

ECONOMY

1. Macroeconomic View

1.1 Introduction

Riding high on the wave of the service sector revolution, India has been in second spot amongst the fastest growing economies of the world for quite some time now. The year 2010-11 was a comeback year for India as it shed away the last inklings of the recession and got back to its upward trajectory of growth inching toward the 9% growth target set to be achieved in full by the next fiscal. The Indian economy grew at a rapid pace of 8.6% in the financial year 2010-11. This was fuelled by growth in industrial output and domestic demand; the latter being fed into by rising incomes across the country. Apart from growth being witnessed in the industry and service segments, the agriculture sector also gathered pace breaking free of the trailing growth it underwent in the preceding year. India's integration with the global economy has only provided further impetus to this growth momentum which is only expected to amplify in the years to follow.

1.2 Economic Parameters

1.2.1 GDP and Growth rate

The financial year 2010-11 was a year of resurgence for India as it was expected to have achieved a growth rate of 8.6% as the GDP (at factor cost at 2004-05 prices) reached the level of Rs 4879232 crore. The three sectors of the economy: Agriculture, Industry and Services recorded growth rates of 5.4 %, 8.1% and 9.6% respectively. This essentially translated into a phenomenal turnaround in the agricultural sector and robust growth in industrial output and manufacturing. The services sector, although it witnessed a slight deceleration from the previous year's growth of 10.1%, but with its share of 35% in the total exports of the country, it constitutes a huge revenue generating segment with an indispensable role to play in India's growth story. The table below gives the growth rates of the different sectors of the Indian economy.

Growth in GDP at factor cost at 2004-05 prices (per cent)

Sector	2008-09 ^{PE}	2009-10 ^{QE}	2010-11 ^{AE}
Agriculture, Forestry & Fishing	-0.1	0.4	5.4
Mining & Quarrying	1.3	6.9	6.2
Manufacturing	4.2	8.8	8.8
Electricity, Gas & Water Supply	4.9	6.4	5.1
Construction	5.4	7.0	8.0
Trade, Hotels, Transport & Communication	7.6	9.7	11.0

Financing, Insurance, Real Estate & Business Services	12.5	9.2	10.6
Community, Social & Personal Services	12.7	11.8	5.7
GDP at Factor Cost	6.8	8.0	8.6

Source: Central Statistics Office

Notes: ^{PE}-Provisional Estimates ^{QE}- Quick Estimates ^{AE}-Advance Estimates

1.2.2 Consumption, Saving and Investment

The increase in savings and investment rates has provided a thrust to the growth process. The increase in the savings rate to 33.7% and in the investment rate to 36.5% of GDP in the year 2009-10 have narrowed down the saving-investment gap in not only the public sector but also the private sector; the former narrowed down from -9% to -7% and the latter from 7.1% to 6.7%. This accompanied by a simultaneous growth in the private final consumption expenditure from 7.3% to 8.4% of GDP in 2010-11 has set off into demand-driven growth for the economy.

1.2.3 Inflation

However, this increase in domestic demand caused on account of rising incomes coupled with increase in the global commodity prices as snowballed into high inflationary pressures. The average rate of inflation, as measured by the Wholesale Price Index (WPI), increased to 9.4% during April–December 2010. The WPI food inflation was the major contributor to the overall inflation, hovering in the double-digit range for most of the year decelerating to a level of 8.59 % in December 2010 from its high of 20.22 % in February 2010. According to the Food and Agriculture Organisation (FAO), food prices across the globe increased by 25 % in December 2010 in comparison with the end of the previous year. The table below shows the trends in food inflation and general inflation across some countries of the world.

Cross-country Inflation over the Last Year

Country	Inflation		Food Inflation	
	Year ago	2010	Year ago	2010
Argentina	7.1	11.0 ^a	4.7	15.8 ^a
Brazil	4.3	5.9 ^b	3.3	9.2 ^a
China	0.6	5.1 ^a	3.2	11.7 ^a
Egypt	10.7	11.6 ^c	17.4	21.9 ^c

India	13.5	8.3 ^a	17.6	5.4 ^a
Indonesia	2.8	7.0 ^b	4.7	13.2 ^c
Iran	7.4	12.5 ^a	6.6	12.1 ^c
Pakistan	10.5	15.5 ^b	7.5	20.1 ^d
Philippines	4.3	3.0 ^b	2.2	3.2 ^c
Russia	8.8	8.8 ^b	-	-
Thailand	3.5	3.0 ^b	0.8	6.6 ^c
Turkey	6.5	6.4 ^b	9.3	7.0 ^b
Ukraine	12.3	9.1 ^b	7.6	13.1 ^d
Vietnam	6.5	11.8 ^b	-	-
Uruguay	5.9	6.9 ^b	4.6	10.1 ^d

Source: International Labour Organization (ILO), Department of Statistics, World Bank, National Bureau of Statistics of China.

