the cumulative FDI has been dominated by inflows in services sector (21%), computer and telecom (8% respectively) and construction and real estate (7% respectively). Recently, during Apr-Sep2011 services sectors (financial and non-financial) and telecommunications constitute the highest share in attracting FDI equity inflows of around 20% and 8% respectively. Computer software and hardware and housing and real estate sectors posted a share of 7% of the total FDI inflows. While construction activities contributed 6%, power 5%, automobile and metallurgical industries contributed 4% each, followed by drugs and pharmaceuticals with 3% and petroleum and natural gas with 2% share.

Sector wise contribution In FDI equity inflows during April-July2011 (%)

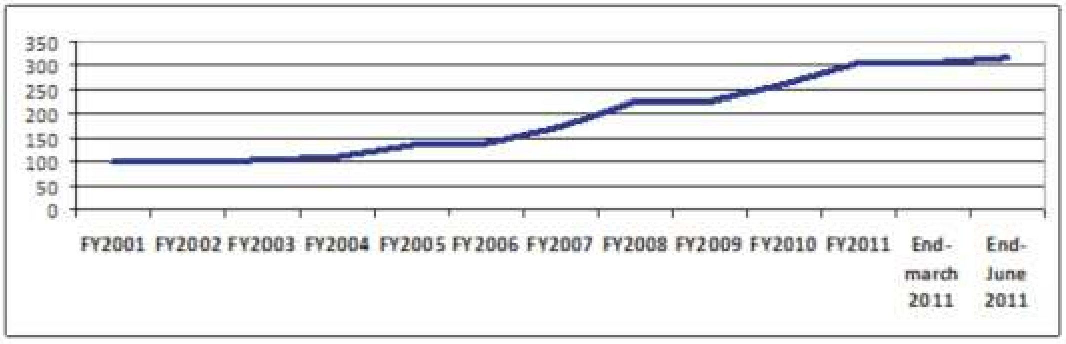


Source: PHD Research Bureau, compiled from Department of Industrial Policy & Promotion.

External debt rises

India's external debt stood at US$317bn at the end-June2011, reflecting an increase of 3.4% over end-March 2011 when it stood at around US$306bn. The share of external commercial borrowings in total external debt continues to be the highest at 29.4%, followed by short-term debt (21.6%), NRI deposits (16.7%) and multilateral debt (15.6%) at end-June 2011. Whereas, bilateral (8.3%), trade credit (5.9%), IMF (2.0%) and rupee debt (0.5%) hold lesser proportion for the same period.

India's external debt since FY2001 (US$ billion)



Source: PHD research Bureau, compiled from RBI

The key debt sustainability indicators, such as ratio of short-term debt to total external debt, ratio of short-term debt to reserves, and debt service ratio marginally worsened due to the continued dominance of debt creating flows.

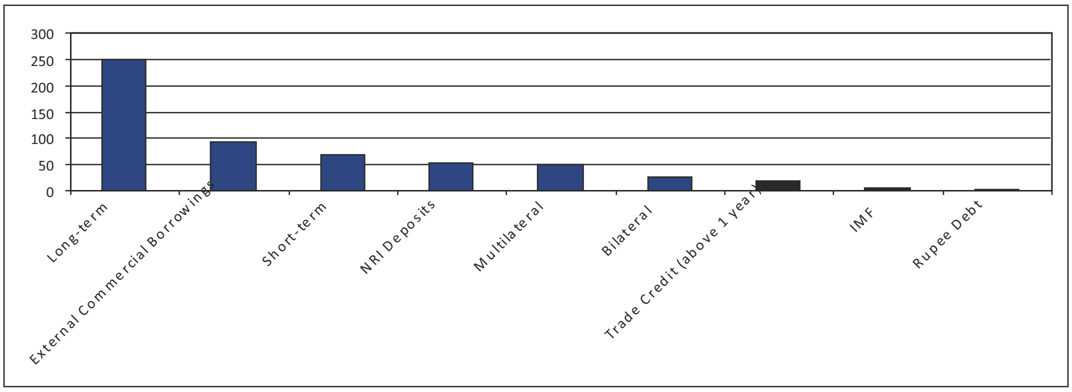
India's key external debt indicators (%)

Year	External Debt (US$bn)	Total External Debt to GDP	Debt Service Ratio	Foreign reserves to total external debt	Concessional debt to total external debt	Short-term external debt to forex reserves	Short-term external debt to total debt
FY06	139.1	16.8	10.1	109.0	28.4	12.9	14.0
FY07	172.4	17.5	4.7	115.6	23.0	14.1	16.3
FY08	224.4	18.0	4.8	138.0	19.7	14.8	20.4
FY09	224.5	20.5	4.4	112.2	18.7	17.2	19.3
FY10	261.0	18.0	5.5	106.9	16.8	18.8	20.0
FY11	306.5	17.4	4.2	99.5	15.5	21.3	21.2
End-June '11	316.9	-	4.6	99.6	15.1	21.7	21.6

Source: PHD research Bureau, compiled from RBI

The rise in India's external debt stock can be mainly attributed to rise in ECBs reflecting interest rate differential and short-term trade credit reflecting surge in imports. Going forward, debt flows may increase further due to persistence of interest rate differentials, higher annual ceiling for ECBs under the automatic route for corporates in specified sectors and liberalisation of investment by FIIs in corporate bonds for the infrastructure sector.

Composition of India's external debt (US$ billion)

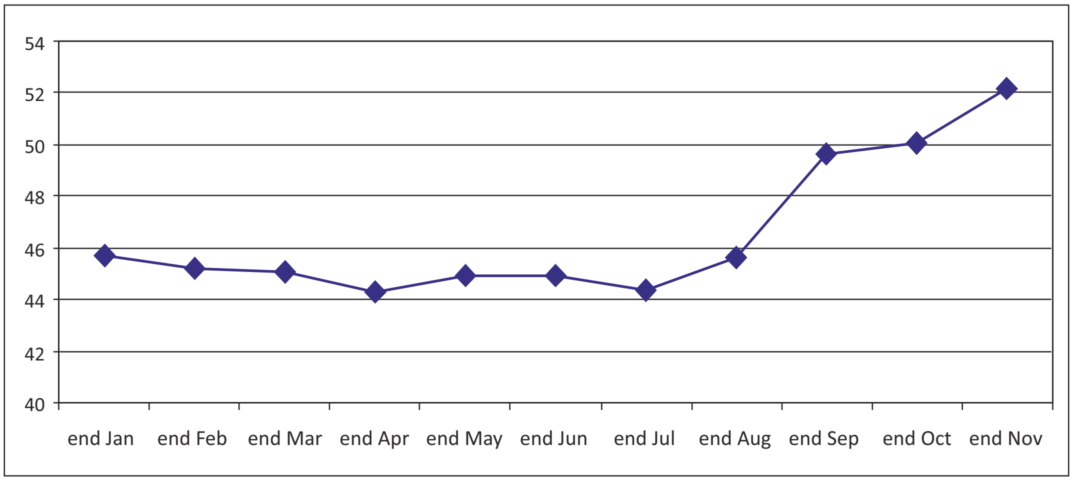


Source: PHD research Bureau, compiled from RBI

Rupee undergoes significant depreciation

After two years of currency depreciation, the Indian rupee had strengthened with respect to the dollar in FY11. However, following the US Sovereign debt crisis, the Indian rupee based on narrow as well as broad currency baskets, has depreciated sharply with more than 10% against the US dollar both in nominal and real terms over end-March 2011.

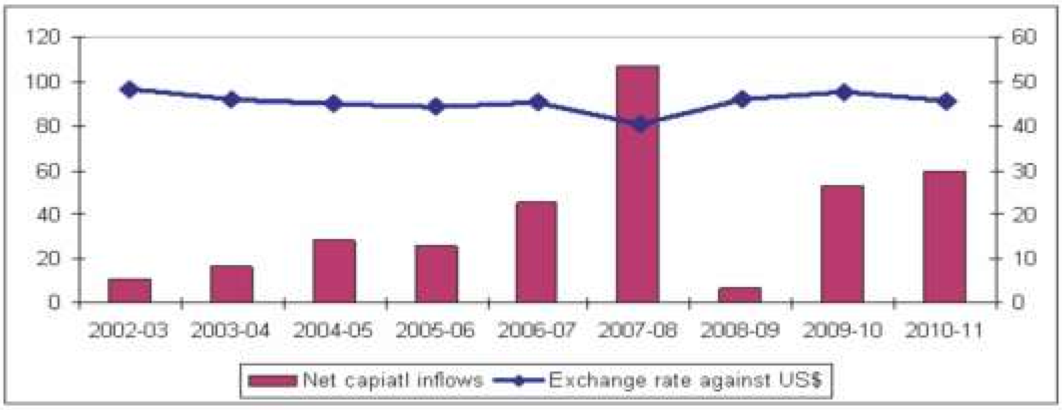
Trend in exchange rate of rupee against US$ since 2011



Source: PHD Research Bureau, compiled from RBI

As mentioned earlier, India is a supply constrained current account deficit economy and it imports many items from the foreign markets to fulfil its domestic demand. This deficit is, in turn, financed by capital flows, which over the past several years, had been large and stable enough to more than offset the current account deficit. Actually, when capital stops coming in, the current account drives the exchange rate and, naturally, the pressure is to depreciate.

Trend in net capital inflows (in US$ bn) vis-à-vis exchange rate of rupee (against US$)



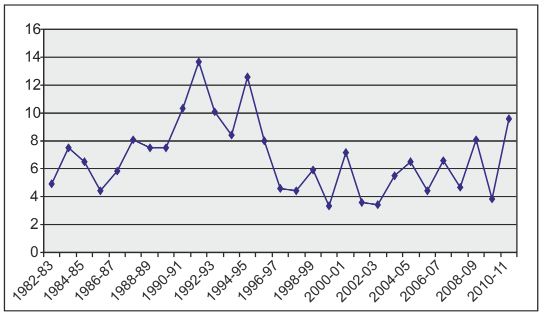
Source: PHD Research Bureau, compiled from RBI
Left y axis stands for Net capital inflows; right y axis stands for exchange rate

With the increased volatility in the global capital flows over last many months, virtually all emerging market currencies faced pressure to depreciate. However, the eventual magnitude of change reflected differences between countries in current account conditions as well as policy responses. The relationship between capital inflows and currency depreciation/ appreciation is reflected from the fact that the currency appreciated significantly in 2007-08 when the capital inflows were very high and depreciated considerably in 2009-10 vis-à-vis low capital inflows on account global economic slowdown.

