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Growth prospect of Indian Economy during 12th Five Year Plan

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ABSTRACT

India at the time of independence was left with crippling economy by British, which needed attention and well planned strategies to boom again in the global market. The Planning Commission was set up by a Resolution of the Government of India in March1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities. After the impressive economic growth during 11th five year plan, last one years of 12th five year plan has faced a global crisis. On 29th November, 2012, the Central Statistical Organization (CSO) came out with an estimate of 5.3 per cent growth for the Indian economy during the second quarter (July-September) of the current fiscal year against the 5.5 per cent growth during the first quarter (April-June). The quick estimate of 5.4 per cent growth of real gross domestic product (GDP) for the first half of the current fiscal year is not a very encouraging figure, though the stock market has taken it favourably. This is because the market might have perceived it as the lower turning point of the current slowdown. At this juncture, addressing questions about the prospects for the Indian economy in the short term, medium term, and long term is critical for individual business and collectively for the national developmental aspirations. We discuss the prospects for the growth of real GDP and overall inflation rate, and throw light on the likely position of the Indian economy among the largest economies in the world. The Indian economy during the stage of Twelfth Plan is characterised by strong macro fundamentals and good performance over the Eleventh Plan period, though clouded by some slowdown in growth in the current year with continuing concern about inflation and a sudden increase in uncertainty about the global economy. The objective of the Eleventh Plan was faster and inclusive growth and the initiatives taken in the Eleventh Plan period have resulted in substantial progress towards both objectives. Inevitably, there are some weaknesses that need to be addressed and new challenges that need to be faced. This paper specifically focuses on some sector where government has to face slowdown and no indication of economic growth. Growth Prospect of economy suffering from low industrial production as well as lesser demand in European market. Currently Govt. of India introduced various policy related to FDI but the pattern of implementation is not wining the faith of foreign investor. The forecasted GDP by planning commission is 8% for the financial year 2014-15, but "Actually, it is a very, very tough target to achieve, because the global economy for the coming year running is not in a good shape.

I. ECONOMIC SCENARIO AND STATUS OF TWELTH PLAN

National Development Council has approved the 12th Five Year Plan. Planning Commission have marginally reduced the average annual growth rate to 8 per cent (from 8.2 per cent). We expect with the growth rate of 5.8 per cent this fiscal and little over 7 per cent next fiscal, and with extra effort in the remaining three more years we can reach 8 per cent.

12th Five Year Plan of the Government of India (2012-17) is under drafting which aims at the growth rate at 9.56%. With the deteriorating global situation, achieving an average growth rate of 9 per cent in the next five years is not possible. The Final growth target has been set at 9% by the endorsement of plan at the National Development Council meeting held in New Delhi. Government estimates the feasible growth rate can be 8 to 8.5% in the next fiscal year but if we say feasible that will require major effort. If you don't do that, there is no God given right to grow at 8 per cent. The world economy deteriorated very sharply over the last year...the growth rate in the first year of the 12th Plan (2012-13) is 6.5 to 7 %.

However after the global crisis in mid2008, the pace of development has slowed down a bit with growth rate going down to 6.9%from 9% in previous years. A major weakness has been lack of inclusiveness of many groups due to reluctance to any sort of public participation. This Considering the strategic lacunas and shortcomings of 11th five year plan, planning commission has adopted a consultative and inclusive approach, that would include consultations and discussions with different groups of people, in the formulation of plan.GDP growth would be accelerated during the Twelfth Plan by the private sector, but the central and state government has a critical importance in providing a policy environment that supports inclusive growth. Four critical challenges facing the economy in the Twelfth Plan are: (a) Managing the energy situation,(b) Managing the water economy, (c) Addressing the problems posed by the urban transformation. (d) Ensuring protection of the environment in a manner that can facilitate rapid growth.

II. GROWTH OF REAL GDP

The most striking feature of the Indian growth story is the continual acceleration implying shifting growth path at intervals of 10-12 years after initiation of partial decontrol, de-administration, and deregulation in 1979-80. The Planning Commission is of the view that the underlying time-path of the growth of real GDP, usually referred to as "structural growth", has been shifting in the country and currently stands at around 7.5-8 per cent per annum. The Reserve Bank of India (RBI) Governor, Dr. D Subba Rao, agrees with this view. Around June 2012, the Planning Commission also expressed its expectation that during the 12th Plan, the growth could further shift to around 8.5- 9 per cent per annum, given their likely emphasis on critical infrastructure including coal and gas. However, by October 2012, it revised the target downward to a range of 8-8.5 per cent. The medium- to long-term growth prospects of the Indian economy would certainly depend on these considerations and calculations of the Planning Commission.

In this concept, we find the Centre for Monitoring Indian Economy's report (CMIE, May 2012) a very relevant supporting evidence. It estimates that projects worth about Rs.75.6 trillion are under implementation at various stages in the country by the end of March, 2012.

