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Eocnomic Development of India

Dr.A.Sundaram, (M.A., B.Ed., PGDCA, M.Phil., Ph.D.,)

Associate Professor, Dept.of Economics, Govt.Saiha College, Saiha, Mizoram

ABSTRACT: *Managing growth and price stability are the major challenges of macroeconomic policymaking. In 2011-12, India found itself in the heart of these conflicting demands. The Indian economy is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-9). At the same time, sight must not be lost of the fact that, by any cross-country comparison, India remains among the front-runners. With agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely to weakening industrial growth. The manufacturing sector grew by 2.7 per cent and 0.4 per cent in the second and third quarters of 2011-12. Inflation as measured by the wholesale price index (WPI) was high during most of the current fiscal year, though by the year's end there was a clear slowdown. Food inflation, in particular, has come down to around zero, with most of the remaining WPI inflation being driven by non-food manufacturing products. Monetary policy was tightened by the Reserve Bank of India (RBI) during the year to control inflation and curb inflationary expectations. The slowing inflation reflects the lagged impact of actions taken by the RBI and the government. Reflecting the weak manufacturing activity and rising costs, revenues of the centre have remained less than anticipated; and, with higher than-budgeted expenditure outgo, a slippage is expected on the fiscal side. The global economic environment, which has been tenuous at best throughout the year, turned sharply adverse in September 2011 owing to the turmoil in the eurozone, and questions about the outlook on the US economy provoked by rating agencies. However, for the Indian economy, the outlook for growth and price stability at this juncture looks more promising. There are signs from some high frequency indicators that the weakness in economic activity has bottomed out and a gradual upswing is imminent.*

Keywords: *Moderate performance in Primary sector, weakening Industrial Growth, Prosperity in Tertiary sector, Growth and Price stability etc*

I. KEY INDICATORS OF ECONOMIC DEVELOPMENT

The economic situation in February 2011 looked positive, even though there was some concern about industrial slowdown. The Indian economy would register growth of around 9 per cent (+ or - 0.25 per cent) in 2011-12, almost reverting to the pre-crisis levels achieved during the three-year period 2005-6 to 2007-8. The optimism was driven in part by the fact that the economy had achieved a growth rate of 8.4 per cent during the years 2009-10 and 2010-11 and the savings and investment rates had begun rising once again. However, during the course of the year it became increasingly clear that economy would fall short of that growth rate by a significant margin for various reasons.

This was indeed pointed out in the Mid-Year Analysis for the year 2011-12 that had stated that the Indian economy was expected to register a growth rate of 7.5 per cent during the year. As it happens, the economy is expected to register a growth rate of 6.9 per cent in 2011-12, as per the Advance Estimates (AE) released by the Central Statistics Office (CSO) on 7 February 2012. At sectoral level, growth is estimated to be 2.5 per cent for 2011-12 for agriculture and allied sectors, a little lower than expected. However, this has to be seen in light of the high growth of 7 per cent achieved in 2010-11. Growth in the services sector is likely to be 9.4 per cent in 2011-12 as against 9.3 per cent in 2010-11. Thus, it is primarily the dip in growth in industry to 3.9 per cent in 2011-12 that has led to the slowdown in real gross domestic product (GDP) growth as indicated in **(Table I)**.

Table I: Key Indicators

Data categories and components	Units	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
GDP and Related Indicators							
GDP (current market prices	Crore	4294706	4987090	5630063	6457352	7674148	8912178
Growth Rate	%	16.3	16.1	12.9	14.7	18.8	16.1
GDP (factor cost 2004-05 prices)	Crore	3564364	3896636	4158676	4507637	4885954	5222027
Growth Rate	%	9.6	9.3	6.7	8.4	8.4	6.9
Savings Rate	% of GDP	34.6	36.8	32.0	33.8	32.3	Na
Capital Formation (rate)	% of GDP	35.7	38.1	34.3	36.6	35.1	Na
Per Capita Net National Income (factor cost at current prices)		31206	35825	40775	46117	53331	60972
Production							
Food grains	Mn tonnes	217.3	230.8	234.5	218.1	244.8	250.4
Index of Industrial Production b (growth)	%	12.9	15.5	2.5	5.3	8.2	3.6
Electricity Generation (growth)	%	7.3	6.3	2.7	6.1	5.5	9.4
Prices							
inflation (WPI) (52-week average)	% change	6.6	4.7	8.1	3.8	9.6	9.1
inflation CPI (IW) (average)	% change	6.7	6.2	9.1	12.4	10.4	8.4
External Sector							
Export Growth (US$)	% Change	22.6	29.0	13.6	-3.5	40.5	23.5
Import Growth (US$)	% Change	24.5	35.5	20.7	-5.0	28.2	29.4
Current Account Balance (CAB)/GDP	%	-1.0	-1.3	-2.3	-2.8	-2.7	-3.6
Foreign Exchange Reserves	US$ Bn	199.2	309.7	252.0	279.1	304.8	292.8
Average Exchange Rate	US$	45.25	40.26	45.99	47.44	45.56	47.70
Money and Credit							
Broad Money (M3) (annual)	% Change	21.3	21.4	19.3	16.8	16.0	14.4
Scheduled Commercial Bank Credit (growth)	% Change	28.1	22.3	17.5	16.9	21.5	16.4
Fiscal Indicators (Centre)							
Gross Fiscal Deficit	% of GDP	3.3	2.5	6.0	6.5	4.8	4.6
Revenue Deficit	% of GDP	1.9	1.1	4.5	5.2	3.2	3.4
Primary Deficit	% of GDP	-0.2	-0.9	2.6	3.2	1.8	1.6
Population	Million	1122	1136	1154	1170	1210	NA

Source: CSO

With the exception of the year 2008-9 when the growth rate was 6.7 per cent, the growth in real GDP in 2011-12 has been the lowest in nine years. This speaks well of the last nine years but must also be treated as a wake-up call. Like in 2008-9, a part of the reason for the slowdown lies in global factors, particularly the crisis in the eurozone area and near-recessionary conditions prevailing in Europe; sluggish growth in many other industrialized countries, like the USA; stagnation in Japan; and hardening international prices of crude oil, which always has a large effect on India. Domestic factors, namely the tightening of monetary policy, in particular raising the repo rate in order to control inflation and anchor inflationary expectations, resulted in some slowing down of investment and growth, particularly in the industrial sector. Since monetary policy operates largely through demand compression in the short run, the expectation is that this policy will in fact bolster long-run growth. The 2008-09 downturn came to India when the country's fiscal balances were robust. Hence, there was for ample scope for fiscal and monetary stimulus. As in most parts of the world, this second slowdown is coming so quickly on the heels of the previous one that the latitude that we have in terms of fiscal and monetary policy is much more limited. Evidently, there is need to be innovative in terms of policy.