Notes: ^a November ^b December ^c September ^d October ^e August

From the above table, it can be seen that increase in food, oil and other commodity prices is spurring inflationary forces the world over. Supply shortages in many food items on account of climatic irregularities in agriculture, the inflationary effects on the quantitative easing in the United States, and the increase in the price of crude oil to US\$ 100 per barrel on February 23, 2011, which is only expected to further amplify to reach US\$ 120 per barrel on account of economic and political turmoil in the Middle East are the reasons behind the raging phenomenon.

The global spurt in prices only provides additional stimulus to the already high domestic prices which are being fuelled by the inflation in primary food articles, especially vegetables like brinjals, onions, potatoes, garlic, tomatoes, fruits, rice, milk, eggs, meat, fish, tea, condiments and spices. Primary food price inflation increased to 21.9% in February 2010, however by the end of the year it came down to 13.6%. In addition to primary food items, manufactured food items also witnessed price rise, though the rate decelerated to a marginal 0.4% towards the end of the previous year. Inflation in WPI non-manufactured food items hovered around 5.1 to 5.9 % during the fiscal year. The rise in fuel price inflation to 11.2% in December 2010 on account of rise in global energy prices had a major bearing on the non-food o. Further, according to the Consumer Price Index for Industrial Workers (CPI-IW), inflation stood at 9.47 % in December 2010, higher than the WPI level due to the higher weight assigned to food items in the index.

This spurt in domestic prices of commodities was two-pronged as explained below:

1. Demand-induced :

The increased government expenditure and growth in bank credit, especially on account of the various schemes for financial inclusion has led to monetary expansion, which has triggered a cycle of increased income and spending. Further, a growing population with changing behavioral patterns and preferences for protein-rich foods and vegetables has inflated the price of these commodities.

2. Supply- deficient :

Low agricultural productivity, inadequate irrigation, obsolete technology, erratic rainfall pattern, pest infestation, lack of storage and warehousing facilities, increased cost of inputs in industry and supply chain mismanagement have resulted in a shortfall in supply and thus contributed to the upward inflationary trend.

However, despite all these factors, the table above shows that inflation in India is lower than that in many other countries. India's effective monetary policy stance has a major contribution in this respect.

1.2.4 Monetary Policy and Liquidity Management

To withhold the global inflationary forces from spilling over into domestic inflation, the Reserve Bank of India (RBI) resorted to monetary contraction with an effective tightening of policy rates to the extent of 300 basis points (bps). The RBI increased the repo rate by 175 bps from 5% in March 2010 to 6.75% in March 2011 and the reverse repo rate by 225 bps from 3.5% in March 2010 to 5.75% in March 2011 spread out over seven stages. The Cash Reserve Ratio (CRR) was increased by 25 bps from 5.75% in the previous in the previous fiscal to 6% in April 2010 and has been maintained at that level since then. The Statutory Liquidity Ratio (SLR) was also increased by 1 % in October to a level of 25%. Due to these stringent measures to tighten money supply growth, the banks raised their deposit rates in the range of 25 to 250 bps.

However, to maintain a balance between inflationary expectations and the growth momentum, the Reserve Bank resorted to liquidity infusing measures as it decreased the SLR back to 24% in December 2010. Further, it engaged in Open Market Operation (OMO) purchase of government securities worth more than Rs 67000 crore. In addition to this, under the Liquidity Adjustment Facility (LAF) window, the support provided to banks was brought down from 2 % of their net demand and time liabilities to 1% of the same which was to be followed upon by another such window.

Thus, the monetary policy adjustments were aimed at restraining inflationary forces without weighing down upon the positive growth energy. It is exactly this growth trajectory which played a key role in scaling down prices in the absence of which inflation would have been 1.5% higher, as was highlighted by the Economic Survey 2010-11.

1.2.5 Fiscal Developments

In spite of the inflationary forces and the measures to keep the growth intact, a significant development of the year gone by was the fiscal consolidation drive. This was marked by a reduction in the following three parameters:

1. The fiscal deficit was estimated at 4.8% of the GDP, which was a major improvement over the 6.3% level in the previous fiscal.
2. The revenue deficit also came down from its high of 5.1% to reach a level of 3.5% in 2010-11.
3. Lastly, the primary deficit which represents the net borrowing of the government, exclusive of the interest payments, came down to 1.7% from its previous level of 3.1%.

These resulted from the higher than expected revenue receipts on account of higher tax collections especially from customs and excise duties, personal income tax and corporate tax collections along with non-tax collections from 3G and Broadband Wireless Access (BWA) spectrum auctions. In spite of the increase in the indirect tax rates as a measure of fiscal restraint, the government expenditure to priority sectors like agriculture, education, health, rural development actually increased but the increase in receipts helped strike a balance between social sector development and fiscal consolidation.

