PAPER 03 (PART - A)

ECONOMY(PART - 1)

ECONOMICS : AN INTRODUCTION

Definition of Economics

There are three representative definitions of economics, which encompass major dimensions of the subject. They are as follows:

- Adam Smith defined economics as the 'Science of Wealth'. (Material Definition)
- Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well being'. (Welfare Definition)
- Professor Robbins in his 'Nature and Significance of Economic Science (1932)' defined economics as 'the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.' (Behavioral Definition)

Macro and Micro Economics

Ranger Frisch used the terms macro and micro economics first in 1953. The subject matter of economics and its various concepts can be classified either in 'microeconomics' or macroeconomics' for the sake of convenience of study. Microeconomics is the study of units whereas macroeconomics is the study of aggregates. As its name implies, microeconomics is concerned mainly with small segments of the total economy, i.e., behaviour and decision of individual consumer or producer or group of consumers and producers that form a market unit. Microeconomics is about production or consumption of an individual unit, demand and supply of an individual unit, price and output determination of an individual unit, etc. On the other hand Macroeconomics is the study of 'whole' or 'aggregate' such as national income, aggregate saving, aggregate demand, aggregate supply, etc.

Positive versus Normative economics

In Economics, mainly there are two types of approaches- positive and normative; the former approach deals with "what is" and the latter with "what should be". In positive economics we describe, explain and understand the economic phenomena "as they are" while in

normative economics we study "what should be" and we conjecture, suggest and do value judgments
to take certain stands on various issues and judge the worth of economic policies and stances as good or bad, desirable or undesirable. So, normative approach is which deals with "what should be" or "if" and "then" conditions.

Fundamental Questions for an Economy

Economics broadly deals with anything, which has a price or monetary value. This monetary value arises out of two factors:

1. Unlimited wants and desires of the people.
2. Limited/Scarce availability of resources.

Since unlimited needs and wants of the masses have to be satisfied out of the scarce and limited resources available, Economics tries to find out the most efficient allocation of the scarce resources so that the needs and desires are satisfied to the best possible extent. The
answers of three fundamental questions of economics determine the allocation of scarce resources among its alternative uses. The three fundamental questions are as follows:

1. What to produce?
2. How to produce?
3. For whom to produce?

The three fundamental questions of economics are resolved differently in different economic systems. The more important economic systems are Socialism, Capitalism and Mixed Economy. Under a Socialist regime, all the resources are collectively owned. Under Socialism, the questions, what, how and for whom to produce are decided by the central planners keeping in
view various factors, such as the priorities of the economy and supply and demand conditions. They assign different quantity of resources to different products depending on expected demand and hence let the economy work in a centrally planned fashion. The socialist economy, therefore, do not allow the free play
of market forces. Government intervention is the hallmark of socialist economies. On the other hand capitalism tries to answer all these fundamental questions through market mechanism. It explains that the invisible hand of free market forces will determine
the above answers to questions. Prices of factors of production and commodities together with purchasing power of different consumer groups will determine what to produce, how to produce and for whom to produce. Thus market mechanism brings all the commodities and factor markets in equilibrium. Mixed Economy involves ownership of factor resources by private as well as public sector. Whereas strategic and core sectors are generally owned by public sector, non-strategic, capital and consumer goods are open to private sector to compete.

Main Features of Capitalism:

- Laissez faire or free market.
- Private property.
- Capital owned by capitalists.
- Production done by hired labour.
- Market mechanism (invisible forces of market) determines prices of commodities and factors of production as well as distribution of products and income.
- Modern day capitalism accepts limited state intervention.

Market Economy

The term market economy is not identical to capitalism where a corporation hires workers as a labour commodity to produce material wealth and boost shareholders profits. A "market economy" is an economy in which individuals make economic decisions according to the principle of supply and demand. A market economy is a realized social system based on
the division of labour in which the prices of goods and services are determined in a free price system set by supply and demand. This is often contrasted with a planned economy, in which the central government determines the price of goods and services using a fixed price system. Market economies are contrasted with
mixed economy where there the price system is not entirely free but under some government control that is not extensive enough to constitute a planned economy. In the real world, market economies are regulated by society.