II. GROWTH IN GDP

Earlier Economic Surveys had highlighted the growing divergence between the two measures of GDP, namely GDP at factor cost at constant prices (production or value-added method) and GDP at constant market prices (demand-side GDP), arising from the global financial crisis and the policy responses which included fiscal stimuli. As per the latest revisions to GDP announced by the CSO in the QE of national income released on 31 January 2012, demand-side GDP is estimated to have grown by only 3.9 per cent in 2008-09 and the recovery in 2009-10 and 2010-11 was sharper at 8.2 per cent and 9.6 per cent respectively **(Table II).** The revisions indicate that the global crisis in 2008-09 was mainly reflected in negative growth in gross capital formation, with the slowdown in private final consumption expenditure being modest. More importantly, post-crisis growth in gross fixed capital formation has been lukewarm. As per the Advanced Estimate the growth of GDP at market prices is expected to be 7.5 per cent in 2011-12. The growth in real terms of consumption expenditure, gross fixed capital formation, exports and imports respectively works out to 6.0 per cent, 5.6 per cent, 14.3 per cent, and 17.5 per cent for the year 2011-12. The growth in these indicators in 2010-11 was 8.1 per cent, 7.5 per cent, 22.7 per cent, and 15.6 per cent respectively. The rate of growth of private final consumption expenditure in real terms has been fairly consistent and did not decline significantly even when the growth rate was relatively lower, partly due to the inherent nature of private consumption that does not fluctuate as much as other demand-side components and partly on account of inflationary tendencies, which tend to reduce savings (on account of reduction in real interest rates) rather than affecting the consumption level in the economy.

Table II: Growth in Gdp at Constant Market Prices (Per Cent)

		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Total Final Consumption Expenditure	8.7	7.7	9.4	7.7	8.3	8.1	6.0
1.1	Private final Consumption Expenditure	8.6	8.5	9.4	7.2	7.2	8.1	6.5
1.2	Govt final Consumption Expenditure	8.9	3.8	9.6	10.4	14.2	7.8	3.9
2	Gross Capital Formation	16.3	15.1	17.2	-1.6	11.6	11.1	5.8
2.1	Gross fixed Capital Formation	16.3	13.1	16.3	3.5	6.8	7.5	5.6
2.2	Changes in stock	26.3	31.1	31.2	-51.4	63.2	37.4	2.9
2.3	Valuables	-1.6	13.2	2.5	26.5	67.8	32.4	12.5
3	Exports	26.1	20.4	5.9	14.6	-4.8	22.7	14.3
4	Less Imports	32.6	21.5	10.2	22.7	-2.2	15.6	17.5
5	Discrepancies	48.2	47.5	111.8	-75.3	230.5	38.9	-111.6
	Growth in GDP at 2004-5 market prices	9.3	9.3	9.8	3.9	8.2	9.6	7.5

Source: NSSO

The growth rate of investment in the economy is estimated to have registered a significant decline during the current year. The year has been witnessing a sharp increase in interest rates that resulted in higher costs of borrowings; and other rising costs affecting profitability and, thereby, internal accruals that could be used to finance investment. It may also be observed from **Table II** that the economy registered high growth in gross capital formation during 2005-06 to 2007-08. As a result, there was rapid increase in investment rate in the economy from 32.8 per cent in 2004-05 to 38.1 per cent in 2007-08 **(Table III).** The level of investment declined in absolute terms in 2008-09 following the slowdown in the global economy. Though it did recover quickly in 2009-10 and 2010-11, the growth in gross capital formation, particularly fixed capital formation, has been substantially lower than had been achieved in 2005-06 to 2007-08. The investment rate continues to be lower than the peak level achieved in 2007-08.

Despite difficult conditions in the global economy, exports continued to be robust in the current year and registered a growth rate of 14.3 per cent in real terms over and above 22.7 per cent growth achieved in the previous year (2010-11), as per Advance Estimates. Imports are likely to end the year with a real growth rate of 17.5 per cent as against 15.6 per cent in 2010-11. It may further be noted that international trade (exports and imports) as per national accounts is now around 53 per cent of GDP, up from a level of 37 per cent in 2004-05.

III. PRIVATE FINAL CONSUMPTION EXPENDITURE

The growth rate of private final consumption expenditure has been fairly consistent even when the economy's growth rate has fluctuated somewhat. However, this consistency masks large variations between the various commodity groups as can be seen from **Table III**. As against an overall growth of private final consumption expenditure that was in the range of 7.1-9.2 per cent during the period 2005-06 to 201011, the rates of growth of the consumption groups food, beverages, and tobacco and gross rent, fuel, and power have generally been lower. On the other hand, the growth rates of items like furniture and furnishing, transport and communications, and miscellaneous goods and services have generally been higher. As a result, the composition of private final consumption expenditure in terms of shares underwent changes, as shown in **Table III**.

Table III: Private Final Consumption Expenditure: Annual Growthand Share At 204-05

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Annual Growth Percent						
Food, beverages, & tobacco		6.3	3.4	6.4	3.3	0.3	6.2
Clothing & footwear		19.7	23.3	5.0	5.0	14.9	3.6
Gross Rent, fuel, & power		3.7	3.8	4.7	3.6	5.4	4.9
Furniture, furnishings, etc.		15.1	17.1	16.1	12.2	8.7	13.0
Medical care & health services		8.8	8.7	4.5	6.9	8.9	7.6
Transport & communication		5.8	9.1	7.9	7.7	12.0	12.5
Recreation, education, & cultural services		11.0	8.4	9.8	6.8	4.0	5.6
Miscellaneous goods & services		20.1	21.1	28.6	20.2	15.7	11.4
Total private consumption		8.5	8.7	9.2	7.1	7.4	8.2
	Share in Total Per Cent						
Food, beverages, & tobacco	40.0	39.1	37.3	36.3	35.0	32.7	32.1
Clothing & footwear	6.6	7.3	8.3	8.0	7.8	8.4	8.0
Gross Rent, fuel, & power	13.8	13.2	12.5	12.1	11.7	11.5	11.1
Furniture, furnishings, etc.	3.4	3.6	3.9	4.1	4.3	4.4	4.6
Medical care & health services	5.0	5.0	5.0	4.8	4.8	4.8	4.8
Transport & communication	19.3	18.8	18.9	18.7	18.8	19.6	20.4
Recreation, education, & cultural services	3.0	3.0	3.0	3.0	3.0	2.9	2.9
Miscellaneous goods & services	8.9	9.9	11.0	13.0	14.6	15.7	16.2
Total private consumption	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO