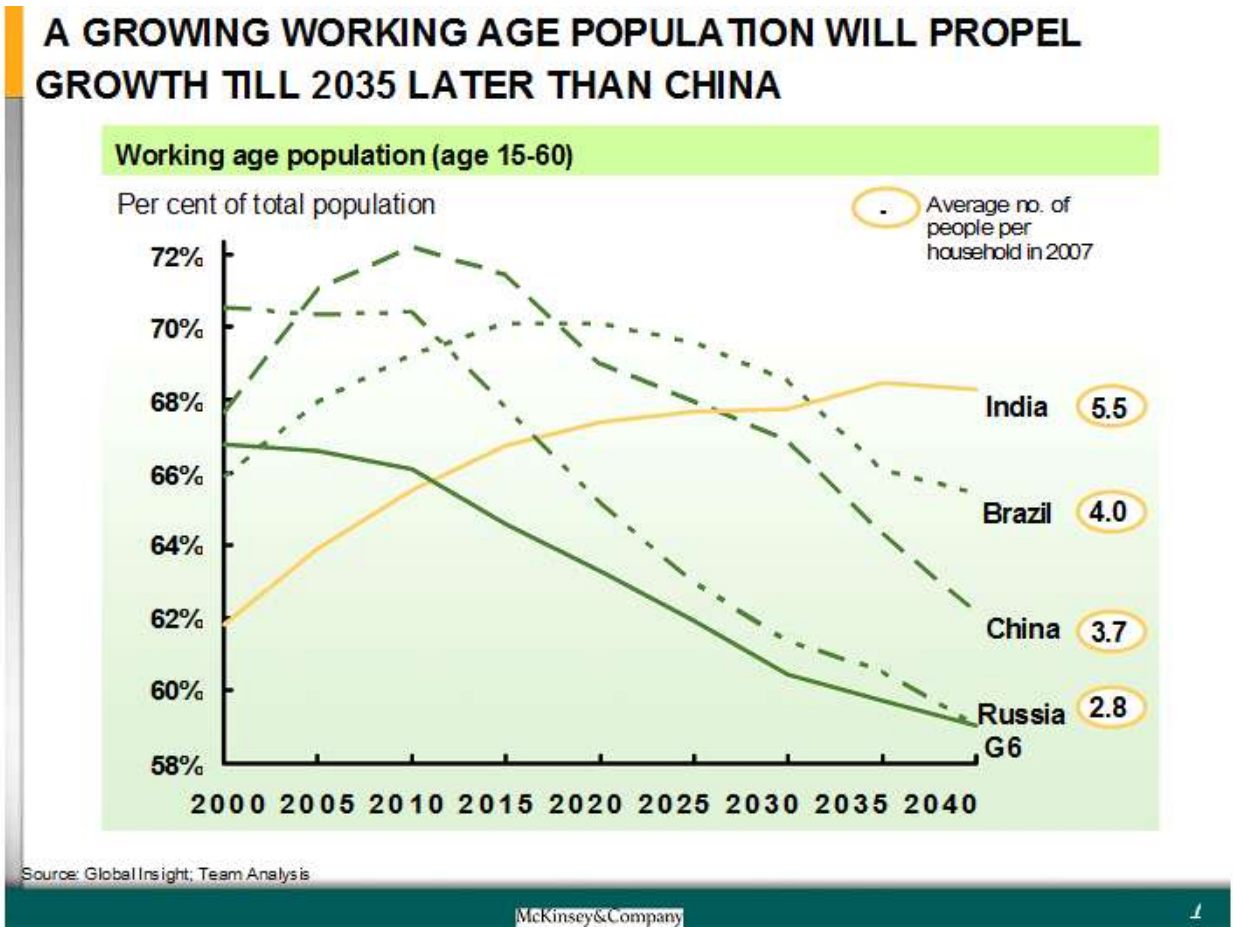
1.3 Social Parameters

1.3.1 Employment and Demographic Dividend

During 1999-2000 to 2004-05, about 47 million work opportunities were created which led to an increase in the growth rate of employment to 2.62% per annum. However, this increase was negated by a higher increase of 2.84% in the total labor force which led to unemployment.

However recent data from the Manpower Employment Outlook Survey conducted in 2011, which interviewed 5112 employers in India, have pointed towards a flourishing labor market with a positive net employment outlook of 49%. The finance, insurance, education, public administration, real estate and retail are some of the sectors that report positive hiring intentions.

Apart from the positive employment scenario in the fiscal 2010-11, India generally faces a favorable dependency ratio. According to the Asian Development Bank, the average age of a Indian would be 29 in the year 2020 as compared to the average age of 37 in China and USA, 45 in Europe and 48 in Japan. This essentially translates into an addition of 136 million Indians to the workforce by the year 2020 which would constitute 17% of the total workforce of the world. Thus, if the requisite education and skill-training is provided to this young pool of prospective workers, India could rise up to become the leader in human-resource talent, apart from emerging to be the largest economy. This is especially so since the growing working age population of India will help it outshine China in terms of growth as has been shown in the graph below.