Laissez-faire

Laissez-faire is a French phrase literally meaning Let do ("allow to do"). From the French dictum first used by the eighteenth century physiocrats as an injunction against government interference with trade, it became used as an economic ideology which advocates minimal
state intervention in the economy. Many writers suggest that laissez-faire capitalism never existed. It is generally understood to be a doctrine that maintains that private initiative and production are best allowed a minimal of economic interventionism and taxation by the state beyond what is necessary to maintain individual liberty, peace, security, and property rights.

Crony capitalism

Crony capitalism is a pejorative term describing an allegedly capitalist economy in which success in business depends on close relationships between businessmen and government officials. It may be exhibited by favoritism in the distribution of legal permits, government grants, special tax breaks, and so forth. Crony capitalism is believed to arise when political cronyism spills over into the business world;
self-serving friendships and family ties between businessmen and the government influence the economy and society to the extent that it corrupts public-serving economic and political ideals.In its lightest form, crony capitalism consists of collusion among market players.

Socialism

Socialism refers to a broad set of economic theories of social organization advocating state or collective ownership and administration of the means of production and distribution of goods. Modern socialism originated in the late nineteenth- century working class political movement. Karl Marx posited that socialism would be achieved via class struggle and a proletarian
revolution, it being the transitional stage between capitalism and communism.

Features of classical form of socialism

• Productive resources owned by states.
• No private property.
• State intervention.
• State employed workers.
• Centrally planned economies.
• Production and distribution decisions taken by a central agency.
• Administered prices.

Socialism is not a discrete philosophy of fixed doctrine and program; its branches advocate a degree of social interventionism and economic

interventionism, sometimes opposing each other - especially the reformists and the revolutionaries. Some advocate complete nationalization of the means of production, distribution, and exchange; social democrats propose selective nationalization of key national industries in
mixed economies combined with tax-funded welfare programs; libertarian socialists advocate co-operative worker ownership of the means of production; most Marxists (some inspired by the Soviet economic model), advocate centrally-planned economies. By contrast,
Social-Anarchists, Luxemburgists, the U.S. New Left and various forms of libertarian socialism favor decentralized ownership via co-operative workers' councils and participatory planning.

Market socialism

Market socialism is a term used to denote two different economic system(s) based in socialism which operate according to market principles. The first term relates to an economy directed and guided by socialist planners on either a local or state level. The earliest models of this
form of market socialism were developed by Enrico Barone (1908) and Oskar R. Lange (1936). Lange and Fred M. Taylor proposed that central planning boards set prices through "trial and error," making adjustments as shortages and surpluses occurred rather than relying
on a free price mechanism. If there were shortages, prices would be raised; if there were surpluses, prices would be lowered. Raising the prices would encourage businesses to increase production, driven by their desire to increase their profits, and in doing so eliminate the shortage. Lowering the prices would encourage businesses to curtail production in order to prevent losses, which would eliminate the surplus. Therefore, it would be a simulation of the market mechanism, which Lange thought would be capable of effectively managing supply and demand. There are a few examples of market socialism in the contemporary world. Market mechanisms have been utilized in a
handful of socialist states, such as Yugoslavia and even Cuba to a very limited extent. The People's Republic of China is run by the Communist Party, but its economy involves considerable private enterprise and market forces in both private and public sectors.