As per the QE released by the CSO, gross domestic savings as a ratio of GDP at current market prices (savings rate) declined from 33.8 per cent in 2009-10 to 32.3 per cent in 2010-11 **(Table IV).** This decline is accounted for by a reduction in private savings, primarily household savings in financial assets, and somewhat by a reduction in corporate savings. Public savings on the other hand registered an increase, thanks to fiscal consolidation. The reduction in the financial savings rate of households could be partly attributable to inflationary tendencies in the economy during the period that resulted in higher growth of private final consumption expenditure than of personal disposable income and partly to a reduction in real interest rate.

Table IV: Ratio of Savings and Investment to Gdp At Current Maret Prices Per Cent

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-2011
Gross domestic saving	32.4	33.4	34.6	36.8	32.0	33.8	35.1
Public sector	2.3	2.4	3.6	5.0	1.0	0.2	1.7
Private sector	30.1	31.0	31.0	31.8	31.1	33.6	30.6
Household sector	23.6	23.5	23.2	22.4	23.6	25.4	22.8
Financial saving	10.1	11.9	11.3	11.6	10.1	12.9	10.0
Saving in physical assets	13.4	11.7	11.9	10.8	13.5	12.4	12.8
Private corporate sector	6.6	7.5	7.9	9.4	7.4	8.2	7,9
Gross capital formation (investment)	32.8	34.7	35.7	38.1	34.3	36.6	35.1
Public sector	7.4	7.9	8.3	8.9	9.4	9.2	8.8
Private sector	23.8	25.2	26.4	28.1	24.8	25.2	24.9
Corporate sector	10.3	13.6	14.5	17.3	11.3	12.7	12.1
Household sector	13.4	11.7	11.9	10.8	13.5	12.4	12.8
Gross fixed capital formation	28.7	30.3	31.3	32.9	32.3	31.6	30.4
Stocks	2.5	2.8	3.4	4.0	1.9	2.7	3.3
Valuables	1.3	1.1	1.2	1.1	1.3	1.8	2.1
Saving-investment gap	-0.4	-1.3	-1.1	-1.3	-2.3	-2.8	-2.8
Public sector	-5.1	-5.5	-4.1	-3.9	-8.5	-9.0	-7.1
Private sector	6.3	5.8	4.6	3.7	6.3	8.5	5.8

Source: CSO

IV. SAVINGS AND INVESTMENTPE 2010-11 QUICK ESTIMATES

There was a reduction in investment rates, both in the public and private sectors, particularly the corporate sector, in 2010-11. Reduction in corporate investment could be attributed to global factors, with the global economy exhibiting signs of slowing down in the second half of 2010 as well as to domestic factors, namely increased cost of borrowing following the raising of interest rates in order to control inflation. Fixed investment as a ratio of GDP peaked in 2007-08 and has continued to register a decline since then, falling from 31.6 per cent in 2009-10 to 30.4 per cent in 2010-11.

At 2.8 per cent of GDP, the savings-investment gap during 2010-11 remained at the same level as in 2009-10. This reflected the need to finance the investment requirement from foreign savings (current account deficit). The gap, in excess of 2 per cent of GDP, has been at relatively elevated levels (since 2008-09), as compared to 0.4-1.3 per cent in 2004-05 to 2007-08. The savings-investment gap narrowed both in the public as well as private sectors in 2010-11 vis-à-vis 2009-10. For the public sector, it narrowed from - 9.0 per cent of GDP to -7.1 per cent. The gap was much lower in the years prior to 2008-09. However, the fiscal stimulus provided in order to overcome the slowdown of 2008-09 reduced public savings as a ratio of GDP by 4 percentage points in 2008-09 and another 0.8 percentage points in 2009-10. The increase in the revenue levels, thanks partly to substantial increase in non-tax revenue receipts in the year 2010-11,and the process of fiscal consolidation were among the factors responsible for narrowing of the public sector's savings-investment gap.

V. SECTORAL INVESTMENT GROWTH RATES

In the medium to long term, growth of an emerging economy depends, to a large extent, not only on overall level of investment but also on its sectoral composition reflecting the transformation taking place. However, annual growth rates of investment both at aggregate and sectoral levels may vary, depending on expectations of profitability, sales, etc. As can be seen from **Table V**, there are large scale variations in the growth rates of sectors over time. Most of the sectors in 2010-11 registered positive growth in real terms in investment levels except communications and railways. The marginal negative growth in communications in 2009-10 and 2010-11 is not surprising after the very high growth in this sector in the previous two years. The growth in real investment in railways turned negative after showing a positive trend for several years. This partly reflects the inability to raise tariffs in order to meet increasing expenditures.