Source: McKinsey Report

Thus, India’s dream to be on top may not be too far-off especially since India’s demographic dividend¹ which is estimated to average around 1.98 % per annum for the current decade is expected to rise to 2.04

¹ Demographic dividend is the additional growth per annum the rise in the proportion of working age population will provide to the economy.

% in the 2020s. Thus, riding high on the wave of this dividend, India is expected to reach new shores of prosperity.

1.4 Sectoral Trends

1.4.1 Primary sector

The agriculture and allied services sector gained momentum in the year 2010-11 attaining a growth rate of 5.4%, which was a major improvement over the 0.4% growth it witnessed in the preceding year. This growth was achieved on account of a good rabi harvest which made up for the decline in kharif crop production due to insufficient south-west monsoon. The production of foodgrains is estimated at 232.07 million tonnes during 2010-11. On the whole, the sector constituted a share of 14.2% in the real GDP in 2010-11.

1.4.2 Secondary sector

During the period from April to November 2010, the industrial sector has grown at a rate of 9.5%. The manufacturing sector, mainly five industries, was responsible for 73% of the total growth in the industrial sector and grew at a rate of 8.8% during the year. Mining was another major driver growing at a rate of 6.2%. The Index of Industrial Production recorded a growth rate of 8.6% during April to December 2010, although it fluctuated between a low of 1.6% to a high of 16.6% during the year.

1.4.3 Tertiary sector

The services sector grew at a rate of 9.6% in 2010-11. This growth was driven by an 11% growth in the trade, hotels, restaurants, transport and communication category followed by a 10.6% growth in the financing, insurance, real estate and business services category. The sector plays a pivotal role in sustaining the country's growth as it constitutes a share of 57.3% of the GDP and employs about 25% of the labor force of India. Furthermore, it has a very high share not only in India's FDI equity flows but also in its total exports, the latter measuring up to 35% share.

Within the services sector, the IT and IT-Enabled Services (ITES) sector is of prime importance. According to a report published by research and advisory firm Gartner, the Indian BPO market is expected to touch the level of US\$ 1.2 billion by 2011 and is further estimated to grow at 19% to reach US\$ 1.8 billion by 2013. On a broader frame, the Indian IT and ITES sector is expected to grow from its current size of US\$ 70 billion to US\$225 billion by the year 2020.

2. External Economy

2.1 Exports, Imports and Free Trade Agreements

During the April 2010 to February 2011, India's merchandise exports amounted to US\$ 208.2 billion growing by 31.4%, which was only expected to further accelerate to a level of US \$ 235 by the end of financial year 2011. This was a major improvement over the previous year's deceleration in exports at a rate of 3.5% and especially significant since it exceeded the target of US\$ 200 set by the Foreign Trade Policy 2009-14. Imports, on the other hand, grew at an overall rate of 18 % during the same period reaching a level of US\$ 305.3 billion, which was also a huge turnaround from its negative growth of five % in the preceding year. Collectively, India's trade position resulted in a deficit amount of US\$ 97.1 billion.

Despite the strong growth pattern observed in the case of merchandise exports, India's growth is largely service-dominated as during the period 2004-05 to 2009-10, services underwent a compounded annual growth rate of 10% which was much higher than the 6.7% experienced by non-services. Services exports stood at a level of US\$ 95.8 billion in 2009-10. In the first half of 2010-11, services exports grew at a rate of 27.4% which was contributed by a 14.7 % growth in software services which had a share of 45.7% in the total services exports, a robust 56.9% growth in non-software services, 111.4% growth in business services, 64.9% in financial services and 2.3% in communication services. Travel services grew at a slower pace of 26.2%. Transportation, Insurance and Government services grew at a 26.6%, 10.4% and 9.5% growth rate respectively.

Export from Special Economic Zones (SEZs) amounted to RS 223132.31 crore during the first three quarters of the current fiscal.

Not only did India experience an upsurge in growth, but it also witnessed a change in its trading partners with UAE emerging at the top of the trade followed by China and then USA. Apart from this natural shift, India is also aiming at diversifying market access and export portfolio. 26 new markets have also been earmarked as part of the Focus Market Scheme. Apart from diversification, India's Foreign Trade Policy 200-14 aims to achieve an annual export growth rate of 25% along with not only a doubling of India's exports by 2014 but also a doubling of its share in world trade by the year 2020.