Removing the bottlenecks through determined implementation of economic reforms can credibly lead to quick increases in the investment rate in the country. Increase in the investment rate in turn can lead to very sharp recovery in the growth performance of the country in the medium term of the next five to six years. Turning to the short-term growth forecast for the Indian economy over the next one year, there are a lot of views, opinions, and projections made by several agencies and individuals. In March 2012, the Finance Ministry had taken the real growth of GDP at market prices to be 7.6 per cent for the ensuing year and made its calculations for the Union Budget 2012-13. It represented a clear recovery from the then estimated growth of 6.9 per cent during the year 2011-12.

In May 2012, when the international rating agency – Standard & Poor (S&P) – downgraded the outlook for India, the Finance Ministry was in a denial mode. Even with substantial downward revision of economic growth in the fourth quarter (Jan-March, 2012) of the fiscal year 2011-12 to only 5.3 per cent by the Central Statistical Organization (CSO) on 31st May 2012, the Finance Ministry still remained optimistic and defended the prospects for the Indian economy when S&P warned in June 2012 about the possible cut in the investment rating. The Finance Ministry continued to maintain that the growth rate of real GDP during 2012-13 in India would exceed 7 per cent according to the reports in leading dailies.

Dr. C Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC) expected the economy to grow around 7 per cent during 2012-137. It already represented a downward revision of about 0.5 percentage points from the Council's assessment in February 2012. Mr. Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission also felt that the target of 7.6 per cent growth would not be achieved during 2012- 13, and that the growth might be "somewhere between 6 to 6.5%.

III. IMPACT OF INFLATION

Forecasting inflation rate in the short, medium, and long term is a very challenging task because it typically depends on the rates of change in the aggregate demand and supply in the system. This makes it depend not only on external or exogenous factors such as movements of the oil prices and non-fuel commodity prices in the world market and nature of agricultural seasons at home, but also on changes in domestic fiscal policy, external trade policy, infrastructural policy, monetary policy, and exchange rate policy. Very often the inflation rate is either an explicitly or implicitly targeted variable for the monetary and credit policies in the economy. Moreover, it is well recognized in the literature and policy circles that the actual inflation depends directly on the inflationary expectations of the people. Unlike the developed economies such as the US and Western Europe, the developing economies including India do not generate usable activity.

Inflation in India particularly in the current context is considered more as a phenomenon arising out of the unfavourable developments on the supply side. Once the supply side constraints such as lack of adequate infrastructure, delayed project approvals, and inefficient external trade policies are removed, investments will start flowing in both domestically and from abroad. This will improve the growth performance of the economy which would then make the actual inflation more responsive to the domestic aggregate demand policies.

Thus, as the classical quantity theory of money in its modified form would suggest, the inflation rate would be determined by the growth rate of money supply and growth rate of the real GDP in the system. This framework can then be used for medium-term and long-term forecasts for the inflation rates, because we have already seen a lot of optimism about the growth prospects of the Indian economy in the medium and long terms.

Turning to the short-term forecasts of inflation, the first two quarters of the current fiscal year 2012-13 have shown a rate in excess of 7 per cent in the overall Wholesale Price Index (WPI). The food prices and consumer prices show a growth rate in excess of 9 per cent, though the core (manufacturing) inflation is much lower at 5 per cent or less and declining. In this context, recent international and domestic developments are very important.

International oil prices have sharply fallen since February, 2012. Since India's dependence on oil imports is almost 80 per cent of its domestic consumption, it represents a significant development. Its impact is not felt immediately on domestic prices because a large part of the decline in the international price of oil has been neutralized by sharply depreciating rupee. Similarly, the non-fuel commodity prices in the international markets are also softening. Rupee has already started appreciating and by now (as on 1st Dec. 2012) has gained 5 per cent, but has still not stabilized and continuous depreciating till date. As and when it stabilizes with about additional 5 per cent appreciation compared to the present level of about Rs. 54.3 to a dollar, both these factors would substantially reduce inflationary pressures on the domestic economy. Domestically, delayed rains have improved the prospects for agricultural production easing the pressure on prices of the primary products including fruits and vegetables.
Several agencies including international banks, government policy making bodies, and corporates have been providing their projections or estimates of the inflation rate for the next one or two years. These short-term forecasts for the fiscal year 2012-13.

Forecast of Inflation Rate in India by Different Agencies for the year 2012-13

Agency	Expected Rate (WPI)
1. ADB	7%
2. OECD	6.7%
3. IMF	10.2% (CPI) but declining over time
4. World Bank	7%
5. CRISIL	8%
6. ICRA	7.5 to 7.7%
7. PwC	7.2% for 2012 and 6.8% for 2013
8. Finance Ministry	6.5% to 7.5%
9. PMEAC	>7% but declining
10. RBI Survey	7.7% average
11. Reuters	7.7%
12. ING Research Survey	Above 7%

IV. STATUS OF POVERTY

In 2004-05, the proportion of the poor was 27.5% – 28.3% for rural areas and 25.7% for urban areas. The total number of poor in 2004-05 was 301.7 million, lower than 321.3 million in 1979-74 by about 19.6 million during the long span of 31 year which cannot be described as a very creditable achievement. Sixty years after independence, more than a quarter of population continue to be poor.