Table V: Sectoral Investment Growth Rates at 2004-05 Prices

	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-2011
Agriculture, forestry, & fishing	13.8	6.3	14.9	20.2	3.2	8.5
Agriculture	13.9	5.9	15.9	21.4	2.8	8.4
Forestry & logging	30.9	13.4	-20.3	-3.2	-11.9	3.8
Fishing	9.5	9.5	9.5	9.6	9.5	9.5
Mining & quarrying	40.0	15.7	13.1	-16.6	15.7	6.7
Manufacturing	17.5	17.2	29.0	-31.3	42.3	7.1
Registered	39.3	11.0	37.1	-27.5	31.6	8.1
Unregistered	-36.8	50.9	-3.7	-53.1	137.6	2.4
Electricity, gas, & water supply	21.3	18.1	12.6	15.1	3.3	1.0
Construction	5.7	66.5	20.2	-23.1	-2.5	14.1
Trade, hotels, & restaurants	26.7	30.0	-14.7	28.7	-12.1	48.9
Trade	22.6	34.0	-20.1	35.8	-16.2	58.4
Hotels & restaurants	49.3	11.7	14.8	1.7	8.9	19.2
Transport, storage, & communication	20.1	-6.7	25.3	53.8	-7.5	2.2
Railways	14.6	12.9	13.7	22.5	6.2	-9.5
Transport by other means	12.9	-14.2	28.7	30.8	-17.5	13.3
Storage	-285.9	18.0	5.7	71.9	-8.0	13.3
Communication	33.2	-6.7	29.3	110.6	-2.9	-2.4
Financing, insurance, real estate, & business services	6.2	2.4	8.9	41.4	-11.9	3.6
Banking & insurance	70.4	61.8	-6.8	-28.0	0.0	54.5
Real estate, ownership of dwellings, & business services	4.3	-0.4	10.1	45.9	-12.2	1.7
Community, social, & personal services	19.6	12.5	18.2	-0.7	8.3	12.5
Public administration & defence	17.3	14.0	13.4	7.3	10.1	11.5
Other services	22.7	10.7	24.5	-10.4	5.7	14.0
Total	17.0	15.3	17.7	-2.5	9.8	9.9

Source: NSSO

Typically, the Economic developments in the current year; however, it is worth commenting on the growth of the Indian economy from the perspective of long-term trends, particularly in the context of the post 1991 period and reflect upon where we are at the current conjuncture. The rate of growth between 1950-01 and 1990-01 was 4.1 per cent. In contrast, between 1991-02 and 2011-12 the economy registered a growth of 6.9 per cent. While in the four decades from 1951-02 to 1991-02, the growth rate in terms of GDP at factor cost (at 2004-05 prices) was more than 6 per cent only in 10 years, between 1992-3 and 2011-12 (including the AE for 2011-12) (a time span covering 20 years, inclusive of both observations) the growth rate has been over 6 per cent in as many as 14 years. The growth rate has accelerated significantly since 2003-04. Between 2003-04 and 2011-12, the economy registered a growth of 8.2 per cent per annum. In fact, during this period, the growth rate has never fallen below 6.7 per cent and has been over 8 per cent in six of these nine years. All the three major sectors of the economy, namely agriculture, industry, and services witnessed higher-than-trend growth rates at 3.9 per cent, 8.0 per cent, and 9.6 per cent respectively. Clearly the services sector has emerged as the key driver of growth in the Indian economy (see Chapter 10 for a fuller discussion). The growth of this sector has shown the least inter-temporal variations. With the declining share of the agriculture sector and reasonably consistent growth in the services sector, the variations in growth rate of GDP are lately being associated with the variations in the industry sector.

This accelerated growth could partly be attributed to an increase in savings and investment rates, which averaged 33.1 per cent and 34.3 per cent respectively during the period between 2003-04 and 2010-11. The average savings and investment rates in the 1990s were 23.0 per cent and 24.3 per cent respectively. Sustaining and accelerating this growth further could be crucial for attaining higher per capita income and other objectives that aim at enhancing human welfare as reflected by the inclusive development agenda. It may be mentioned that higher growth rate resulted in fairly rapid increase in per capita income. It took nearly 40 years for the real per capita income to double from the level achieved in 1950-01. However, it increased 2.5 times in the next 20 years in the post-reforms period.

VI. SECTORAL COMPOSITION OF GDP

The contributions of the agriculture and allied sector, industry sector, and services sector also underwent significant changes overtime. The long term growth rate of the agriculture sector (over the last 60 years) has been 2.7 per cent. It was 2.3 per cent between 1950-01 and 1980-01 and 3.1 per cent during 1980-01 to 2011-12. Growth in the industry sector increased from 5.2 per cent in the earlier period to 6.4 per cent between 1980-1 and 2011-12. Similarly growth in the services sector was 4.4 per cent and 7.8 per cent respectively during these two sub-periods.

The structure of the economy has also undergone significant changes over time. Between 1950-51 and 1980-81, the industrial sector registered a higher growth rate than the services sector. The converse has been the case since then. This resulted in the share of the industry sector in GDP increasing by around 9 percentage points from 16.6 per cent to 25.9 per cent during the period from 1950-51 to 1980-81. The share of the services sector increased from 30.3 per cent in 1950-51 to 38 per cent in 1980-81. It started growing rapidly thereafter and this phenomenon became more pronounced in the 1990s. Consequently, since 1980-01, the share of the industry sector has remained in the range of 26 to 28 per cent of GDP, while the entire decline in share of agriculture has been balanced by an increase in share of the services sector. Thus, the resilience of the economy to shocks owe to the services sector which has the largest share and most consistent growth performance. The changes in relative shares of these sectors in GDP are shown in the **Table VI.**

Table VI: Sectoral Composition of Gdp

Year	Agriculture	Industry	Services
1950-51	53.1	16.6	30.3
1960-61	48.7	20.5	30.8
1970-71	42.3	23.0	33.8
1980-81	36.1	25.9	38.0
1990-91	29.6	27.7	42.7
2000-01	22.3	27.3	50.4
2010-11	14.5	27.8	57.7
2011-12	13.9	27.0	59.0

Source: NSSO

VII. MONETARY MANAGEMENT

Reining in inflation and containing inflationary expectations were the dominating objectives of monetary policy during 2011-12. The RBI hiked the repo rate 13 times between March 2010 and January 2012, cumulatively by 375 basis points (bps). With supply-side factors feeding into food inflation and an uncertain economic scenario in advanced countries necessitating repeated liquidity injections by these countries to counter recessionary trends, the task of monetary policy calibration was particularly challenging. Sustained rate increases have, to an extent, impacted growth negatively. However, the period from December 2011 to January 2012 marked a reversal of the cycle with the RBI in its Third Quarter Review of Monetary Policy keeping the repo and reverse repo rates unchanged at 8.5 per cent and 7.5 per cent respectively. The cash reserve ratio (CRR), however, has been reduced from 6.0 to 5.5 per cent in order to ease the liquidity situation and aid revival of growth.