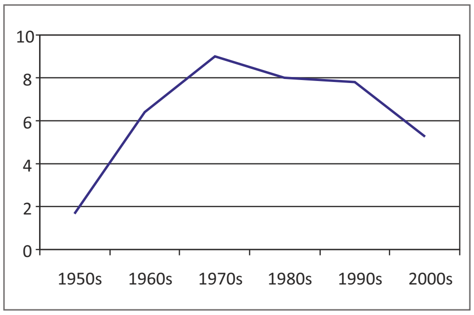
8. Inflation woes loom large

The highest inflation that India ever saw in the past two centuries was at 54% in the famine year of 1943. During the post independence era, India faced the highest inflation at 25% during 1974-75 and the minimum inflation recorded was at (-) 12% during 1952-53. The maximum annual inflation rate in 1974-75 was mainly attributed to the widespread failure of Kharif crops in 1972-73 and also to the hike in crude oil prices in1973. However, the substantive anti-inflationary measures brought inflation down to (-) 1.1 % in 1975-76. The decade's average inflation moved down to 8% during the 1980s. During the nineties, the average inflation rate decreased marginally to 7.8% per annum.

WPI inflation since 1982-83



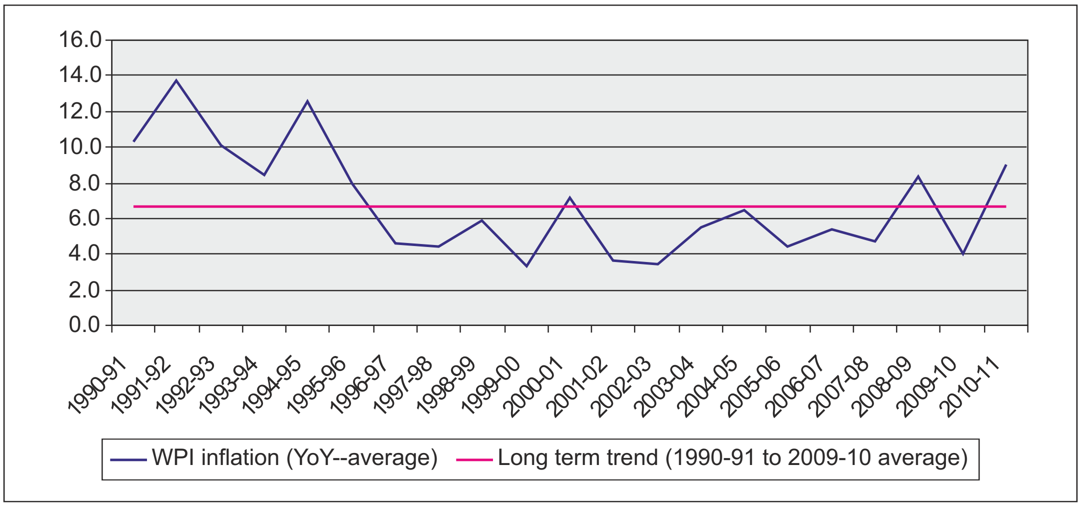
Long term trend in WPI inflation



Source: PHD Research bureau, compiled from Office of the Economic Advisor

The first half of the nineties witnessed a sharp increase in inflation. The oil price hike and reduction in remittances from the Middle East, due to the Gulf war, and large scale monetisation of fiscal deficits were the important reasons for the acceleration of inflation in this period. But the second half of the nineties was marked by a significant deceleration in the inflationary trend. The macro-economic stabilisation measures resulted in a turnaround in inflation's outcome.

Trend in WPI inflation (yearly average) since 1991

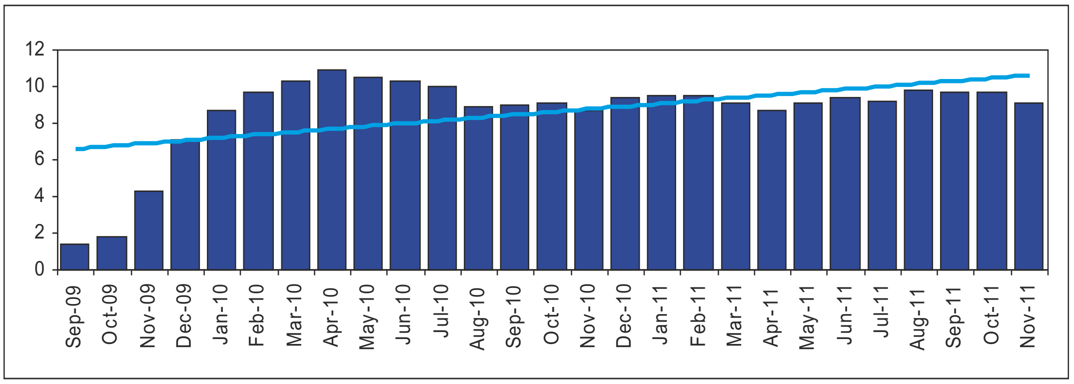


Source: PHD Research bureau, compiled from Office of the Economic Advisor

However, the annual average inflation for the current decade (2001-02 to 2010-11) is around 5.6 to 6%. During this decade, the year 2008 was an extraordinary one. It witnessed a cycle with steady inflationary trend in the first eight months, aided by record prices of commodities due to the strong demand and a sustained disinflation trend in the remaining four months, due to a sudden fall in demand. The year 2009 was a unique one as it witnessed a deflationary phase after three decades. Also the year 2010 was also unique one as it faced significantly higher food inflation at double digits (23% during May 2010), most of the year.

Inflation remained in the sticky growth trajectory throughout the FY 2011 and still it is sticky around 9%. Driven by persistently high prices of Vegetables, petrol, fuel and power the WPI inflation remained high at 9.11% for the month of November, 2011 as compared to 9.73% for the previous month. The Index for Wholesale Prices for the month November, 2011 rose by 0.1% to 156.9 from 156.8 for the previous month. However, the build up of inflation during Apr-Nov 2011 period has declined to 4.95% as compared with 5.50% during the corresponding period last year.

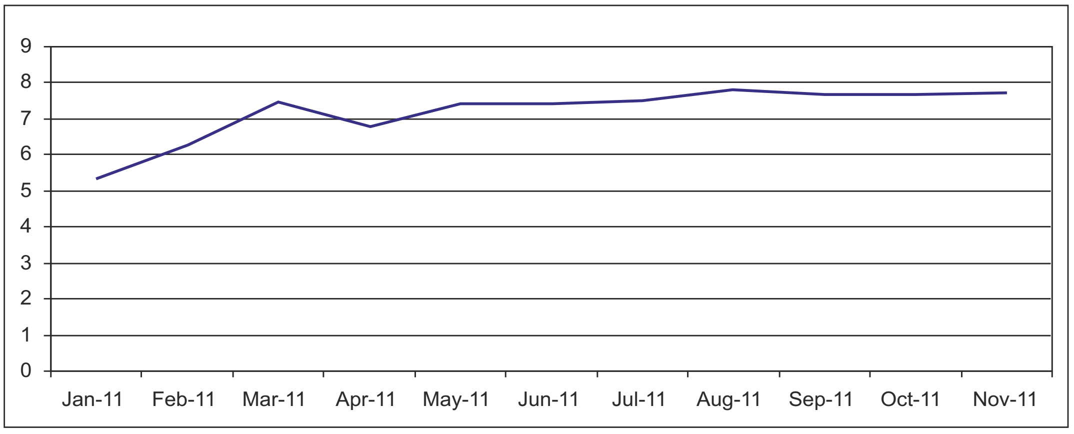
Trend in WPI inflation since September 2009



Source: PHD Research Bureau, compiled from the office of the economic advisor to the Govt. of India

Manufacturing inflation has also been on the higher trajectory over the past many months and has been showing trends of being sticky. The WPI inflation for manufactured products stood at 7.7% vis-à-vis 7.6% in the previous month. The index for this major group rose by 0.5% to 139.8 from 139.1 for the previous month.

Trend in WPI inflation in manufactured products



Source: PHD Research Bureau, compiled from the office of the Economic Advisor

Current inflation process shows a combination of both supply constraints and demand pressures. Going ahead, keeping in view the costs of high inflation and the fact that high inflation is adverse to sustained economic growth, there is an urgent need to address the structural supply constraints, so that these do not hamper the growth potential of the economy.

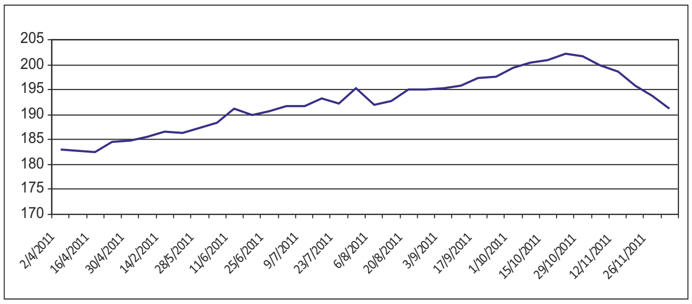
WPI inflation in select commodities

	Commodity	WPI Inflation Y-o-Y % growth		
		Nov 2010	Oct 2011	Nov 2011
1	All Commodities	8.20	9.73	9.11
2	Primary Articles	14.67	11.40	8.53
3	Food Articles	10.14	11.06	8.54
4	Cereals	3.19	4.56	2.45
5	Vegetables	-1.36	21.76	12.00
6	Non-food Articles	25.50	7.71	3.22
7	Fuel & Power	10.32	14.79	15.48
8	Petrol	18.14	27.90	27.63
9	Manufactured Products	5.02	7.66	7.70
10	Sugar	-9.45	6.69	5.82
11	Edible oils	6.42	13.09	11.57
12	Cement & Lime	-0.07	1.85	4.65

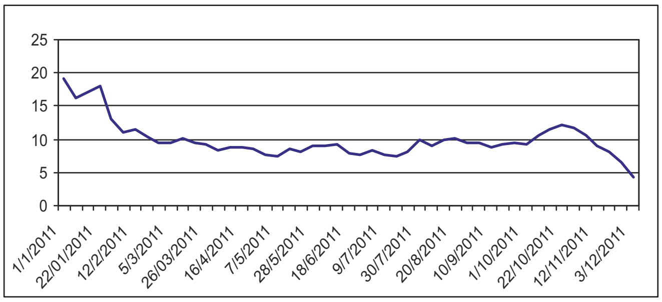
Source: PHD Research Bureau, compiled from the office of the Economic Advisor to the Govt. of India

However, favorable base effect coupled with decline in the prices of vegetables pulled back food inflation in the lower trajectory in the recent weeks. Food inflation for the week ended December 3rd, 2011 has declined to 4.3% (Y-o-Y) as against 6.6% (Y-o-Y) for the week ended November 26th, 2011 on account of decrease in prices of rice, cereals, vegetables and fruits. However, prices of cereals and milk have increased marginally. The index for food articles group has declined by 1% to 191.9 from 193.8 for the previous week. However, it is still high in most protein contained items. Pulses inflation hovers around 12%, milk 11%, fruits 10%, and egg, meat & fish at 9%.