In accordance with these futuristic goals, India is a major player on the Free Trade Agreements (FTAs) circuit. It has already entered into agreements with many countries including Nepal, Chile, Japan, Korea, Afghanistan, Sri Lanka, Pakistan, Bangladesh, Maldives, Singapore etc. Some of the major ones have been discussed in the table below:

Major Trade Agreements of India

Free Trade Agreement	Benefits
Indo-ASEAN^a FTA	<p>The agreement includes the areas of Trade and Investment, Science & Technology, Tourism, Human Resource Development, Transport and Infrastructure and Health and Pharmaceuticals.</p> <p>The treaty opens up a huge market of trade as the ASEAN economy is sized at US\$1.5 trillion. In line with the same, the treaty has seen Indo-ASEAN export figures rise from US\$6.93 billion to US\$39.4 billion per annum between the years 2000-08.</p>
Mercosur^b Preferential Trade Agreement (PTA)	<p>The major sectors which form part of the agreement are chemicals, pharmaceuticals, essential oils, plastics, food preparations, rubber and rubber products, tools and implements, machinery items and electrical machinery and equipments.</p> <p>The agreement aims to provide tariff concessions ranging from 10 to 100 per cent to each other on 450 and 452 tariff lines respectively.</p>
South Asian Free Trade Agreement (SAFTA)^c	<p>The SAFTA agreement aim was to reduce customs duty to zero % for all traded products by the year 2012. However, political hurdles and a protectionist impulse limited the trade across South Asian nations to only 5%.</p> <p>For the region as a whole, the treaty would contribute to higher economic growth however for India in specific, complete implementation of the treaty would help to double its exports with highest benefits conferred on the agriculture and the automobile sectors. As a result of the treaty, India's total output would increase by 0.08%, its exports to South Asia by 90.44% and those to other countries by 1.19% by the year 2016.</p>
India-Japan CEPA^d	<p>The agreement involves trade in goods, services and negotiations on investment. The sectors which will benefit the most are textiles, pharmaceuticals and agricultural products</p> <p>Through the treaty, the trade between the countries is expected to reach a level of US\$25 by 2014. Gains from movement of services and exchange of technology are also expected to be huge.</p>
India-Singapore CECA^e	<p>The agreement involves trade in good, services as well as investment. Also it aims to collaborate on a more liberal Air Services Agreement and Open Skies for charter flights. In addition to these, it aims to establish an agreement in the field of employment cooperation in the fields of healthcare, education, media, tourism and creation.</p> <p>The trade agreement aims to double annual trade between the two countries by 2015 as well as increase product diversification.</p>
India and the WTO^f	India's engagement with the WTO involves negotiations on multiple

	<p>fronts.</p> <p>The <i>Trade in Goods</i> agreement involves the agreement on Agriculture, the agreement on Non-Agricultural Market Access (NAMA), rules to ensure transparency in Regional FTAs as well as Agreement on Technical Barriers to Trade. The WTO Agreement on <i>Agriculture</i> includes three areas of negotiation: market access, domestic support and export subsidies while the agreement on <i>NAMA</i> relates to negotiations on reducing or eliminating import tariffs on non-agricultural industrial products.</p> <p>The General Agreement on Trade in Services (GATS), the agreements on Intellectual Property Rights (IPRs), Dispute Settlement, Development and Aid, Special and differential treatment, Trade facilitation, the Agreement on Trade Related Investment Matters (TRIMS), E-Commerce, Competition Policy and Government Procurement, Trade and Environment are others aspects that are under constant negotiation between India and the WTO.</p>
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^aASEAN- Includes the countries of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

^bMercosur- includes the countries of Argentina, Brazil, Paraguay and Uruguay

^cSAFTA- includes the countries of India, Pakistan, Nepal, Bangladesh, Bhutan, Maldives and Sri Lanka

^dCEPA – Comprehensive Economic Partnership Agreement

^eCECA- Comprehensive Economic Cooperation Agreement

^fWTO- World Trade Organisation, a 153 member organization, dealing with global rules of trade between nations.

Apart from the agreements India has already signed, there are many more that are in the process of negotiation. It has concluded an agreement with Malaysia which will come into effect in July 2011. In addition to that, it is in negotiation with the European Union as part of the Broad-based Trade and Investment Agreement (BTIA) which covers the areas of trade in goods, services, investment, sanitary and phytosanitary measures, technical barriers to trade, dispute settlement, Intellectual Property Rights etc. Further, India is negotiating with the European Free Trade Association (EFTA) which includes the countries of Switzerland, Iceland, Norway & Liechtenstein which are not part of the European Union. The areas of negotiation include trade in goods and services, investment flows, and other areas of economic cooperation.

Apart from these, many other agreements are underway like the India-New Zealand Free Trade Agreement, the Asia-Pacific Trade Agreement, the India-Thailand CECA and the agreement between India and China to achieve a trade target of US\$100 billion 2015.

India' kitty is full and is only expected to get heavier as it gears up to take on the world stage.

2.2 FDI and FII

According to UNCTAD's World Investment Report 2010, India is expected to become the 2nd most attractive destination for Foreign Direct Investment (FDI) in 2010-12.