Communism

Communism is a socioeconomic structure that promotes the establishment of an egalitarian, classless, stateless society based on common ownership of the means of production and property in general. It is usually considered to be a branch of socialism, a broad group of social and political ideologies, which draws on the various political and intellectual movements with origins in the work of theorists of the Industrial Revolution and the French Revolution, although socialist historians say they are older. Communism attempts to offer an alternative to the problems believed to be inherent with capitalist economies and the legacy of imperialism and nationalism. Communism states that the only way to solve these problems would be for the working class, or proletariat, to replace the wealthy bourgeoisie, which is currently the ruling class, in order to establish a peaceful, free society, without classes, or
government. The dominant forms of communism, such as Leninism, Stalinism, Maoism and Trotskyism are

based on Marxism, but non- Marxist versions of communism (such as Christian communism and anarchist communism) also exist and are growing in importance since the fall of the Soviet Union Planned economy or Directed economy or Command economy.

Planned Economy: A planned economy or directed economy is an economic system in which the state or government manages the economy. Its most extensive form is referred to as a command economy, centrally planned economy, or command and control economy.

In such economies, the state or government controls all major sectors of the economy and formulates all decisions about their use and about the distribution of income, much like a communist state. The planners decide what should be produced and direct enterprises to produce those goods.

Unplanned Economy: Planned economies are in contrast to unplanned economies, such as a market economy, where production, distribu[tion, pricing, and investment decisions are made by the private owners of the factors of production based upon their own and their customers' interests rather than upon furthering some overarching macroeconomic plan.

Mixed Economy

A mixed economy is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately-owned and stateowned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. There is not one single definition for a mixed economy, but relevant aspects include: a degree of private economic freedom (including privately owned industry) intermingled with centralized economic planning (which may include intervention for environmentalism and social welfare, or state ownership of some of the means of production). The term "mixed economy" arose in the context of political debate in the United Kingdom in the postwar period, although the set of policies later associated with the term had been advocated from at least the 1930s. Supporters of the mixed economy, including R.H. Tawney, Anthony Crosland and Andrew Shonfield were mostly associated with the British Labour Party, although similar views were expressed by Conservatives, including Harold Macmillan. India and France are examples of mixed economies. With varying degrees all contemporary economies are mixed economies because pure capitalism or pure communism are a misnomer.

Features of a Mixed Economy

- Elements of both socialism and capitalism.
- Both public and private investment.
- Freedom to buy, sell, and profit.
- Economic planning by the state.
- Significant regulations (e.g. wage or price controls) combined with, including taxes, tariffs, and state-directed investment.

STATE OF THE INDIAN ECONOMY

State of the Indian Economy

With 1.2 billion people and the world's fourth largest economy, India's recent growth and development has been one of the most significant achievements. Over the six and half decades since independence, the country has brought about a landmark agricultural revolution that has transformed the nation from chronic dependence on grain imports into a global agricultural powerhouse that is now a net exporter of food. Life expectancy has more than doubled, literacy rates have quadrupled, health conditions have improved, and a sizeable middle class has emerged. India is now home to globally- recognized companies in pharmaceuticals and steel and information and space technologies, and a growing voice on the international stage that is more in keeping with its enormous size and potential. At the same time, the country is in the midst of a massive wave of poverty and unemployment. The foremost reason for slowing growth rate in India during the first half of 2012-13 is weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India (RBI) through most of 2011-12, and continued uncertainty in the global economy.

The other reasons are listed below:

1. The slowdown in growth in advanced economies and near recessionary conditions prevailing in Europe resulted in decrement of exports along with poor inflows of foreign investments in the country.
2. As India is an energy deficient nation, thus, it is mainly dependent on import of crude oil. This is leading to higher current account deficit.
3. Rainfall in the monsoon season of 2012-13 has been below normal, particularly in the key months of June and July. This affected sowing and resulted in a lower growth rate of agriculture and allied sectors.
4. The Reserve Bank of India followed a tight monetary policy to control inflation, although there has been some relaxation in the recent months in the Statutory Liquidity Ratio (SLR) as well as Cash Reserve Requirement (CRR).
5. Poor implementation of infrastructure projects failed to provide proper boost to the economy . Further delay in passage of projects due to red-tapism has reduced the investments in infrastructure.
6. The service sector declined due to a reduction in the growth rate of 'Trade, hotels, transport and communications' sector as these are demand driven sector and high inflation is forcing people to invest less in these sector. However India is expected to record 6.1 per cent gross domestic product (GDP) growth in the current fiscal. The growth is expected to increase further to 6.7 per cent in 2014-15, according to the World Bank's latest India Development Update. While, the Prime Minister's Economic Advisory Panel expects the economic growth rate to increase to 6.4 per cent in 2013-14 from 5 per cent during 2012- 13, on back of improvement in performance of agriculture and manufacturing sectors.