Food articles index since Apr 2011



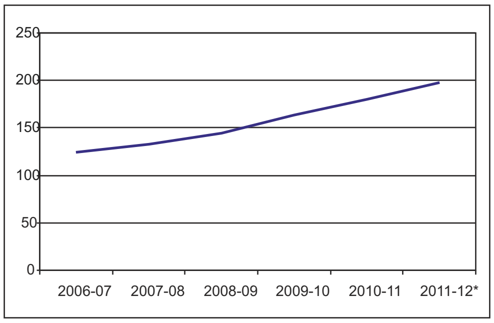
Pattern of food inflation (Y-o-Y)



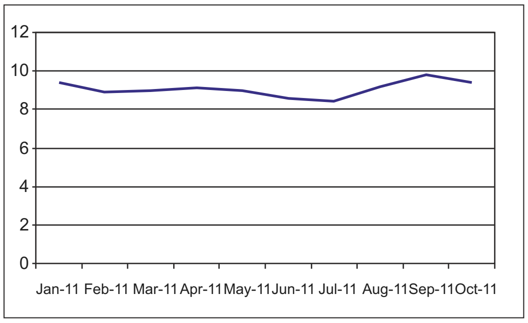
Source: PHD Research Bureau, compiled from the office of the Economic Advisor, Govt. of India

The Consumer price inflation for industrials workers has shown an upward trend steadily increasing from 125 in FY2007 to 198 in FY2012. The CPI has maintained its steady path of average of about 9% during the period of Jan-Oct 2011.

Annual trend in CPI inflation



Monthly trend in CPI inflation (2011)



Source: PHD Research Bureau, compiled from RBI
** Data pertains to Oct-2011*

Inflation is posing a major challenge to India's growth story. High levels of prices, especially vegetables, fruits, milk; eggs and fuels etc have been reflected in double digit rates of inflation. The government should focus on structural problems like easing supply side constraints to tackle the price pressures instead of hawkish monetary policy measures which in turn affect the production situation cascade the prices.

Policy rates soar high

Stickiness in the domestic inflation vis-à-vis global economic environment had generalized the inflationary expectations since mid 2009, which have been checked by policy rate revisions. The RBI had been undertaking severe monetary tightening since September 2009, inching the key policy rates upwards. In October 2011, RBI announced an increase in the repo rate raising it to 8.50% and the reverse repo rate to 7.50%. However, RBI maintains status quo in its mid quarter review of monetary policy on 16th December 2011 due to economic growth showing deceleration month after month.

Monetary Indicators

Components	Sep '09	Sep '10	Mar '11	May '11	Jun'11	July'11	Sep'11	Oct'11
SLR24	25	24	24	24	24	24	24	
CRR	5	6	6	6	6	6	6	6
Bank Rate	6	6	6	6	6	6	6	6
Repo Rate	4.75	5.75	6.75	7.25	7.50	8.0	8.25	8.50
Reverse Repo Rate	3.25	4.5	5.75	6.25	6.50	7.0	7.25	7.50

Source: PHD Research Bureau, compiled from RBI

Bank credit grows

Bank credit is a lead indicator of economic growth as credit is a prime driver of all economic activities in the country. In the present situation, banking in India has attained fair amount of maturity in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to be strong and transparent. Credit delivery in India poses many challenges including bringing financially excluded sections into the ambit of formal financial system. Under several initiatives of the RBI, credit delivery and priority lending have improved in India, although there remains a fair deal of area yet to be covered.

- On a year-on-year basis, non-food bank credit increased by 18.2% in October 2011, as compared to 20.8% during the corresponding period of previous year. All major sectors, except agriculture, recorded accelerated credit growth in September 2011.
- The high credit growth was recorded in NBFC's at 41.5% in Oct 2011 significantly higher than 26.1 % registered during the corresponding period of 2010.
- Credit to agriculture increased by 7.1% in Oct 2011 from 20.4% in the previous year.
- Credit to industry increased by 23.1% in Oct 2011 as compared with 24.8% in the previous year, led by infrastructure(21.7%), metals and metal products(29.9%), engineering(22.4%), gems and jewellery (33.8%), petroleum, coal and nuclear fuels (9.2%), and mining and quarrying(43.2%).
- The services sector credit disbursement increased by 18.2% in Oct 2011, as compared to 21.4% in the previous year.
- Credit to the commercial real estate (CRE) sector has grown at 12.8% during Oct 2011 as compared to 17.6% in Oct 2010.
- Personal loans increased by 14.5% in Oct 2011, up from the growth of 12% during the corresponding period of the previous year.
- Components of personal loans such as housing (13.9%) and advances against fixed deposits (20%) registered accelerated growth.

Deployment of Gross Bank Credit by Major Sectors

Sector	Oct, 2010*	Oct, 2011**	Oct, 2010* over Oct, 2009 %	Oct, 2011** over Oct, 2010%
Gross Bank Credit	3292354	3906379	20.9	18.7
Food Credit	45906	68190	31.5	48.5
Non-food Credit	3246448	3838189	20.8	18.2
Agriculture & Allied Activities	406404	435310	20.4	7.1
Industry (Micro & Small, Medium and Large)	1429798	1759622	24.8	23.1
Services	784572	927105	21.5	18.2
Personal Loans	625675	716153	12.0	14.5
Priority Sector	1135390	1248386	19.9	10.0

Source: PHD Research Bureau, compiled from RBI
Note: Data are provisional and are collected on a monthly basis from select 47 scheduled commercial banks accounting for about 95% of the total non-food credit deployed by all scheduled commercial banks;
** Data pertains upto 22Oct, 2010*
*** Data pertains upto 21Oct, 2011*

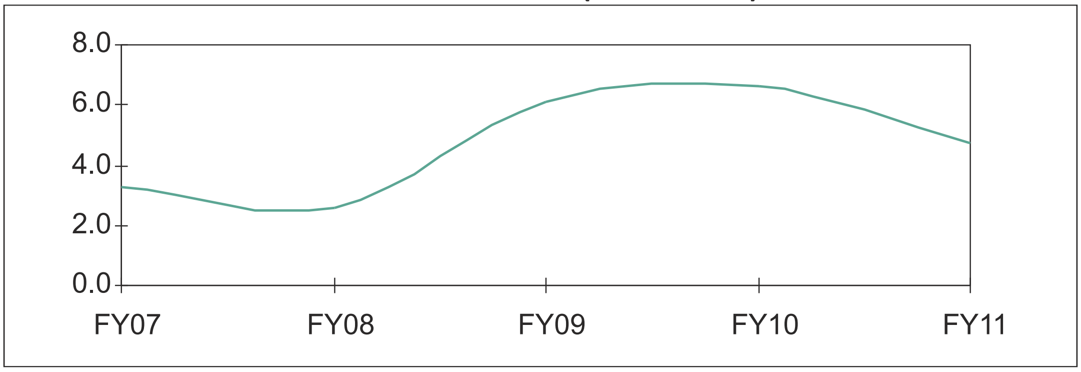
Although inflation has met with some moderation, it has shown signs of remaining sticky at the higher trajectory for quiet some time. To check the same, the RBI has been undertaking severe monetary tightening over the last many months. However, recently, RBI has clearly focused to re-capture the growth momentum with the backdrop of decelerating economic growth, IIP growth, growth of core infrastructure and exports. If recessionary tendencies emerge in the world and commodity prices continue to decelerate further, then there is a fair chance of moderation of inflation creating a scope for monetary easing. On the other hand, though moderated as compared with last year, bank credit growth seems to grow strong on account of demand pressures from various segments of the economy.

9. Fiscal slippage emerges

The government of India has been successfully narrowing down its fiscal deficit over the beginning of the last decade wherein, the percentage of fiscal deficit to GDP has been declining from 4.5% in 2003-04 to 2.5% in 2007-08. However, on account of large scale stimulus and development augmenting expenditure undertaken by the government to pull the economy back on track post Lehman crisis in 2008-09, the fiscal deficit as a percent of GDP shot up to 6% in 2008-09 and 6.3% in 2009-10. The relief, however is that against the backdrop of the fast paced recovery of the economy in 2009-10, the efforts of fiscal consolidation and the tough austerity measures adopted by the government, the fiscal deficit has come down to 4.7% of GDP in 20010-11.

The fiscal deficit in 2010-11 was lower by around Rs32000cr over the revised estimates, credited to better revenue realization, in terms of tax collections, and expenditure compression. Hence, the government was able to contain the fiscal deficit at 4.7% of the GDP, much lower than the revised estimate of 5.1%.

India's fiscal deficit (as % of GDP)



Source: PHD Research Bureau, compiled from RBI, Ministry of Finance

Notwithstanding improvements during 2010-11 concerns about possible fiscal slippage during 2011-12 remain. The government's budgetary stance of expenditure-driven fiscal correction for 2011-12 was viewed as a move towards fiscal consolidation and anchoring inflation expectations. However, the lower gross fiscal deficit (GFD)-GDP ratio budgeted for 2011-12 is challenged on account of sizeable upside risks to subsidies and downside risks to revenues from moderation in growth.

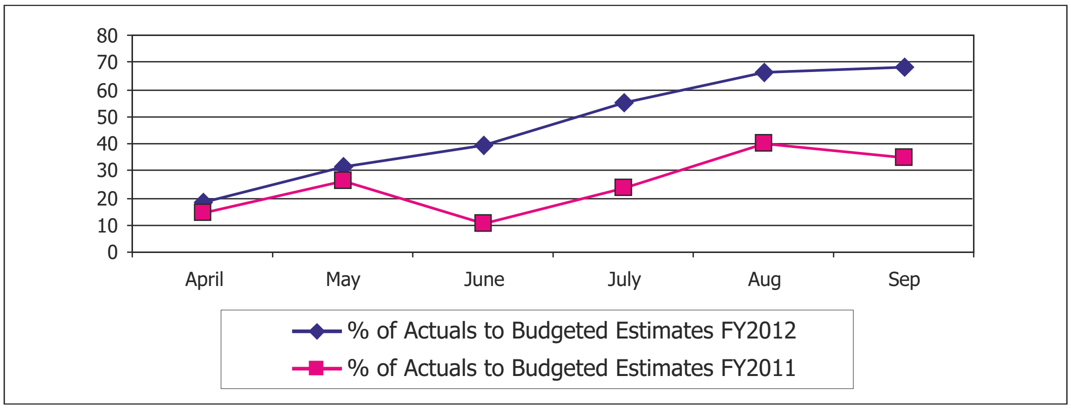
Fiscal Indicators (% of GDP)

Year	Primary Deficit	Revenue Deficit	Gross Fiscal deficit	Outstanding Liabilities
Centre				
2009-10	3.1	5.2	6.4	53.7
2010-11 RE	2	3.4	5.1	49.9
	(1.7)	(3.1)	(4.7)	
2011-12 BE	1.6	3.4	4.6	48.5
States*				
2009-10	1.1	0.5	2.8	22.7
2010-11 RE	0.9	0.3	2.5	21
2011-12 BE	0.6	-0.2	2.1	20.6
Combined				
2009-10	4.5	5.7	9.2	68.9
2010-11 RE	3.2	3.7	7.7	64
2011-12 BE	2.4	3.3	6.8	62.7

RE: Revised Estimates. BE: Budget Estimates
Source: PHD Research Bureau, compiled from RBI

Fiscal position of the government is not comfortable in FY2012 as compared with the last fiscal FY2011; lead fiscal indicators reveal that the revenue deficit and the GFD of the Central government turned out to be higher than during the corresponding period of the previous year mainly due to decline in revenue receipts.