India received US\$ 18.3 billion in FDI flows between April 2010 and February 2011 which represented a decline of 25% over the preceding year. The European sovereign debt crisis along with the global inflationary forces were the external reasons responsible for the decline. Internal mechanisms contributing to the same were environmental sensitive policies in mining and construction sectors as well as other problems of procedural delays, land acquisition and infrastructural constraints.

Despite all this, the services sector attracted 21 per cent of the total FDI amount followed by telecommunication which attracted the highest amount of US\$ 1.062 billion which was succeeded by metallurgical industries in third spot.

The US, UK, Mauritius, Singapore, Netherlands, Japan, Germany and UAE accounted for majority of the FDI inflow.

At the other end, Foreign Institutional Investment flows were remarkably high, amounting to US\$ 31.03 billion during April 2010 to January 2011. In the year 2010, foreign investors bought Rs 100,000 billion worth of stocks and bonds.

Although, the huge FII inflow contributed to the decrease in the current account deficit, but the long run growth strategy should focus on increasing FDI inflow as compared to FII inflow due to the latter being volatile in nature.

2.3 FOREX and Exchange Rate

FOREX or Foreign Exchange Reserves increased from US\$ 279.1 billion at the end of March 2010 to US\$ 303.506 billion as on March 18, 2011. This makes India the fourth largest holder of foreign reserves in the world as shown in the table below.

Foreign Exchange Reserves of some Major Countries

Rank	Country	Foreign Exchange Reserves (US\$ billion)
1	China (June 2010)	2454.3
2	Japan (December 2010)	1118.8
3	Russia (December 2010)	479.4
4	India (December 2010)	297.3
5	Korea (October 2010)	293.5
6	Brazil (November 2010)	285.5
7	China P R Hong Kong (December 2010)	268.8
8	Singapore (December 2010)	225.8
9	Germany (December 2010)	216.6
10	France (December 2010)	188.3

Source: International Monetary Fund except for China;

For China: www.safe.gov.cn

2.4 Exchange Rates

The Indian exchange rate has hovered between the range of Rs 44-47 per US\$ during April to December 2010. The rupee depreciated from Rs 44.50 per US\$ in April 2010 to Rs 45.16 per US\$ in December 2010, which amounted to a depreciated of 1.5% against the US dollar. Further it depreciated by 3.2 % against the pound sterling and 12.2% against the Japanese yen. However, despite these figures, the exchange rate appreciated by 3.7% as per the Real Effective Exchange Rate (REER)² measure. When inflation differentials are taken into account, this indicates a loss in competitiveness against the country's major trading partners.

2.5 Remittances

In the year 2010, India received the largest amount of remittances all over the world which amounted to US\$ 55 billion. Indians form a major emigrant population across the world and the number of people of

² REER is the weighted average of the nominal exchange rates adjusted for home and foreign country relative price differentials. It takes into account 6 currency indices that include US dollar, Euro, Pound sterling, Japanese yen, Chinese Renminbi and Hong Kong dollar. It is an indicator of the external competitiveness of a country over a period of time.

Indian origin and Non-resident Indians together are estimated at 30 million. With their collective pool of wealth estimated to exceed US\$ 1200 billion, they constitute a major consumer market, contributing to the Indian economy in indirect ways with huge impact on the foreign reserves and India's balance of payments.

3. International Positioning of India

Index	Rank	Number of countries ranked	Remarks
Quality of Life Index 2010	88	194	The index ranks countries in nine categories: cost of living, culture and leisure, economy, environment, freedom, health, infrastructure, safety and risk, and climate. India has really improved from the previous year's rank of 123.
European attractiveness survey for FDI location	4	-	The survey ranked China in the premier position with an attractiveness of 39%, which is followed up by Western Europe with a level of 38%. Central and Eastern Europe come in third place with a level of 24% which is succeeded by India and North America in fourth slot with a 22% attractiveness level.
Ease of Doing Business 2011	134	183	The index ranked countries on the basis of 9 areas of regulation as given in the table. India's rank improved by 1 from 135 to 134.
Starting a Business	165	183	Improved
Dealing with Construction Permits	177	183	Deteriorated
Registering Property	94	183	Deteriorated
Getting credit	32	183	Deteriorated
Protecting Investors	44	183	Deteriorated
Paying Taxes	164	183	Improved
Trading across Borders	100	183	Deteriorated
Enforcing Contracts	182	183	Remained the same
Closing a Business	134	183	Improved
Global Competitiveness Index 2010-11	51	139	The report ranks economies on the basis on 12 pillars as given in the table.
Institutions	58	139	India's rank deteriorated by 2 positions from its former rank of 49 on account of poor performance in the infrastructure, education and health sectors.
Infrastructure	86	139	
Macroeconomic Environment	73	139	
Health and Primary Education	104	139	