PRESENT STATUS OF INDIAN ECONOMY

Agriculture Sector

As per the National Accounts Statistics,the agriculture and allied sector registered a growth of 2.1 per cent during the first half of2012-13 which is lower than the growth rate of 3.4 per cent in the first half of 2011-12.

Further average annual growth of the agriculture and allied sector during the Eleventh Five year Plan at 3.6 per cent fell short of the 4 per cent growth target. Realized growth, however, has been much higher than the average annual growth of 2.5 and 2.4 per cent
achieved during the Ninth and Tenth Plans, respectively. Growth has also been reasonably stable
despite large weather shocks during 2009 (deficient south west monsoon), 2010-11 (drought/deficient rainfall in some states), and 2012-13 (delayed and deficient monsoon). An important reason for this dynamism was stepup in the gross capital formation (GCF) in this sector relative to GDP of this sector, which has consistently been improving from 16.1 per cent
in 2007-8 to 19.8 per cent in 2011-12 (at constant 2004-5 prices) Overall GCF in agriculture (including the allied sector) almost doubled in last 10 years and registered a compound average annual growth of 8.1 per cent. Rate of growth of GCF accelerated to 9.7 per cent in the Eleventh Plan (2007-12) compared to a growth of 2.7 per cent during the Tenth Plan (2002-07). Average annual growth of private investment at 12.5 per cent during Eleventh Plan (first four years) was significantly higher as against nearly stagnant investment during the Tenth Plan. But there has been a decline in overall area under foodgrains during 2011-12 (2nd Advance Estimates) as compared to 2010-11. The area coverage under foodgrains during 2011-12 stood at 1254.92 lakh ha compared to 1267.65 lakh ha last year. The lower area under foodgrains has been due to a shortfall in the area under jowar in Maharashtra, Rajasthan and Gujarat; bajra in Maharashtra, Gujarat and Haryana; and in pulses in Maharashtra, Uttar Pradesh, Andhra Pradesh, and Rajasthan. However the area under coarse cereals and oilseeds has also come down as compared to the previous year. The area coverage under rice during 2011-12 is around 444.06 lakh ha which 15.44 lakh is ha more than the previous year. The area coverage under sugarcane during the current year has slightly improved to 50.81 lakh ha, higher by about 1.96 lakh hectares as compared to the previous year, and the area
under cotton has increased significantly to 121.78 lakh ha as compared to 112.35 lakh ha during 2010-11

The agriculture, including allied activities, accounted for only 14.1 per cent of the GDP at constant (2004-5) prices in 2011-12, its role in the country's economy as its share in total employment according to the 2001 census is 58.2 per cent. The declining share of the agriculture and allied sector in the country's GDP is consistent with normal development trajectory of any economy, but fast agricultural growth remains vital for jobs, incomes, and the food security. The growth target for agriculture
in the Twelfth Five Year Plan remains at 4 per cent, as in the Eleventh Five Year Plan. Agricultural production in the country is greatly influenced by policies such as pricing, procurement, storage, etc. The Minimum Support Prices (MSPs) for major crops have been raised substantially by the Government in 2012, in line with the

objective of ensuring remunerative prices to farmers for their produce and with a view to encouraging higher investment and production in the sector. This policy also resulted in higher procurement of foodgrains by Food Corporation of India (FCI) and the State agencies. The procured foodgrains are being made available to the consumers under the targeted public distribution system (TPDS) at central issue prices(CIPs) that are much less than the economic costs to the procuring agencies.

