Financial Inclusion and Indian Financial Crisis & Solutions

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Abstract

The Indian economy has experienced a series of significant transformations in the last few decades. Among the most important of them is the growing phenomenon of globalization, liberalization and privatization has been immensely influencing the economy. The technological revolution has further provided new dimensions like E-banking, E-commerce, E-marketing, E-finance, E-investment, paperless trading and governance has been gaining importance of all over the world. These technological and global changes have been enhance the contribution of service sector above 70% in GDP.

The paper examines the new trends in the economy as well as the problems & solutions which can be effect GDP of our country and express the real economy growth means.

Current scenario and problems are as follows: Record high current account deficit, Problems in the US and Euro zone economies, High inflation, Governance, Renewed pressure of bad loans &bank asset quality, Credit rating, FDI, Adding pressure, Poor management &weak leadership, and outdated monetarist ideology. Recommendations and solutions are: Reducing subsidies, Improving supply side measures, Easing foreign investment restrictions, Implementation of economic reforms, Empowerment of the individuals, Support to backward state, Post-harvest management, Implementation of projects, Contribution of manufacturing sector in GDP and Implementation of GST. The economy can be divided in the entire spectrum of economic activity into real and monetary sectors. The real sector is where production takes place while the monetary sector supports this production and in a way is the means to the end. The last US, Europe crises & economy slow down shown how a fragile financial sector can wreak havoc on the rest of economy.

Keywords: *Indian economy, GDP, Government and CAD.*

Introduction: Indian economic growth may rebound in 2013 while falling short of the government's 8 percent target, as inflation risks limit the extent interest rates can be lowered to spur consumption and investment. **Gross domestic product in Asia's No. 3 economy will rise 6.5 percent in the year through March 2014, according to the median** of 30 estimates. That compares with a 10-year average of 7.8 percent and the Finance Ministry's projection of 5.7 percent to 5.9 percent in 2012-2013 but recently RBI said that it would be 5.5 % only.

While inflation eased to a three-year low of 7.18 percent in December, it remains the fastest among the biggest emerging markets. A record current-account gap is threatening to damp the rupee, adding to rice pressures.

“The recovery is going to be a bit slow. “Sentiment has picked up in the financial markets, but things have yet to pick up in the real economy.” India's current-account deficit swelled to $22.31 billion in the quarter ended Sept. 30, and the rupee's decline against the dollar in the past three months makes it the worst performer.

Inflation remains “quite high” even after easing from a peak and economic growth remains a concern. The scope for both monetary and fiscal stimulus is limited. Dr. Manmohan Singh has opened industries including retail and aviation to more overseas investment since September, set up a panel to speed up infrastructure projects and delayed tax changes that threatened to deter inflows. His government last month set a target of 8 percent annual expansion in the five fiscal years through March 2017, lowering an earlier goal of 8.2 percent. The fiscal deficit is the highest 5.4% of GDP as compared to 1990.

Current scenario and problems

1. **Record High Current Account Deficit:** Record high current account deficit amid a large fiscal deficit and slowing growth exposes the economy to the risks from twin deficits. Financing CAD through volatile foreign portfolio flows is risky. Large fiscal deficits will accentuate the CAD risk, further crowd out private investment and stunt growth impulses.

2. **Problems the US and Euro Zone:** Global risks remain elevated, and these could spill over to India through trade, finance and confidence channels. in

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Problems the US and Euro zone economies can potentially increase global risk aversion and hurt portfolio flows into India.

3. **High Inflation:** Inflation has been as much due to supply constraints as much as due to high demand. Demand pressures have begun to ease, but unless supply-side issues are addressed, inflation will persist.

4. **Governance:** Key to stimulating growth is a revival in investment. That requires fixing infrastructure gaps, speeding up approvals, and removing procedural bottlenecks, and improving governance.

