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- Partial Arbitrage Opportunity in Commodity Futures Trading  
Live Stock in India-Opportunities and Challenges an Overview  
Expenditure on Rural Development : A State Budget Overview of Gujarat  
Impact of Enforcement of Environmental laws on Sustainable  
Development  
Women Entrepreneur in Middle Small Medium Enterprise in India :  
Challenges and Opportunities

**Some achievements regarding self help groups.**

ગુજરાતના પંભાત વિસ્તારમાં ચેકડેમની જમીન વિહોણા ખેતમજૂર  
કુટુંબો પરની સામાજિક-આર્થિક અસરોનો અભ્યાસ

દક્ષિણ ગુજરાતની વસ્તીનો વ્યાપ અને લક્ષણો :  
વસ્તી ગણતરી ૨૦૧૧ મુજબ

શ્રી સનત મહેતા - એક અભ્યાસી રાજકારણી અને  
નિષ્ઠાવાન સમાજવાદી નેતા

શ્રદ્ધાંજલિ-પ્રોફેસર એ. એસ. ચારણ (૧૯૪૩-૨૦૧૬)

**A Note on Current National And International Issues**

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## A Note on Current International and National Economic Issues

**Dr. Ashish N. Pandya<sup>1</sup>**

The first half of the financial year 2015-16 witnessed two important developments in the world economy having far reaching effects. (i) Sustained recovery in the U.S. economy. The great recession began from the last quarter of 2007 and then continued for another five quarters when it experienced negative rate of GNP growth and it experienced slow and faltering improvement in this situation until very recently. (ii) Devaluation of its currency Yuan by China in August 2015 – long time after keeping its currency undervalued against which number of countries including the U.S publicly conveyed their unhappiness. Over the last about two decades, this gave China significant advantage viz-a-viz its trading partners enabling it to generate large surplus on its balance of trade as well as current account. This factor together with the large inflow of foreign capital under foreign institutional investors (FIIs) or portfolio investment, and foreign direct investment (FDI) helped China to accumulate large foreign exchange reserves which currently stand at a mind boggling figure of \$3500 billion.

The U.S. economy registered slow and sometimes faltering improvement in its GNP growth together with two other closely related indicators namely reducing the unemployment rate below six percent and the inflation rate having remained at very low rate to a comfortable level of close to 2%. Since April 2015, the Federal Reserve Bank, the Central Bank of the U.S.A., shortly called Fed, had the increase in the Federal Rate of Interest, was on its agenda. A viewpoint was widely shared across the financial centres of the world that the Fed would raise the interest rate, now that it was kept at near zero level since the onset of the Great Recession in the U.S.A. However, the devaluation of Yuan by China in August 2015 created lot of volatility in the stock markets and foreign exchange markets of the emerging economies, including India.

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## A Note on Current International and National Economic Issues

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Another related development has been the slowing down of the Chinese economy that began before year and a half. This development has gathered momentum in recent months. The steep fall in the commodity prices, led by the steep fall in the crude oil price, has on the one hand led to an improvement in the balance of payment situation in the country like India, it has been responsible for slow or negative GNP growth in oil and gas producing economies like Russia, Opec countries, Venezuela, Indonesia and so on. The U.S.A. has been able to maintain growth momentum in recent quarters. Europe and Japan also have witnessed slow growth. How the world economy as a whole would be able to maintain GNP growth rate above 2.5% and keep itself away from recession trap remains to be seen.