Differentials in use of fiscal deficit space by Oct 2011 vis-à-vis Oct 2010



Source: PHD Research Bureau, Compiled from Government of India accounts

The gap between actual to budget estimates is widening each month in the current fiscal as compared with the last year. Fiscal deficit was 18.1% of the total budget estimates for fiscal deficit in April 2011 as compared with 14.2% in April 2010. However, it has widened significantly by the month of Oct to 74.4% in Oct 2011 as compared with 42.6% in Oct 2010.

On the other hand revenue receipts (up to Oct 2011) of the central government have been estimated at 45.5% of the total budgeted as compared with 65.5% of the budgeted estimates in 2010 (up to Oct 2010).

Fiscal position FY2012 vis-à-vis FY2011

Month	% of Actuals to Budgeted Estimates Fy2012	% of Actuals to Budgeted Estimates FY2011
April	18.1	14.2
May	31.7	26.5
June	39.5	10.5
July	55.4	23.8
Aug	66.3	39.7
Sep	68.0	34.9
Oct	74.4	42.6

Source: PHD Research Bureau,
Compiled from Union Government Accounts

Tax refunds have grown by a robust around 105% during Apr-Oct 2011 over the corresponding period last year. The Tax refunds have grown from Rs. 31829 crore in Apr-Oct 2010 to Rs. 65231 crore in Apr-Oct 2011. The Gross direct tax collections have augmented to Rs. 284081 crore during Apr-Oct 2011 from Rs. 236176 crore during the corresponding period last year, posted a growth of about 20% driven by strong growth in gross collection of corporate taxes and gross collection of personal income taxes. However, on account of significant growth in tax refunds, its impact has been nullified culminating in low net tax revenue collections.

Pattern of tax collection (Rs. Crore)

	Apr-Oct 2010	Apr- Oct 2011	Growth
Gross direct tax collections	236176	284081	20.28%
Gross collection of corporate taxes	157767	189872	20.35%
Gross collection of personal income tax	78029	93769	20.17%
Net direct tax collections	204347	218850	7.10%
Tax Refunds	31829	65231	104.94%

Source: PHD Research Bureau, compiled from Ministry of Finance

The budget estimates for direct tax collections are fixed at Rs5,32,651 crore for the current fiscal - FY12. However, the current situation of high inflation and moderating economic growth could result in lower-than-estimated tax collection during the current fiscal which might make it difficult to achieve the targeted fiscal deficit at 4.6% of GDP. On the other hand, mounting subsidy burden in food and fuel segments may further add to thee scope of higher fiscal deficits, going forward.

Macro-economic Indicators

Economic components	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
GDP at FC - Constant prices Rs bn	18,643	19,726	20,483	22,228	29,715	32,542	35,660	38,990	41,625	44,937	48,778
GDP at FC - Constant prices growth YoY	4.4	5.8	3.8	8.5	7.5	9.5	9.6	9.3	6.8	8.0	8.5
GDP at MP-current prices Rs. Bn	21,023	22,789	24,546	27,546	32,422	36,925	42,937	49,864	55,826	65,502	78,756
Agriculture growth	-0.2	6.3	-7.2	9.9	0.04	5.1	4.2	5.8	-0.1	0.4	6.6
Industry growth	6.4	2.7	7.1	6.0	10.3	9.7	12.2	9.7	4.0	8.3	7.8
Services growth	5.7	7.2	7.5	8.5	9.1	11.0	10.1	10.8	9.5	9.7	9.2
Private consumption YoY	3.2	6.1	2.7	6.5	5.5	6.8	6.0	8.5	6.8	7.3	8.6
Gross domestic savings as % of GDP	23.7	23.5	26.3	29.8	32.2	33.5	34.6	36.9	32.2	33.7	NA
Gross Domestic Capital Formation as % of GDP	24.3	22.8	25.2	27.6	32.7	34.7	35.7	38.1	34.5	36.5	NA
Gross fiscal deficit of the Centre as a % GDP	5.7	6.2	5.9	4.5	3.9	4.0	3.3	2.6	6.0	6.4	5.1
Gross fiscal deficit of the states as a % of GDP	5.65	6.19	5.91	4.48	3.88	3.97	3.32	2.55	6.04	6.39	5.09
Gross fiscal deficit of Centre & states	9.5	9.9	9.6	8.5	7.2	6.4	5.3	4.1	8.4	9.5	7.3
Gross borrowings of Centre Rs bn	1,151.0	1,338.0	1,511.0	1,476.0	1,065.0	1,600.0	1,793.0	1,882.0	3,185.0	4,924.0	4,794.0
Merchandise exports (US$bn)	44.5	43.8	52.7	63.8	83.5	103.1	126.4	162.9	185.3	178.7	251.1
Growth in exports YoY	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	29.0	3.4	-3.6	40.5
Imports (US$bn)	50.5	51.4	61.4	78.1	111.5	149.2	185.7	251.4	287.7	288.3	369.7
Growth in imports YoY	1.7	1.7	19.5	27.2	42.7	33.7	24.5	35.4	14.3	0.2	28.2
Trade deficit (US$bn)	6.0	7.6	8.7	14.3	28.0	46.1	59.3	88.5	118.4	109.6	118.6
Current account deficit as % of GDP	-0.6	0.7	1.2	2.3	-0.4	-1.2	-1	-1.3	-2.3	-2.8	-2.6
Net capital account US$ bn	8.8	8.6	10.8	16.7	28.0	25.5	45.2	107.9	6.7	53.4	59.7
Overall balance of payments US$bn	5.7	11.8	16.9	31.4	26.2	15.1	36.6	92.2	-20.1	13.4	13.0
Foreign exchange reserves US$bn	42.3	54.1	76.1	113.0	141.5	151.6	199.2	309.7	252.0	279.1	304.8
Internal debt Rs bn	8,036.0	9,130.0	10,206.0	11,417.0	12,759.0	13,897.0	15,449.0	18,083.0	19,725.0	24,491.0	27038.0
External debt - Short term US$bn	3.6	2.7	4.6	4.4	17.7	19.5	28.1	45.7	43.4	52.3	65.0
External debt - Long term US$bn	97.6	96.1	100.2	108.2	116.3	119.6	144.2	178.7	181.2	208.7	241.5
External debt - Gross US$bn	101.2	98.8	104.9	112.7	134.0	139.1	172.4	224.4	224.5	261.0	306.4
Money supply growth	16.8	14.1	14.7	16.7	12.0	16.9	21.7	21.4	19.3	16.8	16.0
Bank credit growth	17.3	15.3	23.7	15.3	30.9	30.8	28.1	22.3	17.5	16.9	21.5
WPI inflation	7.1	3.6	3.4	5.5	6.5	4.4	6.5	4.7	8.1	3.8	9.6
CPI inflation	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.4	10.4
Exchange rate Rs/US $ annual average	45.7	47.6	48.3	45.9	44.9	44.2	45.2	40.2	46.0	47.4	45.5

Source: PHD Research Bureau, compiled from various sources
Note: The figures are presented as round off

10. Growth Prospects

The economic history of India dates back to the pre-colonial times with the inception of the Indus Valley Civilization was well integrated with the world and each village in India was a self-sufficient entity. India's role in the global economy was quiet significant during the 1700s. With a population of 165mn, India was the world's largest economy, followed by China with 138mn people. Even a century later, in 1820, as industrial revolution was gathering pace, India and China accounted for half of world's GDP. However, with the arrival of the East India Company and the subsequent colonization of the country by the British, the economic situation in India worsened considerably. To bring it back on track the five year plans were constituted to focus on identifying the needs of the economy.

The economy has done very well on the growth front, when viewed in a long term perspective. India's GDP growth rate averaged only 3.5% per year in the 1960s and 1970s, at a time when other developing countries were growing much faster. The 1980s saw the beginning of a reorientation of policies to achieve higher growth and indeed growth accelerated to 5.6% in that decade. Further, the era of reforms in the 1990s opened up avenues of delicense, decontrol, trade and financial liberalization, tax reforms and facilitation to foreign investments. It marked a major break-through in India's rapid progress.

The growth rate of the economy in the 1990s, averaging around 5.7%, was not very different from that in the 1980s. However, India's performance improved significantly in the 2000s, spurred by favourable global conditions and the cumulative effect of the systemic reforms initiated in 1991. The 2000s achieved an average real GDP growth rate of 7.3% (at factor costs constant 2004-05 prices). This improved economic performance dramatically altered global perceptions of growth prospects of Indian economy. An early recognition of this was a Goldman Sachs report (November 2002), which included India, with Brazil, Russia and China in a new BRICs group of emerging market countries which was predicted to overtake the G-8 in terms of total GDP by 2035.

Today India stands at the threshold of emerging as a global leader with steady growth momentum supported by strong economic fundamentals. This is evident from the fact that it took 40 long years from 1950s for India's real per capita GDP to double by 1990s. However, India's per capita income doubled again in the 17 years. If the current pace of growth is maintained, India's per capita income could further double in the 10 years. The trend in growth of per-capita income is very inspiring as the real per-capita income has marked an increase of about 49% during FY05-FY11 while the nominal per-capita income has scaled a growth of around 126% during the same period. The general perception today is that India may now be on the path of sustained high growth based on high rates of domestic savings and investments, high quality of entrepreneurial and managerial skills, and the cumulative effect of economic reforms on productivity.

The average saving rate also showed a substantial increase from 23% of GDP in the 1990s to about 31% in the 2000s with a peak saving rate of over 33% achieved during the high growth phase of 2004-08. The efficiency of capital utilisation also improved as the incremental capital output ratio (ICOR) declined to 3.7 during the high growth phase of 2004-08 from 5 in the 1990s.