Higher Education and Training	85	139	Excluding these, it has performed well on the other pillars.
Goods Market Efficiency	71	139	
Labor Market Efficiency	92	139	
Financial Market Development	17	139	
Technological Readiness	86	139	
Market Size	4	139	
Business Sophistication	44	139	
Innovation	39	139	
Transparency International's Corruption Perception Index	87	178	India's rating decreased from its earlier rank of 84 on account of the corruption witnessed during the Commonwealth Games.
Index of Economic Freedom 2010	124	183	<p>The ten components of the index include freedom in business, trade, investment, fiscal and monetary actions, government spending, property rights, freedom from corruption and labor rigidities and financial freedom.</p> <p>India's score of 54.6 classifies it as a 'mostly unfree' economy as per the index.</p> <p>Although business, fiscal, labor freedom and government spending has improved, the country's regulatory environment along with rampant corruption and an inefficient judicial system has to go a long way before facilitating economic growth and stability.</p>
Human Development Index 2010	119	169	<p>The HDI takes into account the life expectancy, education level and standard of living of a country to measure its level of development.</p> <p>India had a human development value of 0.519 on a scale of 0 to 1 classifying it as a medium human development country.</p>

4. The Road Ahead

India has been in second spot amongst the fastest growing economies for a while now and is slated to surpass China in 2012 to reach the top slot. Not only is it growing at a phenomenal pace, but it is expected to reach a GDP level of US\$ 3200 billion by 2025. This will be supported by the middle class outburst that is expected to reach a level of 583 million by 2025.

As per a McKinsey report, India will have 5% share in the incremental GDP growth in the year 2020 which will further amplify to a share of 20.1% in 2050. However, coming down to the immediate future, the Indian economy is forecasted to grow at a rate of 8.75 to 9.25% in the year 2011-12. This growth will be sustained by higher investment flows on account of fiscal consolidation and decreased current account deficit, pick up in the growth momentum of the services sector, redressal of supply bottlenecks of the agricultural sector accompanied by a robust rabi crop harvest, benefits of infrastructural outlay, growth in corporate sales and profitability, rise in tax receipts and increased expenditures, credit growth and lastly financial inclusion and social development. Some of these factors have been discussed in greater detail below:

Fiscal Consolidation

The fiscal deficit target for financial year 2011-12 has been set at 4.6% of GDP which will be further reduced to 4.1% in 2012-13 and 3.5% in 2013-14. The targets for revenue and primary deficit have also been reduced to 1.8% and 1.6% of GDP for this fiscal. In addition to this, the Central Government debt target has been kept at 44.2 per cent of GDP for 2011-12.

The tax receipts for 2011-12 are expected to grow by 18% over the preceding year and reach a level of Rs 932440 crore and disinvestment proceeds are expected to contribute an additional Rs 40000 crore. Since expenditure is expected to increase by 23%, though only 3.4 % in relative terms, the above targets, though competitive, can have a major bearing on India's attractiveness as an investment destination if achieved.

Inflation

Inflation has been spearheading on account of domestic factors like supply bottlenecks and excessive demand as well global increase in food, energy and commodity prices. However a slew of measures, both fiscal and monetary can help to leash the inflationary forces. Supply chain mismanagement needs to be addressed at the earliest to reduce post-harvesting procedural wastage in storage and transportation. Moreover a good north-eastern monsoon has contributed to a bountiful rabi harvest which might help to contain food inflation in the short run. Further unemployment in the advanced economies has contributed to a situation of deficient demand which will help to keep global inflation under check. Monetary policy will definitely have the last word on inflation control.

Agriculture

The agricultural sector suffered from demand-supply imbalance which resulted in food price inflation. Productivity needs to be addressed not only by using superior technology, but also use of dry-farming

techniques and better quality of seeds and fertilizers. Post-harvesting facilities like storage and packaging equipment needs to be provided. Further, efficient supply chain management by linking farmers to the market is an indispensable need of the sector to ensure that the farmers have a sustainable source of livelihood.

The recent budgetary allocation under the Rashtriya Krishi Vikas Yojana of Rs 7860 crore is a step towards the same. Further agricultural credit to farmers has been increased to Rs 475000 crore under Budget 2011-12. 15 Mega Food Parks have been sanctioned and private entrepreneurs are being roped in provide storage and warehousing facilities which is especially important since 40% of the food produce is wasted because of lack of infrastructure. Increasing capital investment is the key to reaping the extensive benefits the sector has to confer.

Industry

The manufacturing sector in India has a huge potential for growth provided infrastructural and skill deficits can be addressed.

The budgetary allocation of Rs 214000 crore for infrastructure may help to attend to the former concern and thus solve the problems of procedural delays and regulatory and financial inefficiencies. Vocational training has also been emphasized to address the manpower requirement. These steps are a prerequisite for the National Manufacturing Policy which aims to increase the share of manufacturing in GDP from 16% to 25% in the next 10 years. Public Private Partnerships can play a key role in spearheading this growth.

Services

The IT and ITES services in India are expected to generate a revenue stream of US\$ 225 billion nu the year 2020.