5. **Renewed Pressure of Bad Loans & Bank Asset Quality:** Banks are over-cautious in lending as they are worried about the loans going bad because of a slowing economy. India's financial system has been made vulnerable by deterioration in bank assets and a lack of capital as the economy slowed, according to the International Monetary Fund. The main near-term risks to the financial system are a worsening of bank asset quality and renewed pressures on systemic liquidity.

6. **Credit rating:** Standard & Poor's and Fitch Ratings warned last year that they may strip India of its investment-grade credit rating, which would hurt the country's ability to raise funds. "There are emerging signs that growth has bottomed out in India, though the cyclical upturn will lack said momentum in the absence of structural improvements. There is an "urgent need to address the fiscal and current-account deficits, which pose substantial risks to long-term growth and macroeconomic stability."

7. **FDI:-Foreign-Direct Investment**: fell 42 percent to $14.8 billion in the seven months through October compared with a year earlier. Still, offshore funds poured a net $24.5 billion into domestic shares last year.

8. **Adding Pressure:** The Finance Ministry's projected expansion of as little as 5.7 percent in the 12 months to March 31 would be the weakest in a decade. More than two-thirds of India's 1.2 billion people live on less than $2 per day, according to the World Bank, adding pressure for faster growth.

9. **Poor Management & Weak Leadership:** India's problems (Inflation) are NOT due to RBI - they are self inflicted wounds of UPA - Primarily due to ineptitude of weak PM. The inefficient infrastructure and policy paralysis is causing high inflation. Food in granaries goes wasted, lack of growth in energy sector, infrastructure projects on hold due to weak leadership, etc. etc. India may have democracy (but poor & uneducated democratic countries elect poor & uneducated leaders). Focus on getting better leaders and stop the "loot" Raj of UPA.

10. **Outdated Monetarist Ideology:** All major policymakers in the country are from the World Bank/IMF with their outdated monetarist ideology. Can the RBI demonstrate that high interest rates have done anything to check inflation?

Recommendations and Solutions:

1. RBI has been urging to reduce spending, especially on subsidies, which was diluting the central bank's anti-inflationary stance.

2. The government to take supply-side measures to improve India's inefficient farm distribution chain before it cuts rates.

3. The government also took steps to boost growth by easing foreign investment restrictions and clearing key legislation for removing land acquisition hurdles for industrial and infrastructure projects

4. India will also have to rein in its fiscal deficit and inflation rate. But to curb inflation, the Reserve Bank of India has already raised interest rates a dozen times in a row, leaving little room to cut rates. Therefore, the Indian government has fewer monetary instruments to stimulate the economy and it is not the only solution. But it would be largely depend on the success of the implementation of economic reforms.

5. Awareness among individuals about their rights will certainly increase due to the power of the media, social networking and interconnectedness of the world, and if our policies fail to take care of poverty reduction and inequalities, heightened awareness and empowerment of the individuals may turn out to be a recipe for complete disaster.

6. **"**Growth will be more inclusive and sustainable only if backward states are supported by resources and enabling policy. If this is not done, the slogan of 'Faster, More Inclusive and Sustainable Growth' will be a mere rhetoric and will not translate into reality."

7. "The core issue in agriculture would be post-harvest management that would call for improved rural connectivity and more electricity to villages. This also called for recognizing the importance of marketing in which private sector could play a major role especially in the case of perishable products,"

8. Project Monitoring and Implementation Agency, setup by the government with specific timelines on implementation of these projects, will help in keeping up the growth momentum at high levels.

9. The contribution of manufacturing sector in GDP can be increased to 25% by enhancing labour productivity, building strong industrial structure, capacity building for SMEs and encouraging development of innovation clusters.

10. **"**A Common Market could be achieved through early implementation of GST and through uniform implementation of Agricultural Produce Market Committees Act across states and hurdle free movement of agri produce by abolishing the Essential Commodities Act."

Conclusions: Economic growth is needed but peace, happiness and social justice are more important than that. So we should better follow the policy of Bhutan; they prefer peace and happiness to material possession or if it is required, that is not at the cost of peace and happiness of the society.

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