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Foreword

The global economy is yet to recover from the global financial crisis of 2008 and its aftermath. While the enormous fiscal and monetary stimulus provided by individual countries and coordinated to some extent by the G20 process helped the global economy recover in the first instance, US GDP growth still remains at around 1.5 per cent. In the Euro area, GDP growth in 2012 is projected to decline to -0.3 per cent according to the IMF projections of April 2012. Unemployment rates in the advanced economies remain at all-time highs. India came out of the 2008 financial crisis faster and with less severe impact than feared. The GDP growth rate in 2009–10 was 8.4 per cent, as compared to 6.7 per cent of 2008–09. China too maintained the momentum of a relatively high rate of growth. China registered a GDP growth rate of 9.2 per cent in 2011.

Against this backdrop of changes in the global economy and in India, the India International Centre in New Delhi invited NCAER to do the Malcolm S. Adisheshiah Mid-Year Review of the Indian Economy at IIC for 2011. This Mid-Year Review of the Economy at IIC began back in 1975 under the leadership of the late Malcom S. Adisheshiah. NCAER had last presented these reviews in 2002 and 2003. NCAER, under the very able leadership of Senior Research Counsellor Dr Shashanka Bhide, readily took up the challenge and is proud to be associated with this long-standing tradition and with the name of an eminent economist as Dr Malcolm S. Adisheshiah.

The 2011 Mid-Year Review was presided over on November 5, 2011 by Dr Bimal Jalan, former Governor of the Reserve Bank of India, former President of the NCAER Governing Body and Member of the Rajya Sabha. Dr Jalan pointed to the uncertain political environment and rising concerns about corruption affecting economic growth. Prof. Sudipto Mundle, National Institute of Public Finance and Policy; Prof. B.N. Goldar, Institute of Economic Growth; and Dr S.K. Ghosh, Federation of Indian Chambers of Commerce and Industry, participated in the seminar as invited discussants and commented on the various themes affecting the performance and course of the Indian economy.

As we know now, India's relatively better performance after the global financial crisis has slipped and not carried through into 2012. India's growth rate in 2011–12 is estimated to have been 6.5 per cent, even lower than that of 2008–09. China too is facing a reduction in its growth rate. In November 2011, while there were signs of a weakening investment climate and deceleration in industrial growth, the likelihood of a bare 2.5 per cent increase in GDP from manufacturing during the year was not anticipated. Industrial growth as a whole, including construction, has now been placed at 3.4 per cent for the year by official estimates. The second issue facing the economy in November 2011 was the high rate of inflation, particularly food inflation. This declined to 7.5 per cent towards the end of the financial year 2011–12. Monetary policy measures were put in place by RBI to bring down the inflation rate. But economic growth dropped as the cost of funds increased and the demand for automobiles and housing slowed down. Slower growth led to lower revenue collection and much larger fiscal deficit for 2011–12 than budgeted.

The fiscal deficit spilled over to the current account deficit. A rising petroleum bill combined with the slower growth of exports led to a higher current account deficit of 3.6 per cent of GDP in 2011–12. Weak investment sentiments globally also had an adverse impact on capital inflows and the rupee came under pressure. The rupee depreciated by over 10 per cent between March 2011 and March 2012.

While the macroeconomic forecasts discussed at the 2011 Mid-Year Review did not prove durable as the economy slowed down substantially in 2012, the sector and thematic chapters included in the Mid-term Review provide an in-depth discussion on three issues that are likely to challenge policy makers in the coming years: the challenge of keeping inflation in check while enabling higher growth, the challenge of accelerating the growth of manufacturing, and the challenge of improving rural service delivery through panchayats.

This volume documents the presentations made at the 2011 Mid-Year Review. In a brief postscript to the first chapter, it draws attention to the slippages in the projections for 2011–12 made in November 2011 as compared to actuals, a point that was presaged by some commentators at the seminar.

We are grateful to the India International Centre for providing NCAER the opportunity to present the 2011 Malcolm S. Adisheshiah Mid-Year Review and look forward to continuing our partnership with the IIC on this important event.

New Delhi

Shekhar Shah
Director-General
NCAER

Preface

Each year we pay tribute to Dr Malcolm Adiseshiah, development economist and educator, who was committed to eradicating poverty and illiteracy and fostering growth in a modern economy. He wore many hats, earned several awards, and contributed his expertise to innumerable institutions. Among them, the Madras Institute of Development Studies was closest to his heart. More than 30 years on, it still retains his vision of a vibrant, rigorous and liberal space for advanced research in economy, polity and society. He continued his support to teaching and research in these areas even after his death in 1994, willing all his finances to the setting up of a Trust—The Malcolm and Elizabeth Adiseshiah Trust was born in 1999.

Dr Adiseshiah was associated with UNESCO for over 25 years and over this period he transformed it from a group of developed nations to a global association concerned with science, culture, education and the development of all nations. His engagement with the India International Centre dates back to the 1960s when he played a major role in getting UNESCO affiliation to the Centre. He became a member of the Centre, of its Council for Cultural Studies, and was later elected Life Trustee.

The IIC became his hub when he was in Delhi. In the 1980s he chaired a committee that was entrusted with the task of reviewing the functioning of the Centre from its inception.

In 1983, Dr Adiseshiah initiated the Mid-Year Review of the Indian Economy which remains one of the definitive surveys of India's growth projection. Since 2001, the Trust has supported an annual seminar at the Centre, followed by the publication of a book based on its proceedings—the Mid-Year Review of the Indian Economy, which has been one of our more prominent publications.

The Mid-Year Review is an attempt to examine the course of macroeconomic trends for the first half of the year and provide an assessment of the prospects of the economy for the full year. There are some variables that are key to the course of the economy, such as the nature of the monsoon which affects agriculture and price trends; monetary and fiscal policy developments; and global conditions which affect external trade.

The year 2011-12 is unusual and significant. Six months ago, we talked of 'India rising'; today, corruption, disenchantment and policy paralysis have been a set-back. Yet, the scenario is not as gloomy as it appears, and there is a mix of the positive and the adverse. This year's Review analysed both the weaknesses and strengths of contemporary Indian economy. High inflation, stagnant growth, poor governance, corruption, slowdown in manufacturing and a turbulent global scenario are juxtaposed with high foreign investment inflows, higher reserves, good savings and rising exports.

The NCAER team of researchers made four presentations. After a detailed overview that posed the

significant question—Where are we today—three focused presentations examined the primary indicators of growth: inflation and growth; manufacturing and services; and the institutional framework for the public distribution system.

As the Review shows, we are at a crossroads. The bottom-line is that India is in a good place today. We have opportunities and resources, but unless we seize the day, the adverse indicators might just outweigh the positive.

Dr Kavita A. Sharma
Director
India International Centre