Reasons for slow growth in agriculture sector:

1. Slowdown in agriculture growth.
2. Weak Framework for Sustainable Water Management and Irrigation.
3. Stringent land regulations discourage rural investments.
4. Rural poor have little access to credit.
5. Weak Natural Resources Management.
6. Excessive use of chemical inputs are decreasing rate of fertility of soil.
7. Frequent floods and droughts.
8. Irregular monsoon.

Industrial Sector

As per the IIP, industrial output growth rate during April-September 2012-13 was 0.1 per cent as compared to 5.1 per cent in April- September 2011-12. The Mining sector production has contracted in the last six quarters. The contraction in the current year was largely because of decline in natural gas and crude petroleum output. Manufacturing, which is the dominant sector in industry, also witnessed deceleration in growth, as did the electricity sector. There was, however, a sharp pick-up in growth in October 2012 with manufacturing growth improving to 9.8 per cent, the highest recorded since June, 2011. Growth, however, turned negative in November and December, 2012 and was placed at (-) 0.8 per cent and (-) 0.6 per cent, respectively. Gross capital formation (GCF) in the industrial sector comprising mining, manufacturing, electricity and construction recorded negative during 2008-09 and again in 2011-12.

The major cause of manufacturing sluggishness are:

1. Drop of investment in new projects due to the slower rate of growth in disbursement of bank credit. Further adverse business sentiment is also leading to lower investment.
2. Decline in capital goods, natural gas, crude petroleum, and fertilizers output.
3. Infrastructure bottlenecks has impinged on the performance of the mining and electricity sectors.
4. High inflation and high interest rates which has made borrowing costs higher.
5. The global economic slowdown.
6. Supply-side bottlenecks such as inadequate infrastructure, inadequacy of fuel supply linkages and delays in project clearances of large manufacturing and infrastructure projects However as per the survey by HSBC Indian manufacturing and services sectors expanded more than China in February 2013. The HSBC

composite index for India for manufacturing and services stood at 54.8 in February 2013, whereas it was 51.4 for China. The Government has been taking confidence building measures for improving the industrial climate and manufacturing in the country. Three important initiatives taken in this regard are announcement of National Manufacturing Policy (NMP), implementation of Delhi Mumbai Industrial Corridor (DMIC) Project and policy reforms to promote Foreign Direct Investment (FDI). In addition, the Government has initiated implementation of the e-Biz Project, a Mission Mode Project under the National e-Governance Plan (NeGP) for promoting an online single
window at the national level for business users. The objectives of setting up of the e-Biz Portal are to provide a number of services to business users, covering the entire life cycle on their operation. The project aims at enhancing India's business competitiveness through a
service oriented, event-driven G2B interaction.

Service Sector

The share of services in India's GDP at factor cost (at current prices) increased from 33.3 per cent in 1950-51 to 56.5 per cent in 2012-13. With an 18.0 per cent share, trade, hotels, and restaurants as a group is the largest
contributor to GDP among the various services sub-sectors, followed by financing, insurance, real estate, and business services with a 16.6 per cent share. Both these services showed perceptible improvement in their shares over the years. Community, social, and personal
services with a share of 14.0 per cent is in third place. Construction, a borderline services inclusion, is at fourth place with an 8.2 per cent share. The HSBC Markit services Purchasing Managers' Index (PMI), which gauges business activity from a survey of over 400 companies ranging from banks to hospitals, stood at 50.7 in April 2013 Indian service sector enjoyed foreign direct investment (FDI) inflows amounting to US$
4.75 billion during April-February 2012-13, according to the recent statistics released by the Department of Industrial Policy and Promotion (DIPP). As the Indian economy is gaining due to growth in service sector, government has taken many new initiatives to boost service industry in India.