Reforms enhance growth prospects

Economic policies have played a major role in scripting India's growth story and have helped to explore a greater range of growth prospects which were earlier unexplored. An abiding objective in respect of industrial policy measures since 1991 has been to create a competitive environment to improve productivity and efficiency of the industry. New industrial policy fostered competition by abolishing monopoly restrictions, terminating the phased manufacturing programmes, freeing foreign direct investment and import of foreign technology and de-reservation of sectors hitherto reserved for the public sector. These measures created a favourable environment for industry to upgrade its technology and build-up its capacity through imports in order to cater to growing domestic and external demand.

At present, only five industries are under licensing, mainly on account of environmental, health, safety and strategic considerations. Only two industries are reserved for the public sector, viz, atomic energy and railway transport. The definition of small scale industry has been changed to facilitate modernisation and now only 20 items are reserved for manufacturing in the small scale sector.

New manufacturing policy to enhance employment

India is ranked 2nd in the world in terms of manufacturing competitiveness. The significance of the manufacturing sector in the Indian industry sector is immense in creating employment opportunities and boosting industrial production. The sector's share in exports stands at more than 60% and hence assumes great significance in the foreign trade of the country and currently employs 11% of the total workforce. However, the situation of the manufacturing sector in India is a cause of concern especially when seen in comparison to the massive transformation registered in this sector by other Asian countries in similar stages of development.

At around 16% value added of manufacturing to GDP, the manufacturing sector in India does not seem representative of its potential. The lackluster performance in this sector also has its socio economic implications in the form of over dependence on agriculture for livelihood, disguised unemployment and urban unemployment. For a country with the largest young population in the world, this creates a challenge of significant magnitude. Over the next decade or by 2021, India has to create gainful employment opportunities for a large section of its population, with varying degrees of skills and qualifications. With this in the backdrop, the National Manufacturing Policy 2011 was scripted by government to provide policy impetus to the Indian manufacturing sector.

The policy has the following objectives:

1. To promote investments in the manufacturing sector
2. To increase the sectoral share of manufacturing in GDP to 25% by 2022
3. To double the current employment level in the sector
4. To enhance global competitiveness of the sector

A major policy intervention has come through in form of creation of National Manufacturing & Investment Zones (NMIZs) to push the manufacturing share in GDP. The NMIZs are a combination of production units, public utilities, logistics, environmental protection mechanisms, residential areas and administrative services. Good physical infrastructure, a progressive exit policy, structures to support clean and green technologies, appropriate investment incentives, and business friendly approval mechanisms are the salient features of the new manufacturing policy.

The policy would cover the following areas:

1. National Manufacturing & Investment Zones (NMIZ's)
2. Exit Policy
3. Green Technologies
4. Incentives and Benefits for units in NMIZs
5. Simplified Clearances & Approvals for Setting up units in NMIZs
6. Skill development programme to cater to the needs of Manufacturing Sector.

In order to trigger manufacturing growth, a massive skill development initiative has been launched to facilitate the smooth development of this sector. Some of them are:

1. **Skill-building among the minimally educated workforce -** Skill-building in this segment would include farm to work and school to work programmes targeted at the minimally educated workforce entering the non-agricultural sector for the first time and/or seeking seasonal employment.
2. **Efforts towards enhancing employability of the skilled workforce -** It would include such initiatives as upgrading the technical and vocational curriculum, job-oriented training programmes, maintaining a skills registry to ensure market linkages, and building additional capacity.
3. **Building specialized skills -** Initiatives in this area would include setting up of institutes of specialized learning such as a specialized institute for the automobile sector, or an institute focused on high-tech manufacturing and semi-conductors for the electronics sector, or one that fosters innovation and product development in the IT/ITES sector.

Going ahead, manufacturing needs to grow at 14% annually to achieve 25% share in GDP by 2022. However, there is a strong need to tackle the constraints related to availability of land for industrial purposes, adequate basic infrastructure requirement such as roads, water and power. Geographical proximity of ports, roads, railways, availability of raw materials and skilled manpower are the basic ingredients to achieve the desired growth numbers.

Targets set high for exports

India is on the high road of economic growth, entering higher growth trajectories decade after decade. However, India being mainly a supply constrained domestic demand led economy, in order to maintain the growth momentum, large volumes of imports of petroleum products, capital goods and other vital intermediate goods is unavoidable to meet the growing demand. To keep the trade balance intact, it calls for increased exports, which needs to grow at a sustained pace. The government of India has made considerable efforts to give fillip to the exports sector so as to support robust growth. India has not only come up with several export promotion strategies, but has also signed several free trade agreements with various developed and developing nations to facilitate international trade of goods and services.

The trade policy reforms comprised withdrawal of the quantitative restrictions on exports and imports, phasing out of the system of import licensing and lowering the level and dispersion of nominal tariffs so as to bring them on par with the East Asian economies. The peak customs tariff rate was progressively brought down from 150% in 1991-92 to 10% by 2008-09. The liberalization of restrictions on various external transactions led to current account convertibility under Article VIII of the Articles of Agreement of the IMF in 1994.

India's recent strategy of diversification of trade destinations from advanced economies to emerging economies has opened up a wider market for its exports and has helped increase its export volume manifold. To keep up the momentum, the Ministry of Commerce has targeted to double the country's merchandise exports in dollar terms over the next three years- FY2012 to FY2014, from US$246bn in FY2011 to US$500bn in FY2014. It is projected that the share of exports in GDP would rise to 17% in FY2014 from 15.4% in FY11.

It targets engineering exports worth US$125bn by FY2014, petroleum exports worth US$80bn and US$19bn for basic chemicals. Hence, merchandise export from India is projected to undergo a change with engineering goods recording exports worth US$60.15bn, higher by about 85% over the previous year, the share of which in merchandise exports has doubled from 14% to 27% over the past 10 years.

Sectoral merchandise exports targets for FY2014

Exports	Exports (Fy10) (US$bn)	Share in total Export (%)	Exports (FY11QE) (US$bn)	Projected Exports (Fy14) (US$bn)	Share in total projected Exports (%)
Gems and Jewellery	29.1	16.3	33.5	70.0	14.0
Engineering Goods	32.6	18.2	60.2	125.0	25.0
Textiles	18.3	10.2	21.0	42.0	8.4
Cotton Yarn Madeups	4.0	5.7	11.5		
Manmade Yarn Madeups	3.6	4.2	9.0		
RMG	10.7	11.2	21.5		
Other Textiles	1.0	0.5	1.6	3.0	0.6
Carpets	0.7	1.1	2.0		
Jute Manufacturers	0.2	0.5	1.0		
Drugs, Pharma & Fine Chemicals	9.0	5.0	10.3	25.0	5.0
Other Basic Chemicals	6.8	3.8	8.6	19.0	3.8
Electronic Goods	5.5	3.1	7.4	17.0	3.4
Leather & Leather Manufacturers	3.3	1.8	3.7	9.0	1.8
Plastic & Linoleum	3.4	1.9	4.6	10.0	2.0
Iron Ore	6.0	3.4	4.5	9.0	1.8
Mica and Other Ore	2.7	1.5	6.1	9.0	1.8
Marine Products	2.1	1.2	2.5	5.0	1.0
Agricultural Products	12.6	7.1	17.0	22.0	4.4
Petroleum Products	28.2	15.8	42.5	80.0	16.0
Miscellaneous	18.3	10.3	22.4	55.0	11.0
Total	178.8	100.0	245.9	500.0	100.0

Source: PHD Research Bureau, compiled from Ministry of Commerce

The overall strategy drafted by the Government to realize the above target mainly includes

1. Strengthen growth in production of critical industries like engineering and chemicals to promote exports of manufacturing
2. Aggressively promote exports of high valued manufacturing goods and light manufacturing like leather and textile which has enormous employment generation potential.
3. Encourage exports of gem and jewellery which is another labour intensive field.
4. Promote exports based on natural resources like agri-products, marine products and dairy products to enhance the export basket (product diversification)
5. Extend existing markets and create new ones in form of diversification of export markets.
6. Focus on adoption of new technologies and rigorous R&D to increase product competitiveness and to help in building a brand image and credibility in foreign markets.

With increased focus on exploring wider market through increased product and market diversification along with stress on building competitiveness in manufacturing products, the country is well poised to post higher growth in exports. Although, downside risks have emerged on the wake of global developments in the form of stagnation in demand in advanced economies, these appear to have limited impact on Indian exports which has been able to sustain the high growth trajectory for the last many months.

FDI expands production possibilities

Foreign direct investment is a lead economic component which indicates the investment climate in the economy and helps build investors' confidence domestically and internationally. FDI helps to create technological advancements, increase competitiveness of the industry, enhance capital stock, step up infrastructural base and thus reflects the overall level of prosperity in the economy. Post liberalization of Indian economy since 1990s, India has gone a long way attracting FDI from different economies of the world across an entire gamut of sectors. FDI up to 100% is allowed under the automatic route in most sectors, with a few exceptions.

With respect to capital account liberalization, India embarked on a gradual and well sequenced opening up of the capital account. The active capital account management framework was based on a preference for non-debt creating capital inflows like foreign direct investment and foreign portfolio investment. The capital account is virtually free for non-residents and resident corporates with some restrictions on financial institutions and higher restrictions on resident individuals.

The openness in the capital account has resulted in two-way movement in capital with a sharp pick-up in India's outward FDI since the mid-2000s. Uptrend in outward FDI mainly reflected the large overseas acquisition deals of Indian corporates to gain market share and reap economies of scale amidst progressive liberalisation of the external payments regime.

