

Recent Developments in Indian Economy

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Dr. Mary George is a prolific and widely respected Professor in the Dept of Economics, University College, Thiruvananthapuram. She holds to her credit three decades of experience in teaching and research. She has presented her research findings in international conferences of repute. She has also published extensively in the areas of Indian economy, State Finance, Agriculture. Her research interests include women and tribal issues. She has been invited by institutions of repute and universities to deliver talks. She is an eminent panellist in leading media channels like Doordarshan and Asianet where she deliberates and discusses on topics related economics. Being a recognized authority in her area she frequently writes on state economics in leading regional dailies.



She started with **Why Inflation increase.**

As per her ,

- a) **Food inflation: Cyclical, climatic . Rainfall 20% deficient. Structural – Giffen Paradox when incomes rise. Shift to protein food.**
- b) **Oil Price Inflation**
- c) **Recovery from global slowdown**
- d) **Increased oil demand**
- e) **Speculation in oil market**
- f) **Speculation in food market**

GDP Growth Rate During Globalisation was high

Average rate of growth during the globalization period:

1992 to 1998 = 6.2%

1998 to 2003 = 5.6%

2003 to 2008 = 6.7%

2008 to 2013 = 5.3%

Following are the Present Crisis:

- 2008 -10 Global Slowdown
- Coal, Natural gas, iron ore scam
- In 2009 negative inflation
- From 2010 onwards again inflation
- 2011 – 12 CAD 4.2% of GDP
- October 2012 CAD 6.7% of GDP
- POL control removed in June.
- Import of POL.
- Exports 20%
- Imports 25% to 28%
- Export gap between China and India was \$ 1 billion in 2001,where as it is \$ 40 billion in 2013
- Gold and silver import in 2011 – 12 \$ 65 billion
- Gold import in 2013 was 162 Tonne
- RBI Measures Failed:
- High rate of interest reduces inflation but reduces growth too. Low interest rate raises growth, raises inflation
- Inflation is regressive –
- Inflation from supply shocks because wages gone up
- MGNREGP – Demand pressure

Foreign Investments:

Foreign Direct v/s Portfolio Investment

- 1) 2011 – 2012 \$ 22.1 billion \$16.1 billion
- 2) 2012 – 2013 \$ 19.8 billion \$ 26.7 billion

Why Rupee is depreciating

Return of American economy.

1. Wall street is a place where bulls and bears are active. Investors there are interested in *short term profits rather than long term Income. When American dollar become strong* bullish sentiments will rule over the market.
2. Following that portfolio investments flew out – Portfolio investments are highly sensitive.

Why CAD worsened?

- On account of burgeoning trade deficit
- Decline in net invisible due to sharp increase in investment income payments
- Moderate rise in net services receipt
- Measures to bridge CAD failed because of the poor quality and type of FDI inflows

How to contain CAD

- Improve the magnitude of foreign exchange inflows
- Improve the composition of the inflows
- Portfolio and short term dead flows represent an added source of concern
- Lower inflation rate and moderation in gold import

External Debt a source of Concern

- Overall external debt is increasing India's external debt, as at end-March 2013, was placed at US\$ 390.0 billion showing an increase of US\$ 44.6 billion or 12.9 per cent over the level at end-March 2012
- Ratio of short term debt to total debt increased in the second and third quarter of 2012-13

Financial Sector Concerns

- Fiscal deficit, external debt operations are to be managed together by Government of India and RBI
- Financial inclusion has no meaning unless most of our citizens get employment, good incomes and savings
- Merges in the banking sector causes oligopoly problems
- Merging with SBT with SBI should be discouraged

Still she was optimistic to say that Our fundamentals are strong.

- Foreign exchange recourses are \$ 277.77 billion
- Make a come back through
 - Reduction of unnecessary imports
 - Investment in infrastructure
 - Investment in small and medium industries
 - Revamping investments that have slow down

Measures for the recovery of the economy

- Curbing corruption
 - Lifting Coal, Natural gas, iron ore sectors from exploitation and corruption
 - Introduce a sustainable natural gas policy as enunciated by Rajiv Gandhi in 1980's.
 - Encourage remittance in \$ by giving high interest rate on FCNRI accounts
 - Issue \$ bonds at attractive rates of return to attract NRI investments
 - Discourage gold import for purpose other than ornament exports.
- Finally session ended with electrifying interaction by the Trama members