The Planning Commission further states: There is growing consensus that the poverty line (Rs. 356 monthly per capita consumption for rural areas and Rs. 458 for urban areas in 2004-05) in India is much too low, and continues to be based on consumption basket. If the poverty line was higher, the share of the population below the poverty line would be accordingly higher.

The government intends to reduce poverty by 10 per cent during the 12th Five-Year Plan. It is primary aim of government to reduce poverty estimates by 2 per cent annually on a sustainable basis during the Plan period. According to the Tendulkar methodology, the percentage of population below the poverty line was 29.8 per cent at the end of 2009-10. This number includes 33.8 per cent in the rural areas and 20.9 per cent in the urban areas. The rate of decline in poverty doubled during the 11th Plan. According to the report, using the Tendulkar poverty line, the rate of reduction in the five years between 2004-05 and 2009-10, was about 1.5 percentage points each year, which was twice that when compared to the period between 1993-95 to 2004-05.
Inclusive growth would become a reality only if there is a rapid decline in poverty coupled with rapid reduction of unemployment in the 11th Plan.

On the question of setting a target of poverty reduction, the Twelfth Plan mentions: "The Plan document has admitted that the percentage of poverty in 2004-05 is about 28 percent and thus, the 11th Plan intends to reduce it by 10 percentage points by 2017. This would imply a rate of reduction of poverty by about 1 percent during 2004-05 and 2016-17. This is even less than the decline in poverty observed during 1973-74 and 1986-87 when the average growth rate of GDP ranged around 5 percent.

While the definition of hunger in terms of calories can remain constant, the definition of poverty is relative to the present levels of general prosperity…the present official poverty line is based only on calories and hence accounts for little else but the satiation of one's hunger.

It would have been more accurate to define this as a starvation line, as that is exactly what it is**.** The Planning Commission, thus, intends to reduce starvation line up to 10 percent by 2017. For providing a basic minimum, poverty line needs to be redefined in terms of basic needs approach. While India is aiming to become a super-economic power by 2020, it will only reduce starvation by the date. In the light of this, India should adopt the International Poverty Line of Rs.120 per day as the basis of determining the percentage of people in poverty. As per the Human Development Report (2007/2008), on the basis of Rs.55 per day, for the year 1999-00, people below the poverty line in India were of the order of 34.3% and if we use the norm of Rs. 120 per day, then 80 percent of the Indian population were below the poverty line. The present poverty line on the basis of calories does not even meet the rock bottom standard of poverty.

V. GLOBAL CONTEXT AND PROSPECT OF INDIAN ECONOMY

Currently, India by now is the tenth largest economy in the world in terms of the GDP converted to US dollars at the market exchange rate . In the year 2009, it was the eleventh largest economy, but by the end of 2011, it has crossed Canada to become the tenth largest economy. Still ahead of India are the economies of USA, China, Japan, five countries from Europe and Russia. All these countries except China and Russia have grown at an annual rate lower than 4 per cent in the recent past. India, on the other hand, has registered close to 8 per cent growth.

The years 2009-2012 represent serious turmoil in the global economy in general and most of these largest economies in particular. Confidence-cum-financial crisis of 2008 resulted in almost all these economies registering a negative growth except China and India. To come out of this depression, substantial fiscal and monetary boosts had to be provided in a coordinated way in all these economies. Some economies could come out of the depression by the end of 2011, but several others like Japan, UK, Italy, and Spain are still struggling. The heavy doses of fiscal boost resulting in large and continuing fiscal deficits in the European countries have created another round of deep sovereign debt crisis. Almost all these large economies are, therefore, forced to restructure and readjust their economies to differing extents. Stringent fiscal discipline and consolidation are required in most of these economies including USA. Their future growth prospects in the next five to ten years are not likely to be anywhere near what they achieved in the years prior to 2008.

Recent elections in USA providing the mandate to the Obama government to continue with similar policies imply that the restructuring and disciplining needed in the US economy are not likely to materialize to the required extent for at least the next four years. On the contrary, there are strong chances of the US moving towards more protectionism and inward looking policies. This does not augur well for the rest of the world because it may result in lower growth of international trade and more restrictive factor flows including capital and skilled labour across nations. It would also restrict the growth of GDP and employment in both USA and Europe. As a spillover effect of all this, prospects for growth in India and China may also suffer by about one percentage point unless some new political solution involving economic cooperation among economies other than USA and Europe emerge.

It is interesting to see that India is likely to be the seventh largest economy in the world by the year 2017, and fifth or fourth largest economy in the world by 2025 depending on whether it grows at 8 per cent or 9 per cent annually during the period. If India does not grow at 9 per cent annually, it will not be able to overtake Germany by 2025. This provides an additional perspective on the prospects of the Indian economy in the global context. India's influence on the world economic affairs and hence political affairs is definitely going to increase in the next decade and a half.

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