Although the recent budget proposed a higher Minimum Alternate Tax rate of 18.5% for the Special Economic Zone units as well as broadened the horizon of the service tax, but the move to lower the tax on dividends received by Indian companies from their foreign subsidiaries is expected to work to the advantage of the sector due to its global nature.

Trade

India's Foreign Trade Policy 2009-14 has set the target of doubling India's trade volume by 2014. Market diversification and increased access, widening of product portfolio, provision of adequate infrastructure,

reduction in transaction costs, tax benefits and breaks along with reduction in regulatory impediments would be necessary requisites to achieving the same.

FII and FDI

Although the increase in capital flows in 2010-11, especially in the form of FII inflow helped to mitigate the current account deficit, but their volatile nature, makes them a risky source of revenue. If the advanced economies experience robust growth in the near future, then the direction of FII flows will reverse and the emerging economies of the world, including India, will have to bear the brunt of it. Therefore although the Budget 2011-12 raised the total FII limit to invest in corporate bonds to US\$ 40 billion, but still it aims to attract more FDI than FII due to its long term sustainability. In accordance with this, the Department of Industrial Policy and Promotion has consolidated the rules and regulations related to FDI into a single document to simplify FDI procedures. Moreover, the government has removed restriction of foreign companies of obtaining prior approval of Indian companies to enter their field. It has also introduced flexibility for Indian companies to raise capital overseas.

Provided the inflationary forces can be controlled and fiscal consolidation drive progresses as planned, India can become the leading receipt of global FDI.

Inclusive Development

The Department of Economic Affairs has estimated the number people living on less than \$ 1.25 a day to reach 268 million or 20.3% of the population by the year 2020. This highlights the prime need for social and economic development not only in general, but especially at the grassroots level. In concurrence with this objective, the budget 2011-12 has allocated Rs 160887 crore towards social sector spending which constitutes a share of 36.4% in the total plan outlay. In the recent budget, the government approved the direct transfer of cash subsidy to people living below the poverty line to improve the delivery of LPG, kerosene and fertilizers to the poor. In addition to this, the expenditure for social sector schemes has also been increased. Allocation for Bharat Nirman, which especially aims to provide broadband connectivity to 250000 Panchayats in the country in three years time span has been increased by 10000 crore to reach 58000 crore. Further, for Mahatma Gandhi National Rural Employment Guarantee Scheme, the government has agreed to index the wage rates to the Consumer Price Index for Agricultural Laborers. Allocations under many other schemes have also been increased however indexation of these schemes is vital for the benefits to be realized.

For the education sector, budgetary allocation has been increased by 24% Rs 52057 crore. Rs 21000 crore has been allocated for Sarva Shiksha Abhiyan and Rs 500 crore for National Skill Development Fund which aims to create 15 crore skilled workers by the year 2020. A national Knowledge Network will also be created which will connect 1500 institutions of Higher Learning and Research. In addition to these measures, vocational education has been emphasized upon due as it has been observed that only 12% of the secondary school students go in for higher education. The private sector can play a pivotal role in providing vocational training.

Apart from education, health is another prime area of concern. The recent budget allocated Rs 267 billion to the health sector, which represented an increase of 20% over the preceding year. The government sanctioned the expansion of Rashtriya Swasthya Bima Yojana scheme coverage. Once again, the private sector should be roped in for the provision of low-cost quality healthcare facilities by providing them with adequate incentives.

Financial inclusion is another area that needs to be addressed especially because 135 million out of the 204 million households need financial inclusion as estimated by Boston Consulting Group. Moreover since only about 40% of the population has bank accounts and only 38% of the scheduled commercial banks' branches lie in rural areas, steps have to be taken to spearhead the process of rural banking and finance. The budget 2011-12 set a target of providing banking facilities to 73000 habitations having a population of over 2000 during the year. In addition to this, the government has sanctioned an 'India Microfinance Equity Fund' with SIDBI with a corpus of Rs 1 billion to help smaller MFIS run operations effectively. If the RBI's target of attaining complete financial inclusion by 2012 is met, it will lead to a huge multiplier effect on income, demand and hence growth of the country.

However, apart from concentrating on the areas mentioned above to accelerate the growth momentum, a few other factors will have to be constantly looked out for to sustain the same. The European sovereign debt crisis, global inflationary forces and volatile capital flows are some of the external forces that can have potential effects on the economy. In addition to exercising caution over them, other factors like institution of flexible labor laws and reduction in administrative delays, financial wastage and red tapism can help to institute efficiency in the system as a whole. The Unique Identification (UID) mission also known as Aadhaar which aims to distribute 1 billion UID cards on a daily basis starting 1 October 2011 will help to re-induce accountability into the system and will also act as a check on corruption. This will only provide further fuel to the growth process.

India is poised to become the second largest economy in the world by the year 2050 (in Purchasing Power Parity terms), a feat which will be aided by the benefits accrued to it by its unexploited demographic dividend.