Foreign Direct Investment **(US $ billion)**

Year	Inward	Outward	Net FDI to India	Outward/inward (%)
2000-01	4.0	0.8	3.3	18.8
2001-02	6.1	1.4	4.7	22.7
2002-03	5.0	1.8	3.2	36.1
2003-04	4.3	1.9	2.4	44.7
2004-05	6.0	2.3	3.7	38.0
2005-06	8.9	5.9	3.0	65.9
2006-07	22.7	15.0	7.7	66.2
2007-08	34.7	18.8	15.9	54.2
2008-09	37.7	17.9	19.8	47.4
2009-10	33.1	14.4	18.8	43.3
2010-11	23.4	16.2	7.1	69.4

Source: PHD Research Bureau, compiled from Reserve bank of India

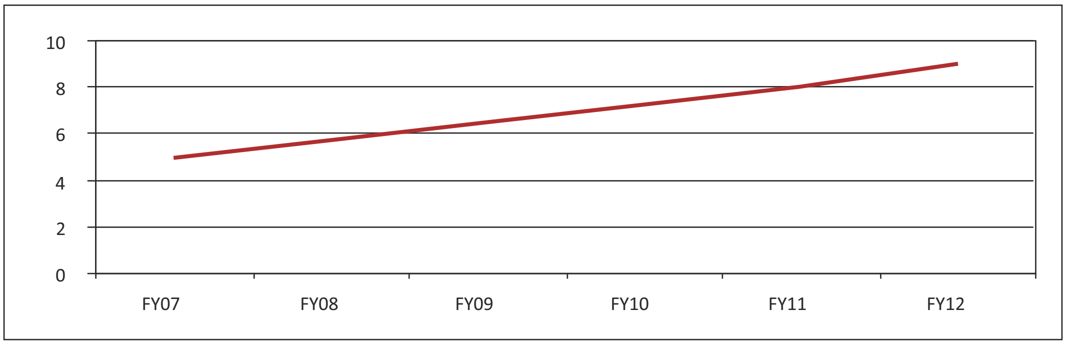
The recent proposal for opening up of 51% FDI in multi-brand retail is all set to mark a major development in the demand supply dynamics of the economy, going forward. It may be mentioned that with the increased exposure of FDI as a percentage of GDP, the economic growth also enters the higher trajectory. FDI as a percentage of GDP stood at 0.77% during 1997-2001, while the growth of real GDP stood at 5.95%. As the share of FDI to GDP increased from 0.77% in 1997-2001 to 1.06% in 2002-2006, the real GDP growth also increased from 5.95% to 7.02% during the period. Again as the percentage of FDI to GDP increased from 1.06% in 2002-2006 to 2.75% in 2007-2011, the real GDP growth also increased from 7.02% to 8.43% during the period. Although FDIs may not be termed as the single most determinant of economic growth, however, it infuse technological advancement, enhance production possibilities and induce capital flows, which helps in maintaining general macro economic stability in the economy. The government of India has also liberalized the policies for foreign Institutional Investments to promote greater investments in a wider range of sectors.

Infrastructure to push growth on high road

The role of infrastructure development is crucial in the current economic scenario. Extensive and efficient infrastructure network is not only important for sustainable and all-inclusive economic growth but building a high class infrastructure is also crucial for the effective functioning of the industrial sector especially for the manufacturing competitiveness.

To accelerate the pace of infrastructure development, the Government of India has initiated various projects to reduce deficits in crucial sectors. Tremendous investment activity has been seen in the telecom services, power, ports, civil aviation, railways and roads. As per the Eleventh Five Year Plan (2007-12), over US$514bn investments have been estimated in various infrastructure projects. Investment in infrastructure has reached around 7-8% of the GDP in the recent years and this is expected to increase to around 9% by 2012. The GFC as a percentage of GDP has grown steadily from 5% in FY07 to 9% in FY12 at an average growth rate of 6.9%.

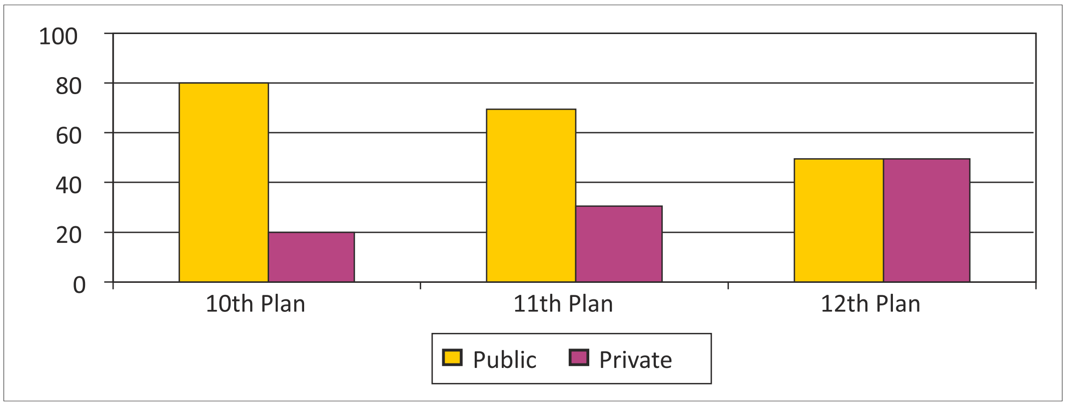
Gross Capita Formation as a percentage of GDP



Source: Complied from Planning Commission, Govt. of India

The level of infrastructure has been improving over the years with increasing role of private sector through PPP (Public-Private Participation). There have been many successful PPP projects in roads, ports, airports and electric power. The private players have shown keen interest in view of tapping the vast business potential in these sectors. The share of the private sector in infrastructure investments is estimated around 20% in the 10th plan period and 30% in the 11th plan period (around 34% in first two years).

Public and private share to total infrastructure investments



Source: PHD Research Bureau, Complied from Planning Commission, Govt. of India
**The data pertaining to 12th Plan is a projection by the Planning Commission*

It may be mentioned that many advanced economies and financially constrained developing economies have developed their infrastructure successfully through public-private partnerships. The current status of the PPP in the infrastructure development in India is encouraging and the investment requirements will be enormous to remove the infrastructure deficits and to develop the world class infrastructure.

Going ahead, infrastructure still has a huge untapped potential and this sector could be the main driving force for achieving double digit economic growth. Government is planning more than US$1.25tn infrastructure investments in the next five year plan period (12th five year plan 2012-17) and it is projected that at least 50% of this investment would have to come from the private sector[3].

[3] *Economic Survey of Government of India, 2010-11*

Policy focus on rural development

Although, India is the second fastest growing economy in the world, there are several socio-economic developmental challenges which are inhibiting its smooth progress. It has been felt that to ensure that the robust economic growth in India is sustainable and the fruits of the growth percolates to all sections of the society, it is important to bring all under the folds of the policy framework. So, recently the government has focused its attention on achieving inclusive growth.

Since improving the quality of life in the rural areas of the country is one of the pre-requisites of social development, special emphasis is on the need and importance of rural development for inclusive growth of the country. Some recent provisions provided to support this area are:

- Remuneration under MGNREGA linked with CPI
- Banking: Farmer credit target increased.
  - Interest subvention increased to 3% for on-time debtors
  - Banking facilities enlarged
- Allocation under RKVY increased by 16%
- Incentives to encourage expansion and greenfield investments in the fertiliser sector
- Custom duty on specified agricultural machinery reduced to 5%
- Urea to be covered under NBS
- Custom Duty on micro-irrigation equipment reduced to 5%
- Benefit of investment linked deduction extended to production of fertilizers

Rural India largely immune to global developments

Rural Indian households have been spending more on consumer goods like durables, beverages and services than five years ago, since real spending is rising in rural areas[4] vis-à-vis increasing incomes. It has been observed that as incomes go up, the proportion of income spent on food decreases and non-food items increases. The consumer behavior pattern of rural India is also similar. The breakup of how households spend their income, suggests a break away from mere subsistence. The average spending on food has declined to 53.6% in FY2010 from 59.4% in FY2000, while cereals accounted for only 15.6% of expenditure in FY2010, vis-à-vis 22.2% in Fy2000. However, during the same period, the share of their spending on consumer durables almost doubled to 4.8% from 2.6%. In fact, it was found that even when the global recession hit urban demand in 2009, it is believed that it was the strong rural demand that rescued the economy.

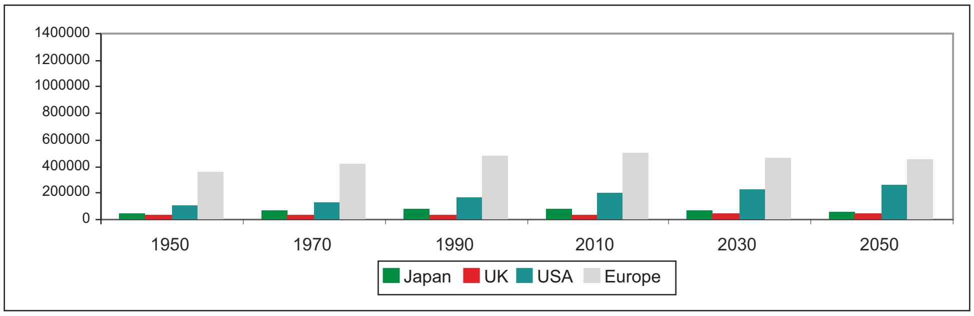
Huge potential for demographic dividend

Over the 20 years from 1990-2010, the fastest growth in working-age population occurred in Asia, Africa and the Middle East. Globally, the working-age population (15-64 years) increased by 40% (1.3bn) with

[4] *Household Consumer Expenditure Survey, FY10, NSSO.*

Asia accounting for two-thirds of worldwide growth. Due to declining fertility rates, many economies will see their work forces peaking and level off or even begin to shrink within the next 40 years. Among the advanced economies, only the US and the UK will see growth in working-age population. Work forces in Japan are already shrinking and Europe is currently witnessing very slow growth rate, which will turn negative by 2020.

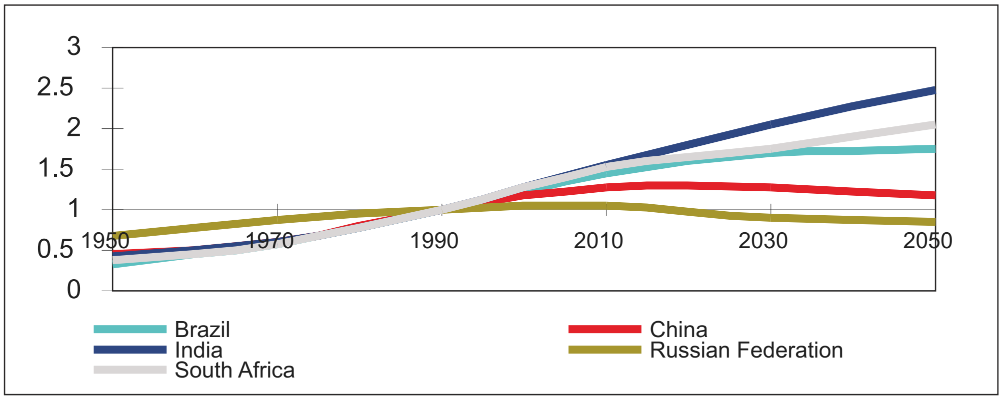
Trend in working population for select advanced economies (in 1000's)



Source: PHD Research Bureau, compiled from United Nations

As for the BRICS, they exhibit a divergent pattern of work-force growth. Russia's working age population would decline 2010 onwards. China's work-force will peak till 2015, before it starts declining. South Africa would also benefit from growth in work-force to the tune of around 4% per annum, on an average, from 1950-2050.