As far as Indian economy is concerned, two developments having considerable significance for its future growth momentum have taken place in recent months. Its growth rate over the past two quarters has remained around 7.3% to 7.4%, this is much lower than the 10% it has reached in the years before the onset of the Great Recession in the U.S.A. in the last quarter of 2007 and engulfed practically the whole world in the next five quarters. The trend of slow growth started from 2011-12 and has continued till now. The Indian economy has experienced reduction in the rate of saving and the rate of investment and is faced with an acute problem of huge unproductive investment of Rs. 1,50,000crores in the infrastructure, power generation and real estate sectors involving losses to the manufacturing units, NPAs for the large number of public sector banks and the loss of output and employment to the economy. Together with this, the Indian economy has experienced negative rate of growth in exports since December 2014 month after month. This is accompanied by reduction in imports for the most part of this period, keeping the deficit in the current account of the balance of payments around 1.5% of the GDP. While this indicates that India does not have the balance of payments problem, it, at the same time, also speaks about the slowing down of the growth momentum of the Indian economy. Over the past one year, the foreign mutual funds have been reducing their investment from the Indian equity market, their investment in debt instruments has been increasing during this period because of the attractive yield available on them in comparison to their respective domestic economies.



The other major development in the Indian economy is related to the RBI's monetary policy. The Indian economy experienced an uncomfortably high inflation rate – around 8% measured by consumer price index (CPI). The RBI's stance has been consistently one that highlighted the usefulness of lower rate of inflation – 6% for the overall economic growth in the country. As the rate of inflation showed signs of decline by the early part of the calendar year 2015, the RBI reduced the repo rate from 8% to 7.25% and then kept it at that level. In recent months, the rate of inflation measured with wholesale price index has been in the negative zone and that measured with the consumer price index has been slightly less than 6%. The RBI in a surprise move, reduced the repo rate by 0.5% bringing it to 6.75%, reverse repo rate at 5.75%, keeping the cash reserve ratio unchanged at 4%. While the public sector commercial banks as well as private commercial banks have reduced their deposit rates by 1.5% to 2%, they are quite slow in reducing their lending rates. The main objective of reducing the repo rate is to reduce the cost of credit to trade, commerce and industry and to give an additional incentive to businessmen to undertake more investment. The RBI will have to devise new methods to see that this transmission mechanism – from reduction in the repo rate to the reduction in the lending rates by the commercial banks – works more effectively. And with all this, whether investment activity will bespurred or not remains quite doubtful. The external environment continues to be quite unfavourable. This can be seen from the fall in the export earnings month after month since December 2014 and similar story for most of this period for import payments. This factor, largely caused by the reduction in import bill for crude and gold, together with reduction in imports, has been responsible for keeping the trade deficit and overall balance of payments deficit within safe limit. And yet, the Indian rupee has depreciated against major currencies of the world, giving advantage to exporters and making imports expensive that can have adverse impact on the inflation rate.

The Indian economy had less than normal monsoon this year together with abnormally heavy rains in some parts with Chennai and surrounding areas getting highest rainfall after 1918. This is bound to have an unfavourable impact on agricultural production, and in turn on rural demand for consumer goods, automobiles, tractors etc. Together with unfavourable external environment, this is likely to impinge adversely on growth rate for the year 2015-16 which is the

fourth year of the 12<sup>th</sup> five year plan. Under the circumstances, the Indian economy would reach growth rate of 7.4% during the year.

And yet, the Indian economy remains the best performing economy in the world. So far, China enjoyed this position with its growth rate hovering around 10%. The Chinese economy now stands at second place with its growth rate likely to touch 6.3% for the year 2015 and if the slowdown takes a more serious turn, it might register even slower growth rate in the next year or two, while the U.S. economy is likely to achieve a growth rate of little above 3%, looking to the size of its economy, it is likely to exert a favourable influence on the world economy. In terms of sheer number shown by the Indian economy, the growth rate of 7.4% for the financial year 2015-16, is by far the highest earning a word of praise from the managing director of the IMF that India is a shining star of the world economy.

With this issue of Vishleshan, we introduce a new feature – A Note on Current Economic Issues – International and National. This is contributed by Dr. Ashish N. Pandya, member of the editorial team of Vishleshan.

It attempts to highlight some important issues that will have far reaching implications for the world economy and national economy. We hope that all the readers will find it interesting and useful in their understanding of these issues.



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