Significant changes in the operating procedure of monetary policy have been effected with the weighted average overnight call money rate made the operating target and the repo rate specified as the only independently varying policy rate. A new marginal standing facility (MSF) has been instituted under which scheduled commercial banks (SCBs) have been allowed to borrow overnight at their discretion, up to 1 per cent of their respective Net Demand and Time Liabilities (NDTL), at 100 bps above the repo rate. The revised corridor has been defined with a fixed width of 200 bps and the repo rate placed in the middle of the corridor and reverse repo rate at 100 bps below it. The RBI, as a one-time technical adjustment on 13 February 2012, has further aligned the bank rate with the MSF rate of 9.5 per cent.

During 2011-12, the growth rate in reserve money (M) has been 1.9 per cent (as on 10 February 2012) while broad money (M 0) growth has been 10.2 per cent (as on 27 January 2012). Year-on-year, non-food credit growth was 15.7 per cent at the end of December 2011. Liquidity conditions have generally remained in deficit during 2011-12, with the fiscal Starting off with the Liquidity Adjustment Facility (LAF) in absorption mode for a brief period, followed by Reversion to deficit mode from April 2011. Some stress on liquidity emerged during June 2011 on account of quarterly advance tax outflows. The stress eased in July 2011 with, inter alia, redemption of a State of the Economy and Prospects security amounting to around ` 37,000 crore. During the first half of 2011-12, the injection of liquidity under the MSF was limited to two occasions. Liquidity continued to be in deficit mode during November and December 2011, persisting up to January 2012. During 2011-12, the RBI addressed liquidity concerns via the use of standard tools, namely Open Market Operation (OMO) purchases and measures including additional repo operations under the LAF in December 2011; and permitting banks to avail of funds on overnight basis under the MSF (against their excess Statutory Liquidity Ratio [SLR] holdings) in addition to the existing facility that allows access to funds up to 1 per cent of their respective NDTL. To ease tightness in liquidity the RBI conducted OMOs aggregating over ` 70,000 crore over the period November 2011 to mid-January 2012.

VIII. FINANCIAL INTERMEDIATION AND MARKETS

The weak global economic prospects and continuing uncertainties in the international financial markets have had their impact on emerging market economies like India. Sovereign risk concerns, particularly in the euro area, affected financial markets for the greater part of the year, with the impact of Greece's sovereign debt problem spreading to India and other economies by way of higher-than normal levels of volatility. The funding constraints in international financial markets could impact both the availability and cost of foreign funding for banks and companies, since the Indian financial system is bank dominated and banks' ability to withstand stress is critical to overall financial stability. Indian banks however remain robust, notwithstanding a decline in the capital to risk weighted assets ratio and spurt in non-performing asset levels in the recent past. Capital adequacy levels remain above the regulatory requirements.

Keeping in view progressive deregulation of interest rates, savings bank account interest rates were deregulated with effect from 25 October 2011, wherein banks will have to keep a uniform rate of interest for savings accounts with deposits up to 1 lakh, while differential interest rates could be set for savings deposits over 1 lakh. The deregulation is expected to improve the transmission of monetary policy. It is also expected to enhance the attractiveness of savings accounts and encourage thrift behaviour in the economy by bringing savings deposit rates in sync with changing market conditions.

Subdued Foreign Institutional Investor (FII) inflows into the country led to a decline in Indian markets and contributed to the sharp depreciation of the rupee in the forex market, though much of the depreciation was due to 'flight to safety' by foreign investors, given the meltdown in Europe and inflation in emerging market economies. Moderation in the growth rate of the economy has also affected market sentiments. This moderation in growth is on account of several factors, including uncertainty in the global environment and the lag effect of monetary policy tightening. Qualified Foreign Investors (QFIs) were allowed to directly invest in Indian equity markets in January 2012. This was done to widen the class of investors, attract more foreign funds, reduce market volatility, and deepen the Indian capital market. Earlier, only FIIs/sub-accounts and Non-Resident Indians (NRIs) were allowed to directly invest in Indian equity markets.

In November 2011, the External Commercial Borrowings (ECB) policy was modified keeping in view developments in the global financial markets and macroeconomic conditions. The all-in-cost ceiling was enhanced and the proceeds of the ECBs raised abroad for rupee expenditure in India were required to be brought back immediately. The change in the all-in-cost ceiling came into force immediately and is applicable up to 31 March 2012, subject to review thereafter. Infrastructure development is key to long-term sustainable growth of the economy. However, infrastructure finance remains a constraining factor with heavy dependence on bank financing. Development of the corporate bond market is important for infrastructure development. While the introduction of credit default swaps is expected to help in the process, innovative steps are needed to make the corporate bond market a major component of infrastructure financing.

IX. INTERNATIONAL TRADE

The resilience of India's trade can be seen from the fact that the growth of exports and imports, which was (-)3.5 per cent and (-)5 per cent respectively in 2009-10 as a result of the 2008 global economic crisis, rebounded to 40.5 per cent and 28.2 per cent in 2010-11. India not only reached pre-crisis levels in exports but also surpassed pre-crisis trends in export growth rate, unlike many other developing and even developed countries. India's share in global exports and imports also increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.5 per cent and 2.2 per cent in 2010 (1.4 and 2.1 per cent as per the World Trade Organization [WTO]).

During the first half of 2011-12, India's exports witnessed a high growth of 40.6 per cent. However, since October 2011 there has been a deceleration as a result of the crisis originating in the periphery and spreading to the core economies in the euro area. In November 2011, export growth was at (-) 0.5 per cent and in December 2011 and January 2012, it was positive but low at 6.7 per cent and 10.1 per cent respectively. Cumulative exports were at US $242.8 billion, registering a growth of 23.5 per cent during 2011-12 (April-January). During April-December 2011, the export sectors that have done well are petroleum and oil products, gems and jewellery, engineering goods, cotton fabrics, made ups, electronics, readymade garments, and drugs.

Imports in 2011-12 (April-January) at US$391.5 billion registered a growth of 29.4 per cent. During this period, POL imports at US $ 118 billion grew by 38.8 per cent. Non-POL imports at US $ 273.5 billion grew by 25.7 per cent. Gold and silver imports of US $ 50 billion grew by 46.2 per cent. Non-POL and non-bullion imports, which basically reflect the imports of capital goods needed for industrial activity and imports needed for exports, valued at US $ 223 billion grew by 21.7 per cent. Trade deficit (on customs basis) increased by 8.2 per cent to US$ 118.6 billion in 2010-11 from US$ 109.6 billion in 2009-10. However, trade deficit for 2011-12 (April-January) at US $ 148.7 billion was 40.4 per cent higher than the US $ 105.9 billion in 2010-11 (April-January).