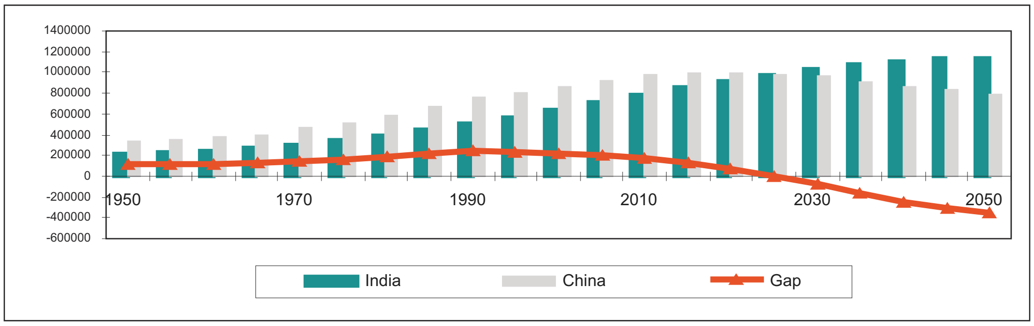
Trend in work-force population in BRICS (1990=1)



Values indexed to 1990; Source: PHD Research Bureau, compiled from United Nations

China's shrinking workforce 2015 onwards may affect its economic growth prospects. A combination of a shrinking workforce and ageing will put pressure on social services, potentially increasing the tax burden on the working population. On the other hand, India will continue enjoying a growing and young workforce, enabling its economy to benefit from a demographic dividend in the coming years. However, this huge consumer base for India has the potential to pose a challenge on the country's infrastructure and also to create enough jobs for its growing working-age population.

Gap between work-forces of India and China (in 1000's)



Source: PHD Research Bureau, compiled from United Nations

Vision 2021: Trillion dollar growth opportunities

India is home to 1.21bn people, which is about 17.4% of the global population. However, it accounts for only 2.4% of world GDP. Hence, there exists a huge potential for achieving the higher growth trajectory, going forward. The real GDP growth is projected to enter higher and higher trajectory and is estimated at to achieve an average growth of 9.3% in the next ten years by 2021. Notwithstanding that in the near term real GDP growth is expected to moderate at around 7.4%-7.7% in 2011-12, it will enter the higher growth trajectory in the next few years, in our view.

We believe India will grow at double-digit growth rate by the later part of 12th Five Year Plan. Infrastructure sector has a huge untapped potential and it will be the main driving force for higher economic growth, going forward. India will be spending around 9-10% of GDP on infrastructure during the 12th plan period as compared with 7-8% of GDP in the 11th plan period. Higher growth in infrastructure sector will provide huge employment opportunities, which in turn will boost consumption growth in the higher trajectory and enhance the production possibility frontier.

Growth prospects of Indian economy: Vision 2021

Year	1991-92 to 2000-01	2001-02 to 2010-11	2011-12 to 2020-21
GDP at factor cost constant pries (US$Bn)*	400	1070	2500
GDP at factor cost constant pries (Growth rate)**	5.7	7.3	9.3
Population (Bn)*	1.01	1.18	1.38
Per Capita income(US$)*	400	900	1800
AVG WPI inflation (%)***	7.8	5.6	5-6
Gross fiscal deficit as % of GDP***	5.6	4.7	3-4
CAD as a % GDP***	-1	-0.75	<-1
Exports of goods and services (US$Bn)*	60	383	1500

Source: PHD Research Bureau
*Note: *Data pertains to concluding year of the specified decade*
*** Based on the decadal average growth of 1990s and 2000s and projections have been made on the basis of decadal trend.*
****Data pertains to decadal averages*
Exchange rates have been considered pertaining to the concluding year of the specified decade, however, projections for 2021 has been made considering the average exchange rate of FY2011, so the amount may differ significantly with the change in exchange rate scenario.

India is projected to expand its real economy to US$2.5trillion over the next ten years by 2021 with an average growth of 9.3% during the decade. The real per capita income is estimated at around US$1800, marking a growth of about 100% during the period. The average WPI inflation is projected to remain within 5-6% trajectory, while the gross fiscal deficit is estimated to remain within 3-4% of GDP during the same period. India's exports of goods and services are projected to expand at US$1500bn in the next ten years by 2021, while the average current account deficit would be less than (-)1% of GDP.

Risks to growth

The inflation risk on account of both global developments and weak supply responses to increasing demand in the domestic front could be severe on India. To tackle the stiff challenge, the RBI has been continuously tightening the monetary policy over the past many months to control the price rise. However, despite the various measures undertaken by RBI vis-à-vis tight monetary stance, inflation still remains in high growth trajectory at around 9%, significantly higher than the comfortable level of 4-5%. The allocation of global financial capital in the future will be very different from the past, since the demands of the public debt of the advanced economies will be larger. Also the financial instability issues may not be entirely behind us, but they could very well reappear anytime vis-à-vis our increased openness with world economy.

Convergence of business cycles

India's convergence of business cycles with major world economies/regions during the recent years has been remarkably high. Based on the cyclical components filtered through the Hodrick-Prescott (HP) method[5], we attempted to find bilateral correlations of India's business cycles with major world economies/regions. The inter-temporal comparison provided evidence that during the recent years (2000-10), growth cycles of major economies/regions have shown higher co movement with that of India. Such greater inlinkages were observed during the recent global financial crisis when growth in major EMEs, including India, was also impacted falsifying the decoupling hypothesis perceived by many economists. Thus, going forward, the decoupling hypothesis is not expected to hold as globalisation has increased India's economic linkages with almost all major economies.

It has been observed that India's bilateral correlation with the world business cycles has been very significant since 1980-2010 with a coefficient of 0.65%, however, it has become more pronounced during 2000-2010, increasing to 0.79%. India's bilateral correlation is very high with the advanced economies, ASEAN countries, Euro Area, US, UK and South Africa. However, it may be mentioned that the coefficient is higher for all the countries during the 2000s vis-à-vis 1980-2010. India's bilateral correlation with China has jumped up to 0.80% during the last 10 years whereas; with Japan it has increased to 0.69% during the same period. This shows that India has been steadily integrating with the world since 1980s, however, its inter linkages with all the nations has increased rapidly in the last 10 years.

[5] *The HP filter, developed by Hodrick and Prescott (1997), is widely used in the business cycles literature. The HP filter is a mathematical tool used in macroeconomics, especially in real business cycle theory. It is used to obtain a smoothed non-linear representation of a time series, one that is more sensitive to long term than to short term fluctuations.*

Bilateral correlations of cyclical behaviour: India vis-à-vis major economies

Country/region	2000-2010*	1980-2010**
Advanced economies	0.74	0.62
ASEAN countries	0.61	0.27
BRICS	0.48	0.29
China	0.80	0.44
Euro Area	0.65	0.55
Japan	0.69	0.52
Russia	0.45	0.26
South Africa	0.63	0.56
United Kingdom	0.68	0.58
United States	0.79	0.62
World	0.79	0.65

Source: PHD Research Bureau
**Correlation of 0.55 or above is statistically significant at 5 per cent*
***Correlation of 0.38 or above is statistically significant at 5 per cent*

It may be mentioned that the structure of Indian economy underwent a major change during the 2000s period in terms of openness. The openness of Indian economy has been increased rapidly during this period. Exports and imports of goods and services have more than doubled from 23% of GDP in the 1990s to around 40% in high growth period and about 50% in the post crisis period. If the trade flows are considered alongside capital flows, the rise in openness (measured as current receipts and payments plus capital receipts and payments) was more dramatic from 42% of GDP in the 1990s to 84% in the high growth period and 107% in the post crisis period. Empirical evidence suggests that with increasing openness of the Indian economy, the trade and industrial cycles are getting more synchronized with the global business cycle. Such synchronization works through trade, financial as well as confidence channels.

Openness Indicators (As per cent to GDP)

Item	1991-2000	2001-2010	2004-2008 High growth period	2009-2011 Post crisis period
Exports plus Imports of Goods & Services	23	40	41	50
Current Receipts & Payments plus Capital Receipts & Payments	42	79	84	107

Source: PHD Research Bureau compiled from RBI
Note: The figures are represented as round offs.

Going ahead, the risks to the global economic outlook have risen significantly as the scope for continued policy support in advanced economies has become much more limited and has, in some cases, been exhausted. The worrying factor is that the current expansionary fiscal policies have coincided with rising age-related spending (pension and health care costs) in most advanced economies such as Japan, Spain, Italy and Greece, which are already laden with relatively high debts. Adding to the ageing population is the problem posed by rising per capita healthcare costs. Thus, the public debt levels in these economies are set to continuously rising for the foreseeable future. The current fiscal policy and expected future age-related spending imply for the difficult path of debt/GDP ratios over the next several years.

Thus, prospects for emerging market economies have become more uncertain again, though growth is expected to remain fairly robust. India, one of the emerging markets, is not insulated from such developments. However, in the recent global financial crisis, India had done comparatively well in terms of growth; the economy grew by 6.8% in FY2009, suggesting high resilience emerging from domestic demand factors. While downside risks to growth may have increased in the wake of global developments, the magnitude of overall impact through various channels would be determined by the severity of slowdown in major advanced economies and how the impact gets transmitted to major emerging market economies which are becoming predominant in India's export. Furthermore, the external risks such as pressure of rising commodity prices on inflation and current account (of BoP) seem to have increased as the impact of sovereign debt crises on the capital flows/increased volatility in capital flows cannot be ruled out which may have implications for financing of current account deficit.

11. Conclusions

The global economy is undergoing a crisis and has weakened significantly. It is extremely volatile at this stage, investor's confidence across the globe has fallen sharply and downside risks are emerging each day. Against a backdrop of unresolved structural fragilities, a number of shocks have hit almost all the economies. On the other hand, the scope for continued policy support in advanced economies has become much more limited and has, in some cases, been exhausted; the worrying factor is that the current expansionary fiscal policies have coincided with rising age-related spending (pension and health care costs) in most advanced economies such as Japan, Spain, Italy and Greece, which are already laden with high debts and sluggish growth trajectories. Thus, the public debt levels in these economies are set to be continuously rising for the foreseeable future. The current fiscal policy and expected future age-related spending imply a difficult path of debt/GDP ratios over the next several years, going forward.

Prospects for emerging market economies have become more uncertain again, though growth is expected to remain fairly robust. India, one of the emerging markets, is not insulated from such developments. However, in the recent global financial crisis, the economy grew by 6.8% (FY2009), suggesting high resilience emerging from domestic factors. India clocked an average annual growth of real GDP of 5.7% during the 1990s and 7.3% during the 2000s. The average saving rate also showed a substantial increase from 23% of GDP in the 1990s to about 31% in the 2000s with a peak saving rate of over 33% achieved during the high growth phase of 2004-08. The efficiency of capital utilisation also improved as the incremental capital output ratio (ICOR) declined to 3.7 during the high growth phase of 2004-08 from 5 in the 1990s. Going ahead, while downside risks to growth may have increased in the wake of global developments, they are likely to have limited impact. The major risks to the economy have emerged from uncertain global macro environment, high inflation, adverse monetary policy and worrying fiscal scenario, which may have impacted the demand and supply side dynamics and growth prospects in the near term.

