

Contents

<i>Preface</i>	<i>iii</i>
<i>Foreword</i>	<i>v</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figures</i>	<i>x</i>
Part A	
Overview	
I. Overview by Shashanka Bhide	1
Part B	
Recent Trends and Patterns in the Economy	
I. Agriculture by Anil Sharma	13
II. Industry by Saurabh Bandyopadhyay	17
III. Services by Devender Pratap	31
IV. External Sector by Aradhna Aggarwal and Shweta Jain	43
V. Money, Credit and Finance by Shashanka Bhide and Siddhartha Chattopadhyay	65
VI. Prices by Bornali Bhandari	71
VII. Public Finance by Shashanka Bhide	87
VIII. Forecast by P. C. Parida	97
Part C	
Selected Themes	
I. Industrial Stagnation in India in Recent Times by Bishwanath Goldar	107
II. Agriculture: In Search of the Second Green Revolution by Anil Sharma	117

Acknowledgments

The authors would like to acknowledge the support of Charu Jain, Praveen Sachdeva, Himani Gupta, Sudesh Bala, and Shikha Vasudeva at NCAER who assisted them in the preparation of this Review.

Preface

Higher inflation and slower industrial growth became persistent features of the Indian economy in 2012-13 following their prominent appearance in 2011-12. Both the fiscal deficit and the current account deficit worsened considerably. The global economy continued to register a weak recovery from the global financial crisis of 2008. Fiscal correction in the US became a political battle between its two political parties with their differing emphasis on expenditure cuts and tax increases. In the Eurozone, a resolution of the banking crisis remained distant. The investment climate at home worsened substantially as policy initiatives to resolve supply-side constraints were delayed and the policy initiatives that were pursued (such as GAAR, the Government's General Anti-avoidance Rules) were widely taken to be market-unfriendly. As an added challenge, the 12th Five Year Plan launched in 2012-13, with its increased emphasis on infrastructure development and human capital development, made it clear that major additional financial resources from the domestic private and public sectors and from external sources would be needed.

Persistent weaknesses in external demand also require policymakers to consider increased attention to the development of domestic markets. While infrastructure investment is one component of this demand story, measures to improve efficiency through fiscal reforms in the form of the Direct Tax Code and Goods and Services Tax are another component. A fresh phase of economic reforms and their careful implementation is needed to expand the room for greater investment and growth.

Achieving sustained high rates of economic growth over the medium-term against this backdrop of the Indian economy suggests the need for renewed discussion of changes in India's strategy for growth and development and the implementation of this strategy.

It was at this juncture of a widening fiscal deficit, a higher current account deficit, RBI's reluctance to loosen monetary policy, and a not-very-bright external sector that the Malcolm S. Adisheshiah Mid-Year Review of the Indian Economy was presented by NCAER at the India International Centre in October 2012. In the months since the Mid-Year Review was presented, and as we approach the end of the 2012-13 fiscal year, the official Advance Estimates place GDP growth for 2012-13 at just 5 per cent, much lower than our own projections presented in October. This suggests the magnitude of the challenge that lies ahead for the Indian economy and the need for debate and discussion on the course of India's economic policy framework and its implementation.

It has been NCAER's privilege to present the Mid-Year Review for the second successive year in partnership with the India International Centre. We are grateful to Dr Kavita Sharma, Director, IIC, and her team for partnering with us on this activity.

We are also grateful to Dr Bimal Jalan, former President of NCAER's Governing Body and former Governor of RBI and Member of the Rajya Sabha, who kindly agreed to chair the seminar and led an intense discussion of the Review. Prof. Sudipto Mundle, NIPFP and Dr Rana Hasan, ADB were the invited discussants and focused their comments on macro and micro aspects of the current economic policy challenges. We were fortunate to have Prof. B.N. Goldar, well known for his research on India's

industrial growth, as a member of our Review Team. We also wish to acknowledge the financial support of the Think Tank Initiative managed by IDRC, the Canadian International Development Research Center, for putting together this Mid-Year Review.

New Delhi
March 2013

Shekhar Shah
Director-General
NCAER

Foreword

In 1983, renowned development economist and educator, Dr Malcolm Adiseshiah, initiated the 'Mid-Year Review of the Indian Economy' which examines economic trends for the first half of the year, as also provides an assessment of the prospects for the economy for the full year. In pursuance of these aims, the Malcolm Adiseshiah Trust has supported an annual seminar at the India International Centre since 2001.

For the past two years, this event has been hosted by the Centre in collaboration with NCAER. This year, the Mid-Year Review asked a significant question: 'A Course Change for the Economy?' As Chairperson of the seminar, Professor Bimal Jalan said, there have been some course corrections, but expectations on the way forward have not been met. It is necessary to look at political developments when examining the future of the Indian economy. This Review comes at a crucial moment as the 12th Five Year Plan is to be initiated soon, and the 2014 General Elections are in the near future.

Eight sectors have been discussed in this report, and the trends in economic indicators for all these sectors have been presented. The seminar highlighted the fact that the actual outcome for the economy has been one of weaker economic growth than predicted. Agricultural output suffered as a result of erratic rainfall in 2012. In the non-agricultural sector, external demand conditions remained weak and the policy dilemmas affecting the investment climate continued. However, some mitigating measures unveiled in September 2012 relating to FDI in a few sectors could change this course. The need of the hour is accelerating policy changes.

Two additional themes this year were a revival of industrial growth, and the quest for a second Green Revolution. The priority, in the medium-term, is to address these issues to ensure creation of jobs and food security.

Kavita A. Sharma
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