India has made progress in diversifying its export and import markets. The share of Asia and the Association of South East Asian Nations (ASEAN) in total trade increased from 33.3 per cent in 2000-1 to 57.3 per cent in the first half of 2011-12, while that of Europe and America fell from 26.8 per cent to 19 per cent. This has helped India weather the global crisis emanating from Europe and America. The USA has been displaced by the UAE as India's largest trading partner, followed by China, since 2008-09.

X. BALANCE OF PAYMENTS (BOP)

The highlight of Bop developments during 2011-12 was merchandise exports of US$ 150.9 billion in the first half of the year, which represented an increase of over 40 per cent over the corresponding period in 2010-11. Imports of US$ 236.7 billion during April-September 2011 recorded an increase of 34.3 per cent over April-September 2010. The trade deficit was higher at US$ 85.8 billion (9.4 per cent of GDP) during the first half of 2011-12 vis-à-vis US$ 68.9 billion (8.9 per cent of GDP) in the first half of 2010-11. This was mainly on account of increase in international prices of imported commodities, namely oil and gold and silver during the first half of 2011-12.

The net invisibles surplus of US$ 52.9 billion (5.8 per cent of GDP) during the first half of 201112 was higher is-à-vis US$ 39.3 billion (5.1 per cent of GDP) during April-September 2010. All broad categories of invisibles, that is services, transfers, and income, showed increase during the first half of 2011-12. The current account deficit increased to US$ 32.8 billion in the first half of 2011-12, as compared to US$ 29.6 billion during the corresponding period of 2010-11, which was mainly attributed to higher trade deficit.

Net capital flows at US$ 41.1 billion in the first half of 2011-12 remained higher as compared to US$ 38.9 billion in the first half of 2010-11. Under net capital flows, foreign direct investment (FDI) has shown considerable increase at US$ 12.3 billion during the first half of 2011-12 vis-à-vis US$ 7.0 billion in the corresponding period of 2010-11. Similarly, ECBs increased to US$ 10.6 billion during the first half of 2011-12 as against US$ 5.7 billion in the first half of 2010-11. Portfolio investment, mainly comprising FII investments and American Depository Receipts (ADRs)/Global Depository Receipts (GDRs), however, witnessed large decrease in inflows to US$ 1.3 billion in the first half of 2011-12 vis-à-vis US$ 23.8 billion in the first half of 2010-11. However, net capital inflows as a proportion of GDP have shown moderation from 5.0 per cent in the first half of 2010-11 to 4.5 per cent in the first half of 201112. Net accretion to reserves (on BoP basis) during the first half of 2011-12 was lower at US$ 5.7 billion as compared to US$ 7.0 billion in the first half of the previous year mainly due to widening of the current account deficit.

XI. FOREIGN EXCHANGE RESERVES

In fiscal 2010-11, foreign exchange reserves increased by US$ 25.7 billion from US$ 279.1 billion at end March 2010 to US$ 304.8 billion at end March 2011. Of the total increase in reserves, US$ 12.6 billion was on account of valuation gains arising out of depreciation of the US dollar against major currencies and the balance US$ 13.1 billion were on BoP basis. In 2011-12, the reserves increased by US$ 6.7 billion from US$ 304.8 billion at end March 2011 to US$ 311.5 billion at end September 2011. Out of this total increase, US$ 5.7 billion was on BoP basis and the balance US$ 1.0 billion on account of valuation effect.

In the current fiscal, foreign exchange reserves rose and then declined. The reserves reached an all-time high of US$ 322.0 billion at end August 2011. However, they declined to US$ 311.5 billion at end September 2011. At end December 2011, reserves stood at US$ 296.7 billion and at end January 2012 at US$

292.8 billion, indicating a decline of US$ 12.0 billion from US$ 304.8 billion at end March 2011. The decline in reserves is partly due to intervention by the RBI to stem the slide of the rupee against the US dollar.

XII. EXCHANGE RATE

In the current fiscal, on month-to-month basis the rupee depreciated by 12.4 per cent from ` 44.97 per US dollar in March 2011 to ` 51.34 per US dollar in January 2012. On point-to-point basis, it depreciated by 16.2 per cent from ` 44.65 per US dollar on 31 March 2011 to ` 53.26 per US dollar on 30 December 2011. The rupee reached a peak of ` 43.94 on 27 July 2011 and a low of ` 54.23 per US dollar on 15 December 2011, indicating a depreciation of 19.0 per cent. Similarly, the monthly average exchange rate of the rupee depreciated by 11.5 per cent against the pound sterling, 9.1 per cent against the euro, and 18.7 per cent against the Japanese yen between March 2011 and December 2011.

XIII. EXTERNAL DEBT

India's external debt stock stood at US$ 326.6 billion at end-September 2011, recording an increase of US$ 20.2 billion (6.6 per cent) over end March 2011 estimates of US$ 306.4 billion. This increase was primarily on account of higher commercial borrowings and short-term debt, which together contributed over 80 per cent of the total increase in the country's external debt.

The maturity profile of India's external debt indicates the dominance of long-term borrowings. The long-term external debt at US$ 255.1 billion at end September 2011 accounted for 78.1 per cent of the total external debt, while the remaining 21.9 per cent was short-term debt. Government (sovereign) external debt stood at US$ 79.3 billion, while nongovernment debt amounted to US$ 247.3 billion at end September 2011. India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 17.8 per cent and debt service ratio of 4.2 per cent in 2010-11. This has been possible due to an external debt management policy of the government that emphasizes monitoring of long- and short-term debt, raising sovereign loans on concessional terms with long maturities, regulating ECBs through end-use and all-in-cost restrictions, and rationalizing interest rates on NRI deposits.

XIV. FISCAL DEVELOPMENTS

Following two years of purposeful fiscal expansion, the Budget for 2010-11 resumed fiscal consolidation with a partial rollback of the stimulus. The outcome was substantial, with fiscal deficit declining to 4.8 per cent of GDP in 2010-11 from 6.5 per cent in 2009-10. The Budget for 2011-12 sought to carry forward the process of fiscal consolidation through a reduction in the fiscal deficit to 4.6 per cent of GDP. The Medium Term Fiscal Policy Statement indicated that this would be further continued, underscoring the commitment to fiscal consolidation for sustaining macroeconomic outcomes.