However, notwithstanding that in the medium term real GDP growth is expected to moderate at around 7.4%-7.7% in FY2012, the real GDP growth is projected to enter higher and higher trajectory and is estimated at to achieve an average growth of 9.3% in the current decade 2011-12 to 2020-21. We believe it will enter the higher growth trajectory in the next few years and will grow at double-digit growth rate by the later part of 12th Five Year Plan. The infrastructure sector has a huge untapped potential and it will be the main driving force for higher economic growth in the coming years. Higher growth in infrastructure sector will provide huge employment opportunities, which in turn will boost consumption to grow at the higher pace. India is projected to expand its real economy to US$2.5tn over the next decade in FY2021 with an average growth of 9.3% during the period. The real per capita income is estimated at Rs64476 on FY2021 marking a growth of about 79% from FY11. In FY2021, the average WPI inflation is projected to remain with 5-6%, while the average current account deficit would be less that 1% of GDP. The gross fiscal deficit is estimated to remain within 3.0-4.0% of GDP. Indian exports is projected to stand at US$1500 in 2021.

Inflation is posing a major challenge to India's growth story. Inflation has been a matter of concern due to its resurgence and its rate being higher than in most other countries. High levels of prices, especially vegetables, fruits, milk; eggs etc have been reflected in double digit rates of inflation. Inflationary pressure is attributed mainly to rise in global prices of crude oil, food-grains and metals, domestic supply constraints in the food economy and overheating caused by fiscal imbalances across the world. Going ahead, the inflation risk on account of global developments could be severe on India. Despite various measures undertaken by RBI vis-à-vis tight monetary stance, inflation still remains in high growth trajectory at around 9%, significantly higher than the comfortable level of 4-5%. This must be tackled through a suitable combination of fiscal and monetary policy combined with efforts to remove specific supply constraints which are identifiable.

In the absence of appropriate actions for addressing supply bottlenecks, especially in food and infrastructure, ability of the economy to sustain the current growth rate without significant inflationary pressures is challenged. Agriculture is the back bone of the economy which not only provides the principal means of livelihood for 53% of India's population, it has very vital supply demand linkages with other sectors of the economy. Raising agricultural production and productivity is, therefore, important for containing price pressures, raising rural incomes and making growth more inclusive. There are several initiatives necessary to reform the farm sector like larger public investments, greater input efficiency, soil conservation, improved farming practices, developing resilience to rainfall variations and climate change. And to build forward and backward linkages, there is need to invest in rural infrastructure and the supply chain. Since the demand for perishable products are seen to be increasing, attention needs to be paid to the logistics of transporting produce from the farm to the consumer, with minimum spoilage. Cold chain management is the key to prevention of spoilage and wastage of fruits, vegetables and animal proteins. PPP mode of investment should be explored in this area to rapidly scale up agro-infrastructure.

The Indian industry has seen a rough patch, decelerating considerably over the last many months. The major impediment has been the spiral in its input costs including high borrowing costs, shooting energy costs and flaring up of manpower costs. These have culminated into high cost push inflation scenario in the sector, retarding its output. This can pose a major jolt to the Indian growth story, going forward. In such a situation, it is important that the government intervenes to arrest the slowdown. There is a need to ensure that credit is made available to industry at reasonable rates and the input costs meet with some moderation. Financing of infrastructure expenditure, lowering the costs of doing business, simplification of the tax structure and making land available easily to industry would be critical to the resume rapid growth momentum.

Services has remained one of the most prominent sectors of the Indian economy contributing a lion's share to its GDP and keeping up the growth momentum in the good and the bad years. It has also contributed significantly to the country's exports which have maintained its steady trend despite weakening of demand in the advanced world. However, despite its large contribution to India's GDP, it employs only around 35% of the total workforce in the country. Hence, the sector has enormous significance in terms of its emerging potential as a lead employment generator. Rapid skill development and technical education among the youth of the country can help in creation of service sector based employment in India.

India is primarily a supply constrained domestic consumption led economy with exponentially growing consumer demand. However, the country needs to import a substantial proportion of its total demand which comprises various food and non-food items. This is the sole reason why India has remained a net importer with widening current account deficits, despite its robust growth in the exports front. Of late, with the increased volatility in the global capital flows over last many months, virtually all emerging market currencies faced pressure to depreciate. This uncertainty has impacted India through various financial channels like unstable FDI inflows, dip in forex reserves, depreciation of the rupee against the dollar, etc. With the fears of the global recession lasting in the near future, the external sector of India seems to be considerably vulnerable.

India has only recently begun to attract global capital and given the size of the economy, and its perceived high growth potential, it will remain an attractive investment destination as long as policy towards investment in general and FDI in particular is seen to be supportive. Hence, the Government must further liberalize FDI procedures and policies to make them macro-economically sound and investor friendly. The recent proposal for opening up of 51% FDI in multi-brand retail is all set to mark a major development in the demand supply dynamics of the economy, going forward.However, the allocation of global financial capital in the future will be very different from the past, since the demands of the public debt of the advanced economies will be larger. Also the financial instability issues may not be entirely behind us, but they could very well reappear anytime vis-à-vis our increased openness with world economy.

Furthermore, India's convergence of business cycles with major world economies/regions during the recent years has been remarkably high. The inter-temporal comparison provided evidence that during the recent years (2000-10), growth cycles of major economies/regions have shown higher co movement with that of India. Such greater inlinkages were observed during the recent global financial crisis when growth in major EMEs, including India, was also impacted falsifying the decoupling hypothesis perceived by many economists. Thus, going forward, the decoupling hypothesis is not expected to hold as globalisation has increased India's economic linkages with almost all major economies. Empirical evidence suggests that with increasing openness of the Indian economy, the trade and industrial cycles are getting more synchronized with the global business cycle. Such synchronization works through trade, financial as well as confidence channels.

Infrastructure bottleneck has been a serious concern in achieving robust and sustained economic growth. To overcome this critical weakness an expanded investment programme in this area will not only bolster demand in the short run, it will also increase competitiveness and thereby boost the supply-side of growth in the medium run. Many advanced economies and financially constrained developing economies have developed their infrastructure successfully through public-private partnerships. It is felt that a stable macro economic framework, sound regulatory structure, investor lucrative policies, sustainable revenues from projects, consistency of policies, regulation and liberalization of labour laws, and good corporate governance would be critical to the success of the PPP models, going forward.

Domestic trade in India is impeded by one of the most complicated and elaborate sales taxes systems in the world. The implementation of GST will include central and state taxes and bring further simplification in tax structure by removing current inefficiencies/ distortions. We believe that implementation of GST will be a win-win situation for all as it will broaden the tax base and higher tax collections will help reduce fiscal deficit. It will provide a more enabling environment for India's trade and industry and lead to a single common market across the Indian states. The government must not let the impasse on GST to carry on longer and should expedite the process so that the new system of taxes could be rolled out at the earliest.

The government of India has been successfully narrowing its fiscal deficit over the beginning of the last decade. However, on account of large scale stimulus and development augmenting expenditure undertaken by the government to pull the economy back on track post Lehman crisis in FY2009, the fiscal deficit as a percent of GDP shot up. But, due to the fast paced recovery of the economy in FY2010, the economy was able to scale down its fiscal deficit. The cause of concern has re-emerged in FY2012, with the governments inflated subsidy burden related to food and oil. The worsening fiscal scenario can impede in the process of proper policy implementation, going forward. The country should focus on rapid fiscal consolidation measures and toughen austerity measures to bring the situation under control.

However, to sustain its current growth momentum and to achieve high growth trajectory, going forward, India needs to lay emphasis on inclusive growth. While the immediate challenge to sustaining high growth lies in bringing down inflation, growth sustainability over medium-term depends on addressing the structural bottlenecks facing the economy. These include those relating to education, health, energy, infrastructure and agriculture sectors, where public policy interventions are needed to remove the constraints.

India's human development indicators are distressing. As per the UNDP's Human Development Index (HDI) 2011, India ranks 134 out of 187 countries. Even as education and health outcomes have improved over the years, on many indicators such as life expectancy at birth, educational attainment and nutrition levels, its rank is well below average. Poverty has been prevalent in India across all regions. Tentative estimates for FY2010 show that poverty stands at 32%, which increased in the 2 years before that following the global crisis and the 2009 drought. Poverty alleviation schemes must be strengthened and social sector reforms must be stringently implemented, especially in areas like Uttar Pradesh, Bihar, Assam and West Bengal.

The growing unemployment in the country may emerge as one of our biggest problems and hence there is an urgent need to expand employment opportunities. There exists enormous amount of unemployment and underemployment in the rural sector. Millions of people are locked in low productivity jobs in the unorganized industry and service sectors. India's high end IT service sector may be dazzling the world but, it employs less than 3 million. There is a need to move people out of low productivity jobs in agriculture to industry and services. A portion of the surplus labour in agriculture could be absorbed in non-farm allied activities. There will be opportunities also in the construction sector which is growing at fast rate, but a major expansion of job opportunities in the service sector will not be possible without skill improvement. The recently unveiled new national manufacturing policy aims at raising the share of manufacturing in GDP from 16% per cent to 25% and generating additional employment of 100 million by 2022. However, to exploit the full job potential of this emphasis on manufacturing, we need to liberalize our labour laws and employment regulations.

Demographics are in India's favour because the working age population is growing faster than the overall population. This expanding working age population will earn, and will save, thereby contributing to higher savings and higher investment, which will lead to higher growth trajectories, going forward. However, the growing workforce could prove advantageous only if sufficient investment is undertaken to generate their labour productively. Effective education and skill development hold the key to reaping the emerging demographic dividend in case of India. The education system should be aligned with needs of the industry to enhance employability of the youth. In case these conditions are not met, the huge number of people with the potential of joining the labour force in the years to come would prove to be a bane rather than a boon. These measures would have a multidimensional effect on the economy, first, by educating and up-skilling work force, second, by creating employment opportunities, third, by reducing the level of poverty and finally by enhancing the growth prospects.

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PHD Chamber is a vibrant and proactive representative organization of business and mercantile community of northern and central India, serving their interest for over a century. This apex regional organization plays a active role in India's development and acts as a much needed link between government and industry, serving as a catalyst for rapid economic development and prosperity of the community in the region through promotion of trade, industry and services.

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- **Industrial Development**
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- **Housing**
- **Health**
- **Education and Skill Development**
- **Agriculture and Agribusiness**

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