

Mid Year Review of the Indian Economy 2001-02

The Mid-Year Review of the Indian Economy for 2001-02 analyses the behaviour of all major macroeconomic variables. The Review identifies three major issues for critical evaluation: industrial recession, capital market collapse, global recession and war and its contagion effect on the Indian economy. The Review, with the help of a macro-econometric model, concludes that there is clear evidence of a further slowdown in the Indian economy in the current fiscal year (2001-02). The GDP growth in this fiscal year is expected to be around 5 per cent, which is less than the 5.2 per cent growth in the last fiscal year. All the sectors of the economy, except agriculture, are expected to perform below expectations this year. This trend in two consecutive years and the stagnant savings and investment rates raise serious doubts about the attainment of the Tenth Plan target growth rate of 8 per cent per annum.

The Review concludes that increase in the GDP growth rate can be brought about only by improving the productivity of both labour and capital. Given the acute demand constraint, the government may have to stimulate aggregate demand through a liberal fiscal policy. However, it must be ensured that fiscal stimulus promotes public investment and not bureaucratic expenditure and subsidies.