The recent revisions to GDP data indicate that demand slowdown in 2008-9 was sharper and GDP at constant market prices was placed at 3.9 per cent in 2008-9. This consisted of a contraction of 1.6 per cent in gross capital formation and deceleration in private final consumption expenditure. The fiscal expansion was manifest in growth of over 10 per cent and 14 per cent in government final consumption expenditure and 12.3 per cent and 4.5 per cent in capital formation by government in 20089 and 2009-10 in terms of constant 2004-05 prices. Besides, growth in indirect taxes minus subsidies, after declining to 14.7 per cent in 2008-09 and 10.4 per cent in 2009-10, rose to 28.7 per cent in 201011. The macroeconomic outcome of this expansion was the sharp rebound in growth of demand-side GDP (at constant market prices) to 8.2 per cent in 2009-10 and 9.6 per cent in 2010-11 from 3.9 per cent in 2008-09. This level of rebound was among the swiftest and highest in the global economy.

Globally, it might be recalled that most advanced economies had very little monetary space for responding to the crisis and sought recourse to fiscal policies to ease the recessionary tendencies. The Update of Fiscal Monitor of the International Monetary Fund (IMF) for January 2012 documents the extent of fiscal expansion around the world. The overall fiscal deficit went up from 2.0 per cent of GDP in 2008 to 6.7 per cent in 2009 following the large fiscal stimulus the world over to alleviate the adverse impact of the global financial and economic crisis. After declining to 5.5 per cent of GDP in 2010, the fiscal deficit is projected to fall to 4.5 per cent in 2011 and 4.1 per cent in 2012.

Advanced economies as a group had larger deficits in both the pre-crisis and post-crisis periods according to the Update of Fiscal Monitor. While the fiscal deficit of advanced economies was 7.6 per cent of GDP in 2010 and projected to be 6.6 per cent in 2011; that of emerging market economies is placed at 3.6 per cent and 2.6 per cent respectively for these years. Among the major emerging economies, India's fiscal deficit at 8.9 per cent in 2010 and estimated level of 8.5 per cent in 2011 was among the highest. The projections firmly indicate that fiscal consolidation is taking place across nations since 2010. In India's case, the Monitor indicates that a larger correction is needed in terms of key fiscal indicators. It also projects the average interest rate growth differential to be -5.1 per cent for the period 2011-16, which would enable favourable dynamics in terms of the debt-GDP ratio. The fiscal outcome in 2010-11 in India partly reflected that unique advantage in terms of a better-than-estimated reduction in debt-GDP ratio on account of this differential as well as the substantial fiscal correction arising from the higher level of nominal GDP. As a proportion of GDP, fiscal deficit of the central government fell from 6.5 per cent in 2009-10 to4.8 per cent in 2010-11. With fiscal deficit of the states declining from 2.9 per cent of GDP in 200910 to 2.7 per cent in 2010-11, general government deficit declined to 7.9 per cent of GDP in 2010-11 from 9.4 per cent in 2009-10.

With the AE released in February 2011 indicating growth in real GDP at market prices to be 9.6 per cent in 2010-11, though there was some concern about industrial slowdown, the macroeconomic outlook at the time of the presentation of the Budget for 2011-12 was positive and supportive of the process of fiscal consolidation. However, as the year progressed the industrial downturn got prolonged and the persistence of inflationary pressures and monetary tightening led to a sharper demand slowdown. This had its impact on public finances with rising costs impairing profit margins and thereby affecting level of growth in corporate income tax and central excise. The higher outgo in terms of tax refunds, the lower levels of non-tax revenues and the state of the equities market that was inappropriate for achieving the planned disinvestment in the first nine months of the current fiscal have made the task of achieving the budgeted revenues in the current fiscal quite challenging. Global crude petroleum prices remained high and, given limited flexibility in domestic price setting, there has been some additional expenditure with implications for the levels of deficit – both revenue and fiscal. This is reflected in the Union Accounts data made available by the Controller General of Accounts for April-December 2011.

Union public finances are under some stress with revenue deficit at 93.1 per cent of the Budget Estimates (BE) and fiscal deficit at 92.3 per cent of BE in April-December 2011. In the first nine months, gross tax revenue has grown at a rate which is 5 percentage points lower than the year-on-year growth envisaged in BE 2011-12 over provisional actual of 2010-11. This has been mainly due to lower growth in corporation taxes at 6 per cent as against the 20.2 per cent envisaged by BE 2011-12, partly attributable to the higher levels of refunds this year and a much-lower-than-targeted growth in excise duties. Given that there was a sizeable hike in expenditure in 2010-11, which was largely made possible by the higher-than-estimated receipts under non-tax revenues, the Budget for 2011-12 estimated a growth target of 4.9 per cent for total expenditure for the full year. Growth in total expenditure in the first nine months of 2011-12 was 13.9 per cent, which comprised a growth of 15.4 per cent in non-Plan expenditure and 10.8 per cent growth in Plan expenditure. Consequently, a slippage is likely in the revenue and fiscal deficits budgeted this year notwithstanding the efforts taken to minimize it.

The fiscal outcome of states (combined) in 2008-9 and 2009-10 was much better with fiscal deficit lower than 3.0 per cent of GDP and moderate levels of revenue surplus and revenue deficit. This was made possible by a year-on-year growth of 10.3 per cent and 9.3 per cent in tax revenue in 2008-09 and 2009-10 respectively. This was composed of 12.3 per cent and 12.8 per cent growth in states' own taxes and 5.5 per cent and 2.9 per cent growth in taxes devolved from the centre in 2008-09 and 2009-10 respectively. With higher levels of grants accruing to them as per the Thirteenth Finance Commission's recommendations, the revenue receipts of states (combined) were placed at 12.3 per cent of GDP in 2008-09. After remaining subdued even in the crisis-affected years of 2008-09 and 2009-10, growth in total expenditure has shot up to 22.1 per cent in 2010-11. As a proportion of GDP, total expenditure of the states was at 16.1 percent. Even after this level of total expenditure, revenue and fiscal deficits were respectively placed at0.3 per cent and 2.7 per cent of GDP in 2010-11. In BE 2011-12, fiscal deficit of states is estimated to come down to 2.2 per cent of GDP with revenue surplus at 0.2 per cent of GDP.