The initiatives are as follows:

1. Liberalized the FDI policy for the services sector. These include liberalising the policy on foreign investment for companies operating in the broadcasting sector, like increasing the foreign investment limit
from 49 per cent to 74 per cent in teleports (setting up up-linking HUBs/teleports) and direct to home (DTH) and cable networks, and permitting foreign investment of up to 74 per cent in mobile TV. Foreign airlines have also been permitted to make investment up to 49 per cent in scheduled and non-scheduled air transport services. FDI, up to 51 per cent, in multi-brand retail trading and amended the existing policy on FDI in
single-brand product retail trading.

2. The insurance sector could invest in the capital markets and other than traditional insurance products, various market link insurance products were available to the end customer to choose from.
3. Rajiv Gandhi Equity Saving Scheme: to allow income tax deduction to retail investors on investing in equities
4. Insurance companies has been empowered to open branches in Tier II cities and below without prior approval of IRDA.
5. All towns of India with a population of 10,000 or more will have an office of LIC and an office of at least one public sector general insurance company.
6. An ambitious IT driven project to modernise the postal network at a cost of Rs. 4,909 crore. Post offices to become part of the core banking solution and offer real time banking services.

Price Indices and Inflation

The headline inflation measured in terms of Wholesale Price Index (WPI) in 2012-13 (April-December) averaged 7.55 per cent as compared to 9.44 per cent during the corresponding period in 2011-12. Inflation has been in the range of 7-8 per cent in the last twelve months. Overall WPI food inflation comprising primary food articles and manufactured food products, with a weight of 24.31 per cent, averaged 9.08 per cent in 2012-
13 (April-December) as compared to 7.91 per cent during the corresponding period in 2011-12. In December 2012, food inflation was 10.39 per cent as compared to 2.70 per cent during December 2011.

The persistently elevated prices for animal products (eggs, meat and fish), the rise in the prices of cereals and vegetables, along with the increase in international prices of fertilizers (non-urea) and the increase in administered prices of diesel have contributed to inflation to differing degrees over time. The Consumer Price inflation for major indices generally followed a similar trend. The CPI-IW inflation in 2012-13 (April-December) averaged 10.0 per cent as compared to 8.82
per cent in the same period last year. The Central Statistics Office (CSO) launched a new series of Consumer Price indices from January 2011. All India general inflation for CPI-NS averaged 10.04 per cent in 2012-13 (April- December) and was placed at 10.56 per cent in December 2012. Inflation based on other group
specific CPIs (CPI for Agricultural Labourers and CPI for Rural Labourers) also remained in double digit in December 2012. While part of the higher CPI inflation reflects the high weight of food in the consumption basket (46 – 69 per cent), price pressures have persisted in services and housing, which are included in the CPI basket. The reasons behind persistent inflation are
(a) higher international prices of crude, precious metals, edible oil etc. (b) change in dietary pattern leading to structural demand supply mismatch for protein rich items (c) revision in MSP prices for some of the essential
commodities (d) revision in petroleum prices in September 2012 among others. Inflation has been a major cause of concern for both the Government and Reserve Bank of India who are taking a number of measures to contain it as indicated.
1. RBI has reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.5 per cent to 7.25 per cent with immediate effect.

2. The reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, stands adjusted to 6.25 per cent with immediate effect.
3. The Bank Rate stands adjusted to 8.25 per cent with immediate effect.
4. The cash reserve ratio (CRR) of scheduled banks has been retained at 4.0 per cent of their net demand and time liabilities (NDTL).

