

**Summary of Economic Survey**  
**Survey Pegs GDP Growth At 6.9% in 2011-12**  
**Outlook Brighter for Next Fiscals**

Indian economy is estimated to grow by 6.9% in 2011-12 mainly due to weakening industrial growth. This indicates a slowdown compared not just to the previous two years, when the economy grew by 8.4%, but also from 2003 to 2011, except 2008-9 economic downturn, when the growth rate was 6.7 percent. The Economic Survey 2011-12, presented by the Finance Minister, Sh Pranab Mukherjee in the Lok Sabha, however predicts 7.6% GDP growth in 2012-13 and 8.6% in 2013-14. With agriculture and services continuing to perform well, the slowdown can be attributed almost entirely to weakening industrial growth. The services sector continues to be a star performer as its share in GDP has climbed from 58% in 2010-11 to 59% in 2011-12 with a growth rate of 9.4%. Similarly, agriculture and allied sectors are estimated to achieve a growth rate of 2.5% in 2011-12 with foodgrains production likely to cross 250.42 million tonnes owing to increase in the production of rice in some States. The industrial sector has performed poorly, retreating to a 27% share of the GDP. Overall growth during April-December 2011 reached 3.6% compared to 8.3% in the corresponding period of the previous year.

The Survey points out that inflation as measured by the wholesale price index (WPI) was high during most of the current fiscal year, though by year end there has been a clear slowdown in price rise. Food inflation, in particular, has come down significantly, 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) to control inflation and curb inflationary expectations. The growth rate of investment in the economy is estimated to have registered a significant decline during the current year. The year witnessed 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.

But despite the low growth figure of 6.9%, India remains one of the fastest growing economies of the world as all major countries including the fast growing emerging economies are seeing a significant slowdown. The global economic environment which was tenuous at best throughout the year, turned sharply adverse in September, 2011, owing to the turmoil in the euro-zone countries and questions about others, reflected in sharp ratings downgrades of sovereign debt in most major advanced countries. While a large part of the reason for the slowing of the Indian economy can be attributed to global factors, domestic factors also played role. Among these are the tightening of monetary policy owing to high and persistent headline inflation and slowing investment and industrial activity. 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. The Economic Survey expects the growth rate of real GDP to pick up to 7.6% in 2012-13 and faster beyond that. The main reason for a gradual recovery is the decline in overall investment rate. Gross capital formation during the third quarter of 2011-12 as a ratio of GDP was at 30%, down from 32% one year ago. As fiscal consolidation gets back to track, savings and capital formation should begin to rise;

moreover, with the easing of inflationary pressures in the months to come, there could be a reduction in policy rates by RBI, which should encourage investment activity and have a positive impact on growth. Preliminary calculations suggest that the growth rate of GDP in 2013-14 will be 8.6%. These projections are based on assumptions regarding factors like normal monsoons, reasonably stable international prices, particularly oil prices, and global growth somewhere between where it now stands and 0.5% higher. The Global economy remains quite fragile and concerted efforts will be needed through G-20 and other forums to restore stability and renewed growth, including addressing the sovereign debt crisis, financial regulation, growth and job creation efforts and energy security.

The Economic Survey suggests that the progressive deregulation of interest rates on savings accounts will help raise financial savings and improve transmission of monetary policy. Other key areas include the deepening of domestic financial markets, especially corporate bond market and attracting longer-term inflows from abroad. Efforts at attracting dedicated infrastructure funds have begun. India's foreign trade performance will remain a key driver of growth. During the first half of 2011-12, India's export growth was a high 40.5%, but has been decelerating since. Imports have grown rapidly, by 30.4% during 2011-12 (April-December). Similarly, country's Balance of Payments has widened to \$ 32.8 billion in the first half of 2011-12, compared to \$29.6 billion during the corresponding period of 2010-11. The foreign exchange reserves increased from US \$ 279 billion at end March 2010 to US \$ 305 billion at end March 2011. Reserves varied from an all-time peak of US\$ 322.2 billion at end August, 2011 and a low of US \$ 292.8 billion at end-January, 2012.

The Survey recognizes that sustainable development and climate change are becoming central areas of global concern and India too is equally concerned and engaged constructively in global negotiations. Climate change challenges ahead are large and India is doing more than its fair share in reducing its energy-intensity of growth. India is now much more closely integrated with the world economy as its share of trade to GDP of goods and services has tripled between 1990-2010. At the same time, the extent of financial integration, measured by flows of capital as a share of GDP, has also increased dramatically and the role of India in the world economy has commensurately expanded, along with the other major members of emerging markets.

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