In Mid-Year Analysis 2011, it was indicated that the macroeconomic dimensions of fiscal policies are best understood with reference to fiscal aggregates at the level of consolidated general government. The actual outcome in terms of the deficits of consolidated general government has been much better than what is typically assessed during the course of the year. Fiscal deficit was less than 6 per cent of GDP in 2006-7 and 2007-8. It had increased in the crisis-affected years of 2008-09 and 2009-10 but declined to 7.9 per cent of GDP in 2010-11 and was budgeted at 6.9 per cent of GDP in 2011-12. While the likely slippage in the centre's fiscal outcome this year may push up the consolidated general government deficit, it may be moderated if states continue to perform well. This is essentially an exceptional year when a whole host of factors have turned out differently than was envisaged at the time of presentation of the Budget. A large fiscal correction, followed by a likely slippage (in the previous and current fiscal respectively) is somewhat in the nature of a cyclical fiscal adjustment; but going forward fiscal consolidation is likely to be anchored in a medium-term framework that mitigates such risks.

XV. HUMAN DEVELOPMENT

India is passing through a phase of unprecedented demographic changes. This 'demographic dividend' provides India greater opportunities but also poses a challenge. India still has a great distance to go in terms of human development indicators, especially those pertaining to helath and education. However, without taking away the importance of doing better, it may be noted that an analysis of the trends during 1980-2011 shows that although lower in Human Development Index ranking, India has performed better than most countries in terms of average annual HDI growth rate.

XVI. TRENDS IN INDIA'S SOCIAL-SECTOR EXPENDITURES

Central government expenditure on social services and rural development (Plan and non-Plan) has consistently gone up over the years. It increased from 13.38 per cent of total central government expenditure in 2006-7 to 18.47 per cent in 2011-12. Central support for social programmes has continued to expand in various forms although most social sector subjects fall within the purview of the states. Expenditure on social services as a proportion of total expenditure increased from 21.6 per cent in 2006-7 to 24.1 per cent in 2009-10 and further to 25 per cent in 2011-12 (BE). As a proportion of the GDP, this share increased from 5.57 per cent in 2006-7 to 7.34 per cent in 2010-11, helping India face the global crisis without much adverse impact on the social sector. In 2011-12 it is expected to be 6.74 per cent as per the BE. While expenditure on education as a proportion of GDP increased from 2.72 per cent in 2006-7 to 3.11 per cent in 2011-12 (BE), the expenditure on health increased from 1.25 per cent in 2006-7 to 1.30 per cent in 2011-12 (BE). These programmes also help in the betterment of health and education of the population, besides contributing to more inclusive development.

Employment

The Eleventh Five Year Plan (2007-12) aimed at generation of 58 million work opportunities. The NSSO quinquennial survey has reported an increase in work opportunities to the tune of 18 million under the Current Daily Status (CDS) between 2004-05 and 2009-10. However, the overall labour force expanded by only 11.7 million. This was considerably lower than in comparable periods earlier and can be attributed to the much larger retention of youth in education and also because of lower labour force participation among working-age women. In all likelihood this is an indication of improving economic conditions. As a result, unemployment in absolute terms declined by 6.3 million. The lower growth in the labour force is not expected to continue, as educated youth are expected to join it in increasing numbers during the Twelfth Plan and in the years beyond. This means that the pace of job/livelihood creation has to be greatly accelerated. The Twelfth Plan Approach Paper therefore lays greater stress on skill building which can be viewed as an instrument for improving the effectiveness and contribution of labour to overall production.

A comparison between different estimates of unemployment in 2009-10 indicates that the CDS estimate of unemployment is the highest **(Table VII).** The higher unemployment rates according to the CDS approach compared to the weekly status and usual status approaches indicate a high degree of intermittent unemployment. Interestingly, urban unemployment was higher under both the Usual Principal and Subsidiary Status (UPSS) and Current Weekly Status (CWS) but rural unemployment was higher under the CDS approach. However, overall unemployment rates were lower under each of the measures of unemployment vis-à-vis 2004-5.

The Employment Situation in 2010-11 as per Quarterly Survey Reports (July to September 2011) indicates that the upward trend in employment generation since July 2009 has been maintained. The results for selected sectors, i.e. textiles including apparel, leather, metals, automobiles, gems and jewellery, transport, information technology (IT) / Business Process Outsourcing (BPO) and handloom/power loom show that overall employment in September 2011 over September, 2010 increased by 9.11 lakh, with the highest increase recorded in the IT/BPO sector (7.96 lakh) followed by metals (1.07 lakh), automobiles (0.71 lakh), gems and jewellery (0.08 lakh), and leather industries (0.07 lakh).

Table VII: All India Nss 66th Round Rural And Urban Unemployment Rates

Estimate	Rural 2009-10	Urban 2009-10	Total 2009-10	Total 2004-05
UPSS	1.6	3.4	2.0	2.3
CWS	3.3	4.2	3.6	4.4
CDS	6.8	5.8	6.6	8.2

Source: NSSO

XVII. CONCLUSION

Administering growth and price stability are the major challenges of macroeconomic policymaking. In 2011-12, India found itself in the heart of these conflicting demands. The Indian economy is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-9). At the same time, sight must not be lost of the fact that, by any cross-country comparison, India remains among the front-runners.

With agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely to weakening industrial growth. The manufacturing sector grew by 2.7 per cent and 0.4 per cent in the second and third quarters of 2011-12.

Inflation as measured by the wholesale price index (WPI) was high during most of the current fiscal year, though by the year's end there was a clear slowdown. Food inflation, in particular, has come down to around zero, with most of the remaining WPI inflation being driven by non-food manufacturing products.

Monetary policy was tightened by the Reserve Bank of India (RBI) during the year to control inflation and curb inflationary expectations. The slowing inflation reflects the lagged impact of actions taken by the RBI and the government. Reflecting the weak manufacturing activity and rising costs, revenues of the centre have remained less than anticipated; and, with higher than-budgeted expenditure outgo, a slippage is expected on the fiscal side.

The global economic environment, which has been tenuous at best throughout the year, turned sharply adverse in September 2011 owing to the turmoil in the eurozone, and questions about the outlook on the US economy provoked by rating agencies. However, for the Indian economy, the outlook for growth and price stability at this juncture looks more promising. There are signs from some high frequency indicators that the weakness in economic activity has bottomed out and a gradual upswing is imminent.

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