Trade

India is the 19th largest merchandise exporter and 12th largest importer in the world with shares of 1.7 per cent and 2.5 per cent in world exports and imports respectively in 2011, as per the World Trade Organization (WTO). In commercial services, India is the 8th largest exporter and 7th largest importer in the world with shares of 3.3 per cent and 3.1 per cent in world exports and imports respectively. The rate of growth of India's exports was 40.5 per cent in 2010-11. It decelerated in 2011- 12 to 21.3 per cent. During 2012-13 (April^ December), exports were valued at US$ 214.1 billion, registering a negative growth of 5.5 per cent over the level of US$ 226.5 billion in 2011- 12 (April-December). Value of imports during this period was US$ 361.3 billion, which was marginally lower by 0.7 per cent than the level of US$ 363.9 billion in the corresponding period of 2011-12. Rising crude oil prices, along with increase in gold and silver prices have contributed significantly to the import bill. Of the total imports, Petrol oil and lubricants imports accounted for US$ 124.5 billion (34.5 per cent of total import) in April-December 2012. This was 12.2 per cent higher than the level of US$ 111.0 billion in 2011-12 (April-December). Non-Petrol oil and lubricants imports during 2012-13 (April- December) valued at US$ 236.7 billion, were 6.4 per cent lower than the level of US$ 252.9 billion in 2011-12 (April-December). Consequently, trade deficit for 2012-13 (April- December) increased to US$ 147.2 billion vis-avis US$ 137.3 billion in 2011-12 (April-December). Thus the biggest risk to the economy stems from the CAD which was historically the highest and well above the sustainable level of 2.5 per cent of GDP as estimated by the Reserve Bank. The priority has therefore been to reduce CAD through improving trade balances. Efforts have been made to promote exports by diversifying the export commodity basket and export destinations.

Recent Measures taken by the government to boost exports

The Union Minister for Commerce, Industry and Textiles has recently announced additional incentives to boost exports. These incentives came in the backdrop of the Annual Supplement of the Foreign Trade Policy announced on June 5, 2012. According to the new guidelines the 2% Interest Subvention Scheme on rupee export credit which is available to certain specific sectors including handicrafts, carpets, handloom, readymade garments, processed agriculture products, sports goods and toys, has been given an extension up to March 31, 2014. At present, the Scheme is scheduled to end on 31st March 2013. Along with this, Small and Medium Enterprises (SMEs) for all sectors will now be able to avail the benefits of the Scheme.

The scheme has been extended to certain specific sub-sectors of the engineering sector. Government has also announced the introduction of a "pilot scheme" of 2% Interest Subvention for Project Exports through EXIM

Bank for countries of SAARC region, Africa and Myanmar. The interest subvention would be linked to the Buyer's Credit Scheme which was introduced in the last financial year being implemented through EXIM Bank, ECGC and the National Export Insurance Account. The "objective of the scheme is to boost India's

exports in these countries by providing long term concessional credit through EXIM Bank, as co-financing in infrastructure sectors such as drinking water, housing, irrigation, road projects, renewable energy, etc.

Apart from these, five new countries have been added under the Focus Market Scheme while Eritrea has been added under the Special Focus Market Scheme. The five countries being added under FMS are New Zealand, Cayman Islands, Latvia, Lithuania and Bulgaria. Under

FMS Duty Credit of 3 per cent is given on the FoB value of exports. Sixty new products which include Engineering, Rubber, Textiles, Drugs & Pharmaceuticals products among others, and three countries (Taiwan, Thailand and Czech Republic) have been incorporated under the Market Linked Focus Product Scheme.

Banking Sector

Banks as financial intermediaries collect deposits from savers and on-lend these to investors and others. The deposits of banks form the basis of their lending operations. Aggregate deposits of the banking sector increased from an average of Rs. 48,019.8 billion in 2010-11 to Rs. 64,362.3 billion during Q3 of 2012-13. Year-on-year growth of aggregate deposits, however, moderated from an average of 17.9 per cent in Q1 of 2011-12 to 12.87 in Q3 of 2012-13. Money supply (M3) growth was around 14.0 per cent during Q1 of 2012-13 but decelerated thereafter to 11.2 per cent by end- December as time deposit growth slowed down. There was some pick up in deposit mobilization in Q4, taking deposit growth to 14.3 per cent by end-March. Consequently, M3 growth reached 13.3 per cent by end-March 2013,

slightly above the revised indicative trajectory of 